

**Company Registration No. 02214224**

**Mitsubishi Corporation International  
(Europe) Plc**

**Annual Report and Financial Statements**

**31 March 2017**

# Mitsubishi Corporation International (Europe) Plc

## Annual report and financial statements 2017

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# **Mitsubishi Corporation International (Europe) Plc**

## **Annual report and financial statements 2017**

### **Officers and professional advisers**

#### **Directors**

H Hayashi  
A Kurosawa  
M Takada  
M Kochi  
J Nagase  
K Kawakami  
G Williams  
M Pratt  
A Fraser  
J Rogers

#### **Secretary**

H Hayakawa

#### **Registered Office**

Mid City Place  
71 High Holborn  
London  
WC1V 6BA

#### **Principal Bankers**

Bank of America Merrill Lynch  
5 Canada Square  
London  
E14 5AQ

#### **Solicitors**

Clifford Chance LLP  
10 Upper Bank Street  
London  
E14 5JJ

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
London  
United Kingdom

# Mitsubishi Corporation International (Europe) Plc

## Strategic report

The Directors present their Strategic Report for the year ended 31 March 2017 in accordance with section 414C of the Companies Act 2006.

The company's principal activities are those of trading in a broad range of commodities, industrial and consumer products, and the provision of services, including financing.

### Review of the business and key performance indicators

Turnover for the year ended 31 March 2017 amounted to £511 million (2016: £448 million) and the gross profit percentage was 3.38% (2016: 2.29%). The increase in turnover and gross profit percentage was mainly due to the increase of aluminium transaction volumes. Profit after taxation for the year ended 31 March 2017 amounted to £16.8 million (2016: £7.7 million), including dividend income of £8.2million (2016: £4.7 million) from the company's European subsidiaries. The increase in profit after tax was mainly due to an increase in the profitability of the aluminium business within the Metal division and an increase in dividend income from the European subsidiaries.

Other operating income net of expenses for the current year amounted to £20.2 million which is £2.2 million higher than last year (2016: £18.0 million). There was an increase in service and management fee income. The company has recognised foreign exchange gains of £0.8 million (2016: gains £6.5 million) and mark to market gains on forward contracts of £1.7 million (2016: losses £4.6 million). The total dividend income received during the year including dividends from European subsidiaries and from other investments amounted to £13.3 million (2016: £10.0 million). The increase was mainly due to an increase in dividends from the European subsidiaries as mentioned above.

The inventory holding level has increased by approximately £19 million to £109 million as at 31 March 2017 compared to the prior year (2016: decrease of £101 million to £90 million). The increase in inventories is mainly due to an increase in aluminium inventory levels. The proportion of current liabilities to current assets is 83% which is slightly lower than previous year (2016: 85%).

During the year, the company has recognised an impairment loss of £0.3 million (2016: £1.7 million) on its associate Deucalion MC Engine Leasing Ltd. This company is in the process of voluntary liquidation and is expected to complete the process by the first half of next financial year.

Taking into account the challenging market conditions for commodities the company has continued to perform reasonably well during the year ended 31 March 2017. The directors expect that the company will continue to perform satisfactorily although the prevailing market conditions present some challenges for the aluminium business. The directors remain committed to further strengthening internal controls and compliance to manage the risks to which the company is exposed.

### Principal risks and uncertainties and financial risk management objectives and policies

Because of the nature of the company's trading and business model, it is exposed to various risks, all of which are monitored and controlled. However these risks could potentially have a material impact on the company's performance. The principal areas of risk relate to credit risk, foreign exchange currency risk, interest rate risk, price risk and liquidity risk. These are discussed below and in more detail in notes 13 and 17 to the financial statements.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk primarily arises since trade in most cases requires extending credit to customers, without which many would not trade with the company.

This risk is managed through taking out credit insurance wherever possible and also having rigorous monitoring and investigation carried out by the risk management department.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company trades in many products in many countries in different currencies and is exposed to currency risk.

To manage this, the company has established and follows a strict policy of entering into forward exchange contracts to match sales and purchases in different currencies, wherever this risk exists.

# Mitsubishi Corporation International (Europe) Plc

## Strategic report (continued)

### Principal risks and uncertainties and Financial risk management objectives and policies (continued)

#### *Interest rate risk*

Interest rate risk is split into two different types of risks - cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of changes in market interest rates. As the company has variable rate bank deposits and loans, it is exposed to cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. A significant proportion of activity centres around funding made available to related parties, for which interest is charged at a market rate. Funding for this is borrowed and so a potential risk of movements in interest rates arises on both the borrowing and lending side.

As a matter of policy, risk is managed by ensuring that lending is on the same basis as borrowing so movements on one side are matched by movements on the other side.

#### *Price risk*

Price risk is the risk that commodities that are bought at market price will fall in value before the company has been able to sell them. By the nature of its trading, the company is exposed to price risk.

This risk is managed and controlled in different ways. Where possible the company enters into back-to-back transactions so that the buying price and selling price are fixed at the same time. Also for some of the commodities that are traded, there is a commodities exchange market. In this instance commodity futures are bought and sold to hedge physical trading positions.

#### *Liquidity risk*

Liquidity risk is the risk that the company will have insufficient short-term assets to finance short-term liabilities. The company has significant levels of short-term liabilities so it is open to liquidity risk.

The risk is managed by effective cash management and continual monitoring of short-term funding requirements and an enhanced risk management system to identify any potential problems early with the realisation of liquid assets. The company also has quick access to short-term funding from group sources.

The use of derivatives is governed by the company's policies approved by the board of directors, which provides written principles on the use of financial derivatives. The company wishes to strictly control risk positions that are taken. All significant foreign exchange risk should be hedged. Where price risk occurs this needs to be within pre-approved limits and the company will use futures to hedge that exposure. The overall position is constantly monitored to ensure adherence to agreed limits.

### Future prospects

While the directors do not anticipate any significant changes in the business in the near future, the current economic environment does present a challenge to the company in maintaining its performance.

The company has a close relationship with its parent company and follows the group's strategic plan whenever possible. The company will continue to take up new challenges and adapt to changes which best suit the group's development plan. It is considered that the company is in a good position to deal with these challenges. Internal controls that identify and manage risk exposures and good relationships with customers will continue to be fundamental management tools in the day-to-day business operations.

Approved by the Board of Directors  
and signed by order of the Board



H Hayashi  
Managing Director

30 June 2017

# Mitsubishi Corporation International (Europe) Plc

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2017.

### Directors

The current directors are shown on page 1. The directors who served throughout the year, except as noted, and up to the date of this report were:

H Hayashi  
M Takada (appointed 1 April 2016)  
A Kurosawa  
M Kochi (appointed 1 April 2016)  
G Williams  
J Nagase (appointed 1 April 2016)  
T Shimizu (appointed 1 April 2016, resigned 30 March 2017)  
K Kawakami (appointed 23 May 2017)  
M Pratt  
A Fraser  
J Rogers

### Dividends

The directors have recommended and paid a dividend of £15.9 million during the year (2016: £16.3 million).

### Financial risk management objectives and policies and future prospects

Details of the company's financial risk management objectives and policies and future prospects can be found within the principal risks and uncertainties section of the Strategic Report and form part of this report by cross-reference.

### Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company has strong risk management and treasury functions to oversee the current trading environment to minimise the impact of such risks. In addition the company has financing sources both from the group as well as third party banks. Accordingly, the company continues to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

### Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed by order of the Board



H Hayashi  
Managing Director  
30 June 2017

# **Mitsubishi Corporation International (Europe) Plc**

## **Directors' responsibilities statement**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Mitsubishi Corporation International (Europe) Plc**

We have audited the financial statements of Mitsubishi Corporation International (Europe) Plc for the year ended 31 March 2017 which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the balance sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed in the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.



## **Independent auditor's report to the members of Mitsubishi Corporation International (Europe) Plc (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Kevin Thompson*

Kevin Thompson (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

*30 June* 2017

## Mitsubishi Corporation International (Europe) Plc

### Income statement Year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Turnover	1, 2	511,328	447,761
Cost of sales		(494,052)	(437,524)
<b>Gross profit</b>		17,276	10,237
Administrative expenses		(30,873)	(28,401)
Other operating income and expenses	5	20,249	18,028
<b>Operating profit/(loss)</b>	4	6,652	(136)
Dividend income from shares in group undertakings		11,073	8,945
Dividend income from other investments		2,206	1,031
Profit from sale of fixed asset investment	11	32	64
Impairment of fixed asset investment	11	(280)	(1,745)
Interest income	6	262	421
Interest expense	7	(1,410)	(808)
<b>Profit before taxation</b>		18,535	7,772
Tax	8	(1,768)	(28)
<b>Profit after taxation attributable to owners of the Company</b>		16,767	7,744

# Mitsubishi Corporation International (Europe) Plc

## Statement of comprehensive income Year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Profit for the financial year		16,767	7,744
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Actuarial gains/(losses) on pension scheme	18	44	(2,179)
UK deferred tax credit attributable to actuarial gains/(losses)	18	-	-
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Gains arising on available for sale financial assets during the period		573	123
Movement on cash flow hedges	17	1	(8)
Tax relating to items that may be reclassified		(89)	(6)
<b>Total other comprehensive income/(expense) for the period net of tax</b>		<u>529</u>	<u>(2,070)</u>
<b>Total comprehensive income for the period</b>		<u><u>17,296</u></u>	<u><u>5,674</u></u>

## Mitsubishi Corporation International (Europe) Plc

### Statement of changes in equity Year ended 31 March 2017

	Notes	Called up share capital £'000	Revaluation reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
<b>Balance at 1 April 2015</b>		<b>120,658</b>	<b>571</b>	<b>3</b>	<b>26,631</b>	<b>147,863</b>
Profit for the period		-	-	-	7,744	7,744
Other comprehensive income/(expense) for the period		-	115	(6)	(2,179)	(2,070)
<b>Total comprehensive income/(expense) for the period</b>		<b>-</b>	<b>115</b>	<b>(6)</b>	<b>5,565</b>	<b>5,674</b>
Dividends payable	21	-	-	-	(16,300)	(16,300)
<b>Balance at 31 March 2016</b>		<b>120,658</b>	<b>686</b>	<b>(3)</b>	<b>15,896</b>	<b>137,237</b>
Profit for the period		-	-	-	16,767	16,767
Other comprehensive income for the period		-	484	1	44	529
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>484</b>	<b>1</b>	<b>16,811</b>	<b>17,296</b>
Dividends payable	21	-	-	-	(15,900)	(15,900)
<b>Balance at 31 March 2017</b>		<b>120,658</b>	<b>1,170</b>	<b>(2)</b>	<b>16,807</b>	<b>138,633</b>

# Mitsubishi Corporation International (Europe) Plc


## Balance sheet

As at 31 March 2017

	Notes	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Intangible assets	9	241	325
Property, plant and equipment	10	1,618	2,146
Investments	11	94,015	93,720
Derivative assets	17	171	1,570
Deferred tax assets	8	-	255
Other non current asset	13	13	-
		<u>96,058</u>	<u>98,016</u>
<b>Current assets</b>			
Inventories	12	109,197	90,189
Trade and other receivables	13	145,348	131,265
Derivative assets	17	5,925	12,956
Cash and cash equivalents		2,786	23,239
		<u>263,256</u>	<u>257,649</u>
<b>Current liabilities</b>			
Bank loans and overdrafts	14	(6,894)	(15,028)
Trade and other payables	14	(193,069)	(193,908)
Derivative liabilities	17	(19,392)	(7,494)
Deferred income	14	(142)	(1,561)
		<u>(219,497)</u>	<u>(217,991)</u>
<b>Net current assets</b>		<u>43,759</u>	<u>39,658</u>
<b>Total assets less current liabilities</b>		<u>139,817</u>	<u>137,674</u>
<b>Non-current liabilities</b>			
Derivative liabilities	17	(177)	(437)
Deferred income	14	(971)	-
Deferred tax liabilities	8	(36)	-
		<u>(1,184)</u>	<u>(437)</u>
<b>Net assets</b>		<u>138,633</u>	<u>137,237</u>
<b>Equity</b>			
Share capital	15	120,658	120,658
Hedging reserve	15	(2)	(3)
Revaluation reserve	15	1,170	686
Profit and loss account	15	16,807	15,896
<b>Equity attributable to owners of the company</b>		<u>138,633</u>	<u>137,237</u>

The financial statements of Mitsubishi Corporation International (Europe) Plc registered number 02214224 were approved by the Board of Directors on 30 June 2017.

Signed on behalf of the Board of Directors

  
H Hayashi  
Managing Director

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements Year ended 31 March 2017

### 1. General information and accounting policies

#### a) General information

Mitsubishi Corporation International (Europe) Plc is incorporated in England, the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 2 to 3.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. The company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and inventories.

#### b) Principal accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### Group financial statements

These financial statements present information about the company as an individual undertaking and not about its group. Consolidated financial statements have not been prepared as the company is a wholly-owned subsidiary of Mitsubishi Corporation, a company incorporated in Japan and so is therefore exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare and deliver group financial statements.

#### Cash flow statement and disclosure exemptions

As permitted by FRS101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, standards not yet effective, presentation of comparative information in respect of certain assets, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Mitsubishi Corporation which are available to the public and can be obtained as set out in note 19.

#### Going concern

The company has policies in place to ensure the risks mentioned in the Strategic Report and Directors' Report and notes 13 and 17 are within management's scrutiny and control. The company has strong risk management and treasury functions to oversee the current trading environment to minimise the impact of such risks. In addition the company has financing sources both from the group as well as third party banks.

As discussed in the Review of the business and key performance indicators of the Strategic Report, the company has continued to perform reasonably well given the difficult market conditions for commodities during the year ended 31 March 2017. The company has a strong balance sheet with positive net current assets and shareholders' equity. The total borrowings of the company as at 31 March 2017 of £168.0 million (2016: £182.7 million) (bank loans, overdrafts and intergroup balances – see note 14) are short-term facilities.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued)

### Year ended 31 March 2017

#### 1. Accounting policies (continued)

##### Going concern (continued)

These are matched to a large extent against the aggregate of cash and cash equivalents of £2.8 million (2016: £23.2 million), trade receivables of £79.5 million (2016: £83.1 million) (see note 13), amounts receivable from other group companies of £40.9 million (2016: £33.6 million) (see note 13) which are on terms similar to the borrowings and inventories of £109.2 million (2016: £90.2 million) (see note 12), a large portion of which relates to commodities that are traded on international exchanges and therefore considered to be liquid and easily convertible to cash. The company has current and uncommitted bank borrowings and facilities of £1,218 million, the directors are of the opinion that these will remain available to the company for the foreseeable future.

Based on the above factors, and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the company continues to adopt the going concern basis in preparing the annual report and financial statements.

##### Intangible assets

Software assets are valued at cost on acquisition and are amortised in equal annual amounts over their useful economic lives, estimated to be approximately three years. Amortisation expenses are recognised within administration expenses in profit and loss. Provision is made for any impairment.

##### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided against cost in equal annual instalments over the estimated useful life of the asset. Office equipment has an estimated useful life of four years and IT equipment has an estimated useful life of three years, all other assets have an estimated useful life of four years.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

##### Inventories

Inventories except aluminium are stated at the lower of cost and net realisable value. Cost represents invoiced price together with, as appropriate, directly related overheads. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and cost to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

All aluminium inventories are valued at fair value less costs to sell. This is determined at the quoted price of aluminium at the London Metal Exchange (LME) at the balance sheet date, plus the approximate market premium/discount published by *Metal Bulletin* at that date adjusted to take account of location of inventory. Location factors are determined based on actual transport costs incurred.

##### Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Turnover is recognised at the point where delivery of goods is made. For those transactions where the company takes significant risk in terms of inventory, pricing or credit, turnover is recognised as principal. Where no significant risk passes to the company and the company acts as either agent or broker then only the commission receivable is recorded as turnover.

##### Other income

Interest income is recognised on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other operating income consists mainly of fees charged for non-trading services which are recognised on an accruals basis.

Dividend income from investments is recognised when the company's right to receive payment has been established.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 1. Accounting policies (continued)

#### Foreign exchange

The company's financial statements are presented in pounds sterling which is the currency of the primary economic environment in which it operates and is deemed to be its functional currency.

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated at the rates prevailing on the dates of the transactions. Resulting differences on translation are charged or credited to profit and loss.

In order to hedge its exposure to certain foreign exchange risks the company enters into forward contracts. See below for details of the company policy on such derivatives and financial instruments.

#### Leases

Rental costs under operating leases are charged to profit and loss in equal annual amounts over the period of the leases. For operating leases where the company acts as lessor, rental income is credited to profit and loss in equal instalments over the period of the lease.

#### Pension costs

The company operates both a defined benefit and a defined contribution pension scheme. The defined benefit scheme closed to future accrual of final salary benefits on 28 February 2015. The company is planning to complete the buy out of the pension scheme in the next financial year.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. These are included as part of staff costs. Past service costs are recognised immediately in profit and loss if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities.

For defined contribution schemes the amount charged to profit and loss in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at the amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.



# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 1. Accounting policies (continued)

#### Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in profit and loss, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they related to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when it becomes a principal party to the contractual provisions of the instrument.

#### Trade receivables

Trade receivables are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

#### Investments

Investments are stated at cost less any provision for impairment in all cases where the ultimate holding company holds a majority stake, as the company has no control of the cash flows or the eventual selling price. All other investments, including investments held as current assets, are classified as available-for-sale and are stated at fair value except where the directors are of the opinion that the variability in the range of reasonable fair value measurements for the company's shares in these undertakings is significant and the probabilities of the various estimates within the range cannot be reasonably assessed, in which case the investment is stated at cost less provisions for impairment as an approximation to fair value. Changes in fair value are recognised in other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the net profit or loss for the period. Provisions for impairment are recognised in profit and loss.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 1. Accounting policies (continued)

#### Financial instruments (continued)

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### *Bank borrowings*

Interest bearing bank loans and overdrafts are recorded as the proceeds are received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit and loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

##### *Trade payables*

Trade payables are measured at amortised cost, using the effective interest rate method.

##### *Equity instruments*

Equity instruments issued by the company are recorded when the proceeds are received net of direct issue costs.

##### *Derivative financial instruments and hedge accounting*

The company's activities expose it primarily to the financial risks of changes in price and changes in foreign currency exchange rates. The company uses foreign exchange forward contracts to hedge its foreign exchange exposure and uses futures as traded on the London Metal Exchange to manage against any price risk exposure on its aluminium trading operations. However, the company does not apply hedge accounting under IAS39 'Financial Instruments: recognition and measurement' for these derivatives used to manage price risk on commodities. The company only uses derivative financial instruments for speculative purposes to a limited extent with board approval.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The company designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

##### *Hedge accounting*

The company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking the various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis the company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Note 17 sets out the details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of other comprehensive income.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued)

### Year ended 31 March 2017

#### 1. Accounting policies (continued)

##### *Hedge accounting (continued)*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit and loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

The company also hedges the foreign currency exchange risks on certain investments (the 'hedged item') that are denominated in US dollars. Such investments are hedged against loans in the same foreign currency of the same value and similar maturity profile (the 'hedging instrument').

Fair value hedges that meet the hedge accounting criteria are accounted for as follows:

- The gain or loss from re-measuring the hedging instrument at fair value is recognised in profit and loss; and
- The carrying amount of the hedged item is adjusted through profit and loss for the gain or loss on the hedged item attributable to the hedged risk.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

#### c) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances, independent estimates, quoted market prices and common modelling techniques. Actual outcomes could result in a material adjustment to the carrying amount of assets or liabilities affected in future periods. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Critical judgements in applying the Company's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

##### *Evaluating the substance of transactions and gross versus net presentation of revenue*

The company and its employees undertake a very wide range of business activities. These involve trading in goods on the company's own account and as an intermediary on behalf of others, as well as performing a range of management, treasury and other services on behalf of other Mitsubishi group undertakings.

Management is required to exercise judgement in order to determine to what extent, if at all, the company is exposed to the significant risks and rewards of these business activities. This judgement determines whether the company should recognise revenue and profit at all, for example where transactions may have the legal form of a sale but do not expose the company to any significant risks and rewards of the underlying goods or services and whether the company should recognise revenue on a principal or agency basis, where the company is acting as an intermediary. Management judgement is also required to determine the appropriate revenue recognition policy to apply, for example where transactions have the legal form of a sale but where the substance of the transaction is that of an inventory lending or financing transaction.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 1. Accounting policies (continued)

#### *Evaluating the substance of transactions and gross versus net presentation of revenue (continued)*

In making these judgements, management considers the detailed guidance set out in IAS 18 Revenue and IAS 39 Financial instruments: recognition and measurement, in particular whether the company has received from, or transferred to, the counterparty the significant risks and rewards of the goods, services or financial instruments.

#### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### *Fair value measurements*

The company has material assets and liabilities which are measured at fair value or fair value less costs to sell, most notably the company's derivatives and aluminium inventories. Fair value measurements are based on the amounts for which the assets and liabilities could be exchanged at the relevant transaction date or reporting period end, and are therefore not necessarily reflective of the likely cash flow upon actual settlements. In almost all cases where fair value accounting is applied the company has chosen not to apply the hedge accounting requirements of IAS 39 Financial instruments: recognition and measurement and as a result the full unrealised gains and losses resulting from the revaluation of these assets and liabilities at each reporting date are recognised directly in profit and loss.

Where fair value measurements cannot be derived from publicly available information, they are estimated using models and other valuation methods. To the extent possible, the assumptions and inputs used take into account externally verifiable inputs. However, such information is by nature subject to judgement, particularly where comparable market-based transactions rarely exist. Further details of the techniques applied, inputs used and the sensitivity to changes are given in notes 11 and 17 to the financial statements.

#### *Assessment that the range of fair value measurements for certain available-for-sale investments is significant and the probabilities of the various estimates within the range cannot be reasonably assessed*

The company has certain available-for-sale equity investments for which no quoted market price in an active market is available (see note 11). These investments represent minority shareholdings in a number of businesses that the company invested in to augment its trading activities or the wider Mitsubishi group's long-term strategic goals. None of the shares have a quoted market price in an active market and the company's investments are all small percentages of the total in the context of long-term ownership of controlling interests by other investors which do not give the company significant influence over the cash flows or operating and financial policies of these investments.

As a result the directors are of the opinion that the variability in the range of reasonable fair value measurements for these investments is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. As such the company measures these investments at cost, less any impairment, as an approximation to fair value.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued)

Year ended 31 March 2017

### 1. Accounting policies (continued)

#### *Assessment of events and changes in circumstances which may indicate the impairment of assets*

Investments in subsidiaries and associates, other investments (see note 11), loans and receivables (see note 13), intangible assets (see note 9) and property, plant and equipment (see note 10) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these investments may not be fully recoverable. While IAS 36 Impairment of assets provides examples of events and changes within the company and in its external environment which should be considered as a minimum for this assessment, the application of management judgement is required in determining whether other events and changes in circumstance may also be indications of impairment. Management judgement is also required to determine the significance of the impact of identified events and changes in circumstances on the company's assets, the determination of which may also involve making judgements and estimates about the likelihood of future events.

If an asset's recoverable amount is less than the asset's carrying amount, an impairment is recognised in profit and loss. Estimates which are used to calculate the asset's recoverable amount are discounted using asset specific discount rates and are based on expectations about future cash flows. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

#### *Measurement of post-employment benefit liabilities*

The defined benefit pension scheme's assets are measured at fair value, the estimation uncertainty around which is discussed above. The present value of the defined benefit pension scheme's liabilities is also dependent on a number of assumptions including interest rates of high quality corporate bonds, inflation and mortality rates. The net interest expense or income is dependent on the interest rates of high quality corporate bonds. The assumptions are based on the conditions at the time and changes in these assumptions can lead to significant movements in the estimated obligations.

Management judgement and estimates are also required in determining the extent of the economic benefit the company will receive from the surplus, either through refund or a reduction in future contributions and whether additional deficit reduction contributions might be required which would require immediate provision. Further details of the techniques applied, inputs used and the sensitivity to changes of the net pension liabilities are given in note 18 to the financial statements.

Additional insured annuity contracts were purchased in the prior year to further reduce risks in the scheme and the company is planning for a buy out of the pension scheme in the next financial year; however, while management expects that the probability of the planned buy out going ahead is high it has assessed that as at 31 March 2017 the company retains both a legal and constructive obligation to the scheme. As such the company has not recognised a settlement in the year and has continued to recognise the scheme assets and liabilities.

## Mitsubishi Corporation International (Europe) Plc

### Notes to the financial statements (continued) Year ended 31 March 2017

#### 2. Turnover and revenue

An analysis of the Company's revenue is as follows:

	2017 £'000	2016 £'000
Sales of goods and services ("turnover")	511,328	447,761
Service and management fees income	17,789	16,167
Interest receivable and similar income (note 6)	262	421
Dividend income	13,279	9,976
Total revenue	<u>542,658</u>	<u>474,325</u>

An analysis of the company's turnover by type of transactions:

Turnover represents:

- gross sales with respect to transactions in which the company is named as principal;
- commission receivable for transactions in which the company acts as a disclosed settlement agent; and
- brokerage commission receivable.

Turnover comprises:

	2017 £'000	2016 £'000
Principal	505,269	442,259
Agency	3,143	2,787
Brokerage	2,916	2,715
	<u>511,328</u>	<u>447,761</u>

An analysis of the Company's turnover by geographical market is set out below:

	2017 £'000	2016 £'000
From customers located within the United Kingdom	169,075	93,576
From customers located outside the United Kingdom	342,253	354,185
	<u>511,328</u>	<u>447,761</u>

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 3. Information regarding directors and employees

	2017 £'000	2016 £'000
<b>Directors' emoluments:</b>		
Emoluments	1,965	1,574
Company contributions to money purchase pension scheme	61	60
	<u>2,026</u>	<u>1,634</u>
	No.	No.
Number of directors who are members of a money purchase pension scheme	<u>2</u>	<u>2</u>
	£'000	£'000
Remuneration of the highest paid director	<u>901</u>	<u>624</u>
	No.	No.
<b>Average number of persons employed (including directors)</b>		
Trading and administration	<u>168</u>	<u>169</u>
	£'000	£'000
<b>Employee costs (excluding directors' emoluments)</b>		
Wages and salaries	8,264	7,296
Social security costs	906	1,055
Pension costs	945	897
Cost in respect of parent company's employees on secondment	6,353	5,950
	<u>16,468</u>	<u>15,198</u>

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 4. Operating profit/(loss)

Operating profit/(loss) is stated after charging the following amounts:

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	794	637
Amortisation of intangible assets	143	116
Net rentals payable under operating leases - property (note 16)	1,984	1,558
Staff costs including directors	18,494	16,832
Fees payable to the company's auditor for the audit of the company's annual accounts	195	207
Fee payable to the company's auditor and their associates for other services to the company		
– Audit-related assurance services	234	247
– Taxation compliance services	75	78
– Others/Pensions advice	3	6
	<u>          </u>	<u>          </u>

### 5. Other operating income and expenses

	2017 £'000	2016 £'000
Service and management fees income	17,789	16,167
Net foreign exchange gains	776	6,485
Other items of operating income/(expense)	1,684	(4,624)
	<u>          </u>	<u>          </u>
	<u>20,249</u>	<u>18,028</u>

Service and management fees include management, IT and other recharges to various group companies for services provided. Other items of operating income and expense consist mainly of fair value gains and losses on foreign exchange contracts, gains and losses on disposal of property, plant and equipment as well as movements in bad debt and other provisions.

### 6. Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable from group undertakings	252	132
Interest receivable from associates	-	56
Bank and other interest receivable	10	200
Net interest income on the defined benefit scheme	-	33
	<u>          </u>	<u>          </u>
	<u>262</u>	<u>421</u>



# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 7. Interest payable and similar charges

	2017 £'000	2016 £'000
Interest on bank loans and overdrafts	429	108
Interest payable to group undertakings	980	700
Net interest expense on the defined benefit scheme	1	-
	<u>1,410</u>	<u>808</u>

### 8. Tax charge on profit on ordinary activities

(i) *The tax charge comprises:*

	2017 £'000	2016 £'000
United Kingdom corporation tax	1,647	(155)
Adjustment in respect of prior years	(81)	17
Foreign tax	-	1
Total current tax	<u>1,566</u>	<u>(137)</u>
Deferred tax		
Origination and reversal of temporary differences	202	165
Total deferred tax	<u>202</u>	<u>165</u>
Total tax on profit on ordinary activities	<u>1,768</u>	<u>28</u>

(ii) *The charge for the year can be reconciled to the income statement as follows:*

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	<u>18,535</u>	<u>7,772</u>
Tax at 20% (2016: 20%) thereon:	(3,707)	(1,554)
Effects of:		
Expenses not deductible for tax purposes	(324)	(622)
Pension adjustment	(19)	424
Fixed asset temporary differences	(108)	(47)
Foreign tax suffered	-	(1)
United Kingdom dividend income	2,215	1,789
Other income not chargeable for tax purposes	94	-
Prior year adjustments	81	(17)
Total tax charge for the year	<u>(1,768)</u>	<u>(28)</u>

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 8. Tax charge on profit on ordinary activities (continued)

#### (iii) Tax recognised in other comprehensive income comprises:

In addition to the amount charged to profit and loss, the following amounts relating to tax have been recognised in other comprehensive income:

	2017 £'000	2016 £'000
Deferred tax		
Arising on income and expenses recognised in other comprehensive income		
Revaluation of available-for-sale financial assets	(89)	(8)
Revaluations of financial instruments treated as cash flow hedges	-	2
	<u>(89)</u>	<u>(6)</u>
Total income tax recognised in other comprehensive income	<u>(89)</u>	<u>(6)</u>

#### (iv) Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Others £'000	Revaluation of financial assets £'000	Retirement benefit obligations £'000	Total £'000
At 31 March 2016	65	116	(151)	225	255
Charge to profit or loss	(33)	(44)	-	(125)	(202)
Charge to other comprehensive income	-	-	(89)	-	(89)
	<u>32</u>	<u>72</u>	<u>(240)</u>	<u>100</u>	<u>(36)</u>
At 31 March 2017	<u>32</u>	<u>72</u>	<u>(240)</u>	<u>100</u>	<u>(36)</u>

The company has approximately £0.8m capital losses as at the balance sheet date. A deferred tax asset has not been recognised in respect of timing differences relating to capital losses as there is insufficient evidence that the asset will be recovered.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017 £'000	2016 £'000
Deferred tax liabilities	(240)	(151)
Deferred tax assets	204	406
	<u>(36)</u>	<u>255</u>

Finance Act No2 2015, which was substantively enacted on 26 October 2015, included provisions to reduce the rate of corporation tax of 19% with effect from 1 April 2017. In additional Finance Act 2016 include provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020. Accordingly these rates have been applied when calculating deferred tax asset and liabilities as at 31 March 2017.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 9. Intangible assets

	Software £'000
<b>Cost</b>	
At 31 March 2016	2,237
Additions	59
	<hr/>
At 31 March 2017	2,296
	<hr/>
<b>Accumulated depreciation</b>	
At 31 March 2016	1,912
Charge for the year	143
	<hr/>
At 31 March 2017	2,055
	<hr/>
<b>Net book value</b>	
At 31 March 2017	241
	<hr/> <hr/>
At 31 March 2016	325
	<hr/> <hr/>

### 10. Property, plant and equipment

	Vehicles £'000	Furniture, fixtures and fittings £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 31 March 2016	27	3,987	869	4,883
Additions	-	44	223	267
Disposals	-	(4)	(104)	(108)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	27	4,027	988	5,042
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
At 31 March 2016	8	2,230	499	2,737
Charge for the year	7	597	190	794
Disposals	-	(4)	(103)	(107)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	15	2,823	586	3,424
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31 March 2017	12	1,204	402	1,618
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2016	19	1,757	370	2,146
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Mitsubishi Corporation International (Europe) Plc

### Notes to the financial statements (continued) Year ended 31 March 2017

#### 11. Investments

	Shares in subsidiary undertakings £'000	Shares in other group undertakings £'000	Investment in associates £'000	Other investments £'000	Total £'000
<b>Cost</b>					
At 31 March 2016	87,100	2,380	2,325	4,278	96,083
Fair value movement	-	2	-	571	573
Foreign currency revaluation	-	-	347	-	347
At 31 March 2017	87,100	2,382	2,672	4,849	97,003
<b>Provision</b>					
At 31 March 2016	-	74	1,838	451	2,363
Additions	-	-	280	-	280
Foreign currency revaluation	-	-	345	-	345
At 31 March 2017	-	74	2,463	451	2,988
<b>Net book value</b>					
At 31 March 2017	87,100	2,308	209	4,398	94,015
At 31 March 2016	87,100	2,306	487	3,827	93,720

#### Shares in subsidiary undertakings

The shares in subsidiary undertakings represents the six European subsidiaries of the company located in Germany, Spain, Italy, Netherlands, France and Greece. All the subsidiaries' principal activities relate to general trading of commodities and the provision of services.

Shareholdings in subsidiaries are as follows:

Company name	Registered office and Country of incorporation	Shareholding %	£'000
Mitsubishi International G.m.b.H	Kennedydamm 19, 40476 Duesseldorf, Federal Republic of Germany	100	59,312
Mitsubishi France S.A.	3 Avenue Hoche 75008 Paris, France	100	15,072
Mitsubishi Italia S.p.A	Largo Toscanini, 1 20122 Milano, Italy	100	1,468
Mitsubishi Nederland B.V.	500 Beethovenstraat, 3 <sup>rd</sup> floor, Beethovenstraat 514, 1082 PR, Amsterdam, The Netherlands	100	7,292
Mitsubishi Espana S.A.	Orense, 58 1-Planta 28020 Madrid, Spain	100	3,866
Mitsubishi Hellas A.E.E.	68 Vassilisis Sofias Avenue & 2 Aiginitou Street, GR 115 28 Athens, Greece	100	90
<b>Total</b>			<b>87,100</b>

In the opinion of the directors, there is no impairment to the carrying value of the subsidiaries.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 11. Investments (continued)

#### *Shares in other group undertakings*

Company name	Country of incorporation	Shareholding %	£	Class	Principal business activity
Princes Limited	United Kingdom	10.00	700,000	Ordinary	Trading in canned foods
Triland Metals Limited	United Kingdom	9.09	1,431,764	Ordinary	Metal brokerage
Green Power Development	Netherlands	0.12	19,707	Special Member	Development of wind power projects
Mitsubishi Corporation LT Europe G.m.B.H.	Germany	21.67	156,282	Ordinary	Logistic services
			2,307,753		

The company's investments in shares in other group undertakings represent non-controlling interests in these companies. None of the shares have a quoted market price in an active market and all of the shares in all of the companies except Green Power Development are wholly owned between various Mitsubishi group undertakings which intend to hold them as long-term investments. Given the lack of marketability of the shares, the context of long-term ownership of controlling interests in the investments by other Mitsubishi group undertakings and the fact that the company's investments in the shares do not give it control or significant influence over the cash flows or operating and financial policies of these investments the directors are of the opinion that the variability in the range of reasonable fair value measurements for the company's shares in these group undertakings is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. As such the company has measured these investments at cost as an approximation to fair value.

In May 2017 the company's Board of Directors has approved the transfer of its 9.09% shareholding in Triland Metals Limited to its parent company, Mitsubishi Corporation at a price of £4.8 million. The gain of £3.3 million has been recognised in profit and loss of next financial year. After the transfer, Triland Metals Limited becomes 100% owned by Mitsubishi Corporation in Japan.

#### *Investment in associates*

This represents an unlisted investment of £0.2 million (US\$0.3 million) in an Irish associate, Deucalion MC Engine Leasing Ltd (DMCELL), which specialises in aircraft engine leasing in which the company has a 40% shareholding. As at year end DMCELL is in the final stages of the liquidation process. During the year, the company has recognised an impairment loss of £0.3 million, following the sale of DMCELL's engine assets. To hedge against foreign currency movements, the company has a designated loan of a similar amount as a fair value hedge of this investment.

#### *Other investments*

All other investments represent minority shareholdings in a number of businesses that the company invested in to augment its trading activities or the wider Mitsubishi group's long-term strategic goals. None of the shares have a quoted market price in an active market and the company's investments are all small percentages of the total in the context of long-term ownership of controlling interests by other investors which do not give the company significant influence over the cash flows or operating and financial policies of these investments. The directors are of the opinion that the variability in the range of reasonable fair value measurements for the company's shares in these undertakings is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. As such the company has measured these investments at cost as an approximation to fair value.

The most significant other investment is the £4.3 million (US\$5.5 million) investment for approximately 1% share in Capula Investment Management LLP and Capula Management Ltd, a hedge fund manager and hedge fund management company respectively.

During the year, the company has sold its share in Baltic Exchange and recognised a small profit of £0.03 million from the disposal.

## Mitsubishi Corporation International (Europe) Plc

### Notes to the financial statements (continued) Year ended 31 March 2017

#### 12. Inventories

	2017 £'000	2016 £'000
Aluminium inventories held at fair value less costs to sell	104,807	85,071
Other inventories held at the lower of cost and net realisable value	4,390	5,118
	<u>109,197</u>	<u>90,189</u>
Finished goods and goods for resale	<u>109,197</u>	<u>90,189</u>

#### 13. Trade and other receivables

	2017 £'000	2016 £'000
<b>Amounts due within one year:</b>		
Trade receivables	80,520	84,102
Less: allowance for doubtful receivables	(1,027)	(1,012)
	<u>79,493</u>	<u>83,090</u>
Amounts owed by parent company and fellow subsidiary undertakings	40,942	33,572
Loans to third parties	7,423	6,810
Corporation tax receivable	-	242
VAT receivable	-	823
Prepayments	16,959	6,123
Accrued income	531	605
	<u>145,348</u>	<u>131,265</u>
<b>Amounts due after more than one year:</b>		
Other non current asset	13	-
	<u>13</u>	<u>-</u>
Total trade and other receivables	<u>145,361</u>	<u>131,265</u>

All trade receivables that are due within one year have a maturity of nine months or less and are non-interest bearing and therefore do not expose the company to material interest rate risk.

The loans to fellow subsidiary undertakings have no fixed repayment terms. The loans carry interest at LIBOR plus an appropriate margin for group finance. In the opinion of the directors the carrying amount is a reasonable approximation of fair value. The loan to the associated company carries interest at the company's borrowing rate plus an appropriate margin.

#### *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk arises from trade receivables due to the fact that trading in most cases requires extending of credit to customers which otherwise may not trade with the company. The company's principal customers, suppliers and financial institutions with which it conducts business are spread across diverse geographical areas.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued)

### Year ended 31 March 2017

#### 13. Debtors (continued)

##### *Credit risk management (continued)*

The company has stringent policies in place, managed by a specialist risk management team, which govern the management of credit risk, including the establishment of counterparty credit limits and specific transaction approvals in line with the company's delegation of authority. The company limits the credit risk by evaluating the potential counterparties before entering into transactions with them and continues to monitor and assess their creditworthiness after transactions have been initiated. Creditworthiness is assessed using information from various sources, an internal credit rating system and qualitative and quantitative data. The system of internal credit rating is based on statistical analysis, with customers being individually rated.

The company attempts to minimise credit risk through using credit insurance wherever considered appropriate and rigorous monitoring of receivables. Depending on the creditworthiness of the counterparty the company may require collateral in the form of guarantees, letters of credit and cash. As at 31 March 2017 the company has credit exposure of £36 million (31 March 2016: £45.30 million) covered by parent and third party guarantees in relation to its trade receivables. Credit exposure to any low rated single non-related counterparty or any group of counterparties having similar characteristics is not considered to be significant. The company defines counterparties as having similar characteristics if they are part of the same corporate group.

The company's maximum exposure to credit risk is largely limited to the carrying amount of its receivables, cash and derivatives.

Included in the company's trade receivables balance are debtors with a carrying amount of £0.004 million (31 March 2016: £0.02 million) which are more than 30 days overdue at the reporting date for which the company has not provided since there has not been a significant change in credit quality and the company believes that the amounts are still recoverable.

Below is the table showing the movement in the provision against doubtful receivables which are aged from current to over one year. Specific provisions are made against receivables where the prospect of collection is foreseen as unlikely.

##### *Movement in the allowance for doubtful receivables*

	2017 £'000	2016 £'000
Balance at the beginning of the year	1,012	705
Exchange difference	47	12
Provision charged during the year	-	295
Provision reversed during the year	(32)	-
	<hr/>	<hr/>
Balance as at end of the year	1,027	1,012
	<hr/> <hr/>	<hr/> <hr/>

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 14. Trade and other payables

	2017 £'000	2016 £'000
<b>Amounts falling due within one year</b>		
Trade payables	22,094	19,212
Amounts owed to parent company and fellow subsidiary undertakings	161,154	167,736
Corporation tax	418	-
VAT payable	1,470	-
Other taxation and social security	495	391
Accruals	7,438	6,569
	<u>193,069</u>	<u>193,908</u>
<b>Deferred income</b>		
Amounts falling due within one year	142	1,561
Amounts falling due after more than one year	971	-
	<u>1,113</u>	<u>1,561</u>
Total trade and other payables	<u>194,182</u>	<u>195,469</u>

All trade payables and amounts owed to the parent for trading transactions are due within one year and are non-interest bearing and therefore do not expose the company to material interest rate risk.

	2017 £'000	2016 £'000
<i>Bank loans and overdrafts (unsecured)</i>		
The borrowings are repayable as follows:		
On demand or within one year	<u>6,894</u>	<u>15,028</u>

#### Analysis of borrowings by currency

	US\$ £'000	GBP £'000	JPY £'000
31 March 2017			
Bank loans	6,877	3	14
31 March 2016			
Bank loans	<u>15,028</u>	<u>-</u>	<u>-</u>

In the opinion of the directors the contracted interest rates for borrowings are not materially different from the effective interest rates and accordingly the carrying amount of bank loans and overdrafts and amounts owed to parent company and fellow subsidiary undertakings is a reasonable approximation of fair value. Further information in respect of interest rate risk is presented in note 17 to the financial statements.



## Mitsubishi Corporation International (Europe) Plc

### Notes to the financial statements (continued)

Year ended 31 March 2017

#### 15. Called up share capital and revaluation reserve

	2017 £'000	2016 £'000
<b>Called up, allotted and fully paid:</b>		
120,658,154 (2016: 120,658,154) ordinary shares of £1 each	120,658	120,658
	<u>120,658</u>	<u>120,658</u>
	2017 £'000	2016 £'000
<b>Revaluation reserve</b>	1,170	686
	<u>1,170</u>	<u>686</u>

Revaluation reserve represents accumulated gains arising from available for sale investments.

	2017 £'000	2016 £'000
<b>Hedging reserve</b>	(2)	(3)
	<u>(2)</u>	<u>(3)</u>

Hedging reserve represents the cumulative portion of gains and losses on cash flow hedge on forward foreign currency contracts.

The profit and loss reserve represent cumulative profit or losses net of dividends paid and other adjustments.

#### 16. Operating lease commitments

At 31 March 2017, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>Land and buildings</b>	
	2017 £'000	2016 £'000
Leases which expire:		
- within one year	3,126	3,107
- between two and five years	12,503	12,426
- after five years	14,066	17,086
	<u>14,066</u>	<u>17,086</u>

The company has entered into an operating lease for its office premises. The lease is due to expire in 2026. The company subleases part of the office premises to fellow group companies over the same lease term.

The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 March 2017 is £11.5 million (2016: £13.2 million).

The gross rental expense charged to profit and loss is £2.8 million (2016: £2.8 million) with sub-lease income from the fellow group companies of £1.3 million (2016: £1.0 million). The office lease is under negotiation for a rent review, the company has accrued £0.4 million for the potential increase in rent, the rental amount will be finalised and adjusted retrospectively in the next financial year.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments

#### *Significant accounting policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

#### *Financial risk management objectives*

The company's treasury function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the company through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles for the management of foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed by management on a continuous basis. It is not the policy of the company to enter into these derivative positions on a speculative basis except to a very limited extent with board approval, and firm rules and procedures are in place to ensure that the company follows these policies and that the company risk position is properly managed.

The company has entered into a number of financial instruments as part of its trading portfolio, which are used as hedging tools to match the risks to which the company is exposed. It is the company policy to use these financial instruments and derivatives to hedge outstanding assets and liabilities or transactions that have not yet been undertaken but to which there is a firm commitment or highly probable forecast transaction.

The company is exposed to certain risks and applies the appropriate hedge to match that risk. Where trading exposes the company to foreign exchange risk, forward exchange contracts are entered into to hedge the risk. If the company is exposed to credit risk it will, where appropriate, take out credit insurance to help manage that risk. Where it trades in commodities physically that are also traded on terminal markets it will use futures contracts to hedge any price exposure that it may have. A summary of the financial instruments of the company, by category, including the estimate of fair value is as follows:

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### *Financial risk management objectives (continued)*

At 31 March 2017

	Loans and receivables £'000	Available- for-sale £'000	Amortised cost £'000	Designated hedging relationships £'000	Held for trading £'000	Total carrying value £'000	Fair value £'000
<b>Financial assets</b>							
Non-derivative assets	128,389	-	-	-	-	128,389	128,389
Derivative assets	-	-	-	-	6,096	6,096	6,096
Available-for-sale investments	-	6,706	-	-	-	6,706	6,706
Cash and cash equivalents	2,786	-	-	-	-	2,786	2,786
Sub-total	131,175	6,706	-	-	6,096	143,977	143,977
<b>Financial liabilities</b>							
Non-derivative liabilities	-	-	(30,193)	-	(19,569)	(30,193)	(30,193)
Derivative liabilities	-	-	-	(3)	-	(19,572)	(19,572)
Sub-total	-	-	(30,193)	(3)	(19,569)	(49,765)	(49,765)
<b>Bank overdrafts and other loans</b>							
Current	-	-	(159,950)	-	-	(159,950)	(159,950)
<b>Total</b>	<b>131,175</b>	<b>6,706</b>	<b>(190,143)</b>	<b>(3)</b>	<b>(13,473)</b>	<b>(65,738)</b>	<b>(65,738)</b>

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### Financial risk management objectives (continued)

At 31 March 2016

	Loans and receivables £'000	Available- for-sale £'000	Amortised cost £'000	Designated hedging relationships £'000	Held for trading £'000	Total carrying value £'000	Fair value £'000
<b>Financial assets</b>							
Non-derivative assets	124,077	-	-	-	-	124,077	124,077
Derivative assets	-	-	-	-	14,526	14,526	14,526
Available-for-sale investments	-	6,133	-	-	-	6,133	6,133
Cash and cash equivalents	23,239	-	-	-	-	23,239	23,239
<b>Sub-total</b>	<b>147,316</b>	<b>6,133</b>	<b>-</b>	<b>-</b>	<b>14,526</b>	<b>167,975</b>	<b>167,975</b>
<b>Financial liabilities</b>							
Non-derivative liabilities	-	-	(29,525)	-	-	(29,525)	(29,525)
Derivative liabilities	-	-	-	(4)	(7,927)	(7,931)	(7,931)
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>(29,525)</b>	<b>(4)</b>	<b>(7,927)</b>	<b>(37,456)</b>	<b>(37,456)</b>
<b>Bank overdrafts and other loans</b>							
Current	-	-	(179,020)	-	-	(179,020)	(179,020)
<b>Total</b>	<b>147,316</b>	<b>6,133</b>	<b>(208,545)</b>	<b>(4)</b>	<b>6,599</b>	<b>(48,501)</b>	<b>(48,501)</b>

Please refer to note 11 for further disclosure on the fair value of available-for-sale investments. In the opinion of the directors, the carrying values of the financial instruments above approximate to the fair values.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### *Financial risk management objectives (continued)*

The fair value of the derivative financial instruments at the balance sheet date was as follows:

	2017 £'000	2016 £'000
Assets:		
Current derivative assets		
- Currency derivatives	1,707	1,057
- Aluminium commodity contracts	4,218	11,899
	<u>5,925</u>	<u>12,956</u>
Non-current derivative assets		
- Currency derivatives	65	210
- Aluminium commodity contracts	106	1,360
	<u>171</u>	<u>1,570</u>
Liabilities:		
Current derivative liabilities		
- Currency derivatives	1,376	2,825
- Aluminium commodity contracts	18,016	4,669
	<u>19,392</u>	<u>7,494</u>
Non-current derivative liabilities		
- Currency derivatives	58	138
- Aluminium commodity contracts	119	299
	<u>177</u>	<u>437</u>

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### *Financial risk management objectives (continued)*

The fair values for currency derivatives were calculated using the closing price published in *The Financial Times* on the last working day of the month and forward point adjustment from Reuters also on the last working day. The fair values for commodity contracts were calculated using the applicable closing rates on the London Metal Exchange and the market premium published by *Metal Bulletin*.

#### *Hedge accounting*

While the company makes extensive use of derivative financial instruments to hedge the risks to which it is exposed, it applies hedge accounting under IAS 39 Financial instruments: recognition and measurement only in limited circumstances. The hedging transactions the company undertakes that are not recognised in profit and loss are cash flow hedges in respect of foreign exchange forward contracts and other financial instruments used to hedge variations in cash flows likely to arise out of changes in foreign currency exchange rates and commodity prices for highly probable forecast future transactions and firm commitments.

In addition, the company also uses a fair value hedge for its investment in an associate. The only risk hedged is foreign currency risk as this investment is US dollar denominated and is hedged by equivalent borrowings also denominated in US dollars. The total exchange gain recognised in profit and loss on this investment during the year as a result of this fair value hedge was £347,000 (2016: £74,000), offset by a loss of a similar amount on the loan.

Below is a summary of the aggregate gains and losses that are recognised directly in other comprehensive income:

	2017 £'000	2016 £'000
Aggregated losses on foreign exchange hedges	(3)	(4)
Net losses on foreign exchange hedges	(3)	(4)
Losses for the year deferred to other comprehensive income	(3)	(4)
Recycling of amounts from hedging reserve to profit and loss	4	(4)
Net gains/(losses) for the year	1	(8)

As at 31 March 2017, there were four designated and effective cash flow hedges which have been deferred in other comprehensive income.

The following table details the forward foreign currency contracts outstanding as at the year end designated for cash flow hedges:

Outstanding contracts	Foreign currency		Contract value		Fair value	
	2017	2016	2017	2016	2017	2016
<b>Cash flow hedges</b>						
Buy US dollars	\$'000	\$'000	£'000	£'000	£'000	£'000
Less than three months	172	1,152	140	806	(3)	(4)
	172	1,152	140	806	(3)	(4)

Effectiveness testing is carried out on each cash flow hedge on inception and at the reporting dates. Management have assessed the above hedges to be highly effective.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued)

### Year ended 31 March 2017

#### 17. Derivatives and financial instruments (continued)

##### *Market risk*

The company's activities expose it to the financial risks of changes in commodity price and foreign currency exchange rates. The company enters into a variety of derivative financial instruments to manage its exposure to commodity price and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk; and
- futures as traded on the exchanges to hedge against any price risk exposure on its aluminium trading operations.

The major commodity traded in the current year was aluminium. The company's risk management objective and strategy for undertaking the hedge is to eliminate any commodity price risk within a transaction in line with the company and departmental guidelines and rules concerning the internal risk position.

Market risk exposures are measured using sensitivity analysis, disclosed below. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk over the last financial year.

##### *(i) Commodity price risk exposure*

The company utilises derivative contracts to hedge price fluctuation on aluminium. The company buys and sells commodity futures on the commodity exchanges as a means to hedge its price risk exposure. The futures are traded on a back-to-back basis with each physical contract and as a result very few speculative positions are held.

At the balance sheet date, the total notional amount of outstanding future commodity contracts was as follows:

	Aluminium	
	£'000	£'000
	Long	Short
31 March 2017	73,942	149,422
31 March 2016	70,667	135,487

These futures contracts cover a variety of settlement periods beyond the balance sheet date, the latest one being due for settlement in August 2018. 'Long' refers to the buying position of aluminium future contracts whereas 'Short' refers to the selling position of aluminium future contracts. The company has started copper trading during the year, for which the company has a notional 'short' position of approximately £2 million as at year end.

The ranges that have been used in the fair value of the material commodity derivatives are as follows:

Aluminium: US\$1,955 – US\$1,989 per metric ton (2016: US\$1,509 – US\$1,593 per metric ton).

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### (ii) Commodity price sensitivity analysis

The sensitivity analysis demonstrates the potential impact on the company's profit due to the market and price risk associated with aluminium trading. The following sensitivity analysis has been carried out on the fair values of the commodity derivatives:

	2017	
	Impact on profit and loss	
	Lowest case (loss) £'000	Highest case (profit) £'000
Aluminium futures	2,310	9,964
Total	2,310	9,964

	2016	
	Impact on profit and loss	
	Lowest case (loss) £'000	Highest case (profit) £'000
Aluminium futures	1,793	8,065
Total	1,793	8,065

The highest and lowest cases were picked up from the highest and lowest monthly average premium, contango/backwardation and published market price data from the last three years. This is consistent with the data and calculations used by management in its internal risk management process.

#### Foreign currency risk

The company's treasury department will undertake cash management to ensure the foreign currency cash balances are maintained as working capital based on the estimate of future needs. When a transaction results in a foreign exchange exposure in any currency then this exposure is hedged by the treasury department. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

#### (i) Foreign Currency risk exposure

A significant portion of the company's earnings are denominated in foreign currencies. Consequently the company has significant risk in the translation of these earnings to its functional currency in sterling. The foreign currency profits before tax by major currency (other than sterling which comprise most of the company operating expenses) for the company are:

	2017 £'000	2016 £'000
US Dollar	17,279	9,924
Euro	7,959	4,998
Japanese Yen	780	557
	26,018	15,479



# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### (i) Foreign Currency risk exposure (continued)

The company manages the foreign currency risk by regularly monitoring the net foreign currency earnings against current exchange rates to sterling. Additionally any changes to budgeted earnings figures are also taken into account. Where required, hedging action is undertaken and a report on the outstanding positions and valuations is presented to the management at each month end.

Monetary assets and liabilities by major foreign currency at the balance sheet date are:

	Monetary liabilities		Monetary assets	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
US Dollar	134,909	133,429	112,106	101,648
Euro	22,613	30,548	9,526	27,315
Japanese Yen	924	5,516	4,211	5,456
	<u>158,446</u>	<u>169,493</u>	<u>125,843</u>	<u>134,419</u>

#### (ii) Foreign currency sensitivity analysis

The following table shows the company's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity analysis demonstrates the impact to the company profit and loss as a result of the change in foreign currency exchange rates based on the earnings and the value of foreign currency monetary assets and liabilities shown above.

Sensitivity analysis profit (loss) impact:

	10% weakening in £ against other currency 2017 £'000		10% weakening in £ against other currency 2016 £'000	
	On net monetary items	On earnings	On net monetary items	On earnings
US Dollar	(2,534)	1,920	(3,531)	1,103
Euro	(1,309)	884	(323)	555
Japanese Yen	365	87	(7)	62
Total impact (loss)/profit	<u>(3,478)</u>	<u>2,891</u>	<u>(3,861)</u>	<u>1,720</u>

For a 10% strengthening of sterling against the relevant currency, there would be an almost equal and opposite impact on the earnings and on the monetary items in the balance sheet.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### (iii) Foreign currency contracts

The company utilises currency derivatives to hedge significant future transactions and cash flows. The company is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposure. The instruments purchased are primarily denominated in the currencies of the commodity or the marketplace that the physical transaction takes place in.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the company has committed to are as below.

	GBP £'000	USD £'000	EUR £'000	JPY £'000
31 March 2017	108,402	136,679	35,404	3,859
31 March 2016	75,248	117,935	18,175	-

These arrangements are designed to address significant exchange exposures that the company has for contracted commitments. The vast majority are due to mature within twelve months of the balance sheet date. A very small number extend beyond then, the latest one maturing in October 2019.

At 31 March 2017 the fair value of the company's currency derivatives is estimated to be a net asset of £1.1 million (2016: net asset of £2.5 million). These contracts are valued using pricing techniques involving assumptions based on observable market data to determine the expected settlement amount, which is the present value of the difference between the contract rate and the current forward rate multiplied by the notional currency amount, taking into account the need for adjustments for credit risk. This comprises £1.1 million (2016: £2.5 million) relating to booked transactions, being accounts receivable and short-term borrowing and this year the amount of effective cash flow hedges which have been deferred in other comprehensive income was £3,000 (2016: £4,000) as discussed above under hedge accounting.

Listed below are the exchange rate ranges used in calculating the fair value as at 31 March 2017 for the key currencies held as derivatives.

US Dollars – Euro	1.0696 – 1.1317	(2016: 1.1395 – 1.1721)
US Dollars – Sterling	1.2505 – 1.2548	(2016: 1.4373 – 1.4374)

The company also acts as agent for its fellow subsidiaries and parent company in contracting foreign exchange forward contracts. These foreign exchange contracts are not included on the company's balance sheet on the basis that the company is only acting as agent and does not bear the significant risks and rewards of these instruments other than the fixed agency commission that is recognised as income as earned. The fair value of such contracts as at 31 March 2017 was a gain of £29,835,744 (2016: loss of £18,369,583).

#### **Interest rate risk**

The company in its normal course of business requires funding to finance its commodity trading operations. It is exposed to interest rate risk predominantly because of the mismatch between the value of floating rate assets, mainly consisting of cash flows from inventories and receivables versus fixed rate liabilities. The company's interest risk management policy is to hedge the overall floating rate exposure by using fixed rate borrowings of a similar short-term duration. Longer dated assets over 1 year in duration are normally matched by borrowings obtained from a fellow group undertaking.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### Interest rate risk (continued)

From time to time the company uses interest rate swaps to manage its exposure to interest rate movements on its borrowings. As at 31 March 2017 the company has no outstanding interest rate swaps contracts (2016: £nil).

The table below summarises the contractual maturity dates of the company's financial instruments, from the year end, which are exposed to cash flow interest rate risk.

As at 31 March 2017	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
Assets:						
Cash at bank and in hand	2,786	-	-	-	-	2,786
Loans to third parties	7,423	-	-	-	-	7,423
Amounts owed by parent company and fellow subsidiary undertakings	17,832	-	-	-	23,641	41,473
Amount owed by associates	-	-	-	-	-	-
Liabilities:						
Bank loans and overdrafts	6,894	-	-	-	-	6,894
Amounts owed to parent company and fellow subsidiary undertakings	153,056	-	-	-	8,098	161,154
<hr/>						
As at 31 March 2016	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	More than five years £'000	Non- interest bearing £'000	Total £'000
Assets:						
Cash at bank and in hand	23,239	-	-	-	-	23,239
Loans to third parties	6,810	-	-	-	-	6,810
Amounts owed by parent company and fellow subsidiary undertakings	12,666	-	-	-	21,511	34,177
Amount owed by associates	-	-	-	-	-	-
Liabilities:						
Bank loans and overdrafts	15,028	-	-	-	-	15,028
Amounts owed to parent company and fellow subsidiary undertakings	163,992	-	-	-	3,744	167,736
<hr/>						

Contracted interest rates on cash at bank and deposit range from -0.40% to nil%.

Contracted interest rates on loans to third parties and amounts owed by parent company and fellow subsidiary undertakings range from Libor +0.20% to Libor + 0.30%.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### *Interest rate risk (continued)*

Contracted interest rates on bank loans and amounts owed to parent company and fellow subsidiary undertakings range from Libor -0.125% to Libor +0.30%.

The directors are of the opinion that the above contracted interest rates are a fair approximation of the effective interest rates as at 31 March 2017.

#### *Liquidity risk*

The financing requirements of the company are predominantly short-term in nature and therefore liquidity management is one of the key risks that the company faces. The company manages its financing requirement and hence its liquidity risk with the aid of a cash-flow forecast that is continuously updated to reflect the actual requirement in each currency. Where appropriate the company seeks to match the duration of liabilities to the underlying assets so as to minimise liquidity risk.

The company meets its financing requirements mainly through a combination of inter-group loans and reserves. The company also has access to uncommitted facilities from a range of banks.

An analysis of the liquidity profile of the company's financial liabilities is as follows:

	Within one year £'000	Between one and two years £'000	Between two and five years £'000	Total £'000
<b>2017</b>				
Bank loans and overdrafts	(6,894)	-	-	(6,894)
Other loans	(153,056)	-	-	(153,056)
Related interest	(151)	-	-	(151)
Non-derivative liabilities	(30,193)	-	-	(30,193)
Derivative liabilities	(19,392)	(177)	-	(19,569)
<b>Total</b>	<u>(209,686)</u>	<u>(177)</u>	<u>-</u>	<u>(209,863)</u>
	Within one year £'000	Between one and two years £'000	Between two and five years £'000	Total £'000
<b>2016</b>				
Bank loans and overdrafts	(15,028)	-	-	(15,028)
Other loans	(163,992)	-	-	(163,992)
Related interest	(150)	-	-	(150)
Non-derivative liabilities	(29,525)	-	-	(29,525)
Derivative liabilities	(7,494)	(437)	-	(7,931)
<b>Total</b>	<u>(216,189)</u>	<u>(437)</u>	<u>-</u>	<u>(216,626)</u>



# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 17. Derivatives and financial instruments (continued)

#### *Reconciliation of Level 3 fair value measurements of financial assets:*

	Available-for-sale Unquoted equities	
	2017 £'000	2016 £'000
Opening balance	6,133	6,010
Total gains or losses: - fair value movement in other comprehensive income	573	123
Closing balance	<u>6,706</u>	<u>6,133</u>

The table above only includes financial assets. There were no financial liabilities subsequently measured at fair value on Level 3 fair value measurement bases. All gains and losses included in the statement of comprehensive income relate to unquoted equities held at the balance sheet date and are reported as fair value movements in investments (note 11).

#### *Netting arrangements*

The company enters into netting agreements with counterparties to manage the credit and settlement risks associated with all its derivatives. These netting agreements and similar arrangements enable the company and its counterparties to settle cash flows on a net basis and set-off liabilities against available assets in the event that either party is unable to fulfil its contractual obligations. Gross notional amounts of the company's derivatives are set out above in the sections of this note relating to the risk the derivatives are used to manage.

### 18. Pension scheme

#### *Defined benefit scheme*

The Mitsubishi Corporation Retirement Benefits Scheme ("the defined benefit scheme") is a funded defined benefit pension scheme. The scheme operated for the benefit of the employees of Mitsubishi Corporation International (Europe) Plc and provided benefits linked to salary at retirement or earlier date of leaving service until the scheme closed to future accrual of benefits on 28 February 2015.

The charge for the year in profit and loss represents the interest cost and expected return on assets as measured through the actuarial valuation for the year and administration expenses.

An actuarial valuation was normally performed every three years, the latest as at 1 April 2012. This revealed a funding deficit versus the actuarial provisions for the Scheme's liabilities of £5.6million. Following this the Trustees of the Scheme reviewed their investment policy in consultation with the company. It was decided to reduce risks in the scheme by purchasing bulk annuities and deferred annuities to cover pensions in payment and deferred pensions. This was funded by a combination of the sale of other scheme investments and a single company contribution of £8.0 million in December 2012. The contribution was part of a Recovery Plan dated 3 December 2012 that was designed to both eliminate the funding deficit revealed in the April 2012 valuation and to substantially cover the additional cost experienced by the Scheme in purchasing annuities. The scheme closed to future accrual of final salary benefits on 28 February 2015. Additional insured annuity contracts were purchased in the year ended 31 March 2016 to further reduce risks in the scheme. The company is planning to finalise the buy out of the pension scheme in the next financial year. The pension charge for the period in respect of employees was £nil (2016: £ nil).

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 18. Pension scheme (continued)

#### Defined benefit scheme (continued)

An interim valuation for this reporting period (for accounting purposes) was carried out by a qualified actuary. The major assumptions used for this valuation were:

	2017	2016
Discount rate (pre and post retirement)	2.50%	3.40%
RPI price inflation	3.40%	3.10%
CPI price inflation	2.40%	2.10%
Rate of increase for pensions in payment (LPI minimum 3% pa where CPI is used from April 2011)	3.25%	3.15%
Rate of increase for pensions in deferment	2.40%	2.10%
Life expectancy at age 60:		
Current pensioners		
- Men	28.2	28.1
- Women	30.9	30.8
Future pensioners now aged 40		
- Men	29.7	29.6
- Women	32.6	32.5

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 5.1%
Inflation assumption *	Increase/decrease by 0.25%	Increase/decrease by 2.2%
Post retirement mortality	Increase/decrease by 1 year	Increase/decrease by 4.2%

\* The inflation sensitivity assumption allows for the impact on all inflation related assumptions (deferred revaluation and pension increases subject to relevant caps and floors).

Based on the above assumptions the surplus in the scheme at each assessment date was:

	2017 £'000	2016 £'000
Value of insured annuities	61,924	50,044
Fair value of other scheme assets	79	1,081
Total value of scheme assets	62,003	51,125
Present value of funded obligations (including insured annuities)	(61,924)	(50,044)
Surplus in the scheme	79	1,081
Adjustment for IAS 19 asset ceiling	(79)	(1,081)
Net pension asset recognised on the balance sheet	-	-

The net defined benefit pension asset recognised has been restricted to nil as the company does not have an unconditional right to the refund of the surplus from the scheme and will not obtain economic benefit from a reduction in future contributions.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 18. Pension scheme (continued)

#### Defined benefit scheme (continued)

The fair value of the scheme's invested assets is set out below.

	2017 £'000	2016 £'000
Bonds	-	971
Cash	79	110
Insurance annuities	61,924	50,044
<b>Total</b>	<u>62,003</u>	<u>51,125</u>

The fair value of the bonds is based on quoted prices. Other assets are unquoted. The scheme does not invest in any of the company's own financial instruments or property occupied by, or other assets used by, the company.

Total income recognised in profit and loss

	2017 £'000	2016 £'000
Administration expenses	43	-
Net interest income on the net defined benefit liability/asset	(36)	(245)
Interest cost on adjustment for the IAS 19 asset ceiling	37	212
<b>Total expense/(income)</b>	<u>44</u>	<u>(33)</u>

Actual return on scheme assets:

	2017 £'000	2016 £'000
Actual gains/(losses) on scheme assets	12,013	(7,569)

Changes in the present value of the defined benefit obligation are as follows:

	2017 £'000	2016 £'000
Opening defined benefit obligation	50,044	52,407
Interest cost on funded obligations	1,683	1,638
Actuarial losses/(gains)	11,289	(1,530)
Disbursement	(1,092)	(2,471)
<b>Closing defined benefit obligation</b>	<u>61,924</u>	<u>50,044</u>



# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 18. Pension scheme (continued)

#### *Defined benefit scheme (continued)*

Changes in the fair value of scheme assets are as follows:

	2017 £'000	2016 £'000
Opening fair value of Scheme assets	51,125	59,019
Interest income on assets	1,719	1,883
Sponsor contributions	-	2,146
Actuarial gains/(losses)	10,294	(9,452)
Disbursements	(1,092)	(2,471)
Administration expenses	(43)	-
Closing fair value of scheme assets	<u>62,003</u>	<u>51,125</u>

Analysis of recognised loss in other comprehensive income:

	2017 £'000	2016 £'000
Actual return less expected return on pension scheme assets	10,294	(9,452)
Experience gains arising on the scheme liabilities	-	240
Actuarial (losses)/gains arising from change in financial assumptions	(11,289)	1,290
Impact of change in irrecoverable surplus	1,039	5,743
	44	(2,179)
Deferred tax	-	-
Actuarial gain/(loss) recognised in other comprehensive income	<u>44</u>	<u>(2,179)</u>

The Scheme is currently in surplus on a funding basis and no regular or one-off deficit reduction contributions are due under the current scheme of contributions. The company is planning to complete the buy-out of the pension scheme in the next financial year. However, while management expects that the probability of the planned buy out going ahead is high it has assessed that as at 31 March 2017 the company retains both a legal and constructive obligation to the scheme. As such the company has not recognised a settlement in the year and has continued to recognise the scheme assets and liabilities.

The scheme closed to future accrual of final salary benefits on 28 February 2015. The company's best estimate of the contributions to be paid in respect of the scheme during the financial year ending 31 March 2018 is nil.

#### *Defined contribution scheme*

The company also operates a defined contribution scheme which began on 1 April 2003. The charge for the year (being the contributions made by the company) was £1.0 million (2016: £1.0 million). No amounts were accrued or prepaid as at 31 March 2017.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 19. Immediate and ultimate parent company

In the opinion of the directors, the company's ultimate parent company and controlling entity is Mitsubishi Corporation, a company incorporated in Japan. This is the smallest and largest group in which the company is consolidated. The immediate parent company is MC Europe Holdings NV, a company incorporated in the Netherlands.

Copies of the group financial statements of the ultimate parent company can be obtained from Mitsubishi Corporation, 3-1 Marunouchi 2-Chome, Chiyoda-ku, Tokyo 100-8086, Japan and are also available on Mitsubishi Corporation's website ([www.mitsubishicorp.com](http://www.mitsubishicorp.com)). The immediate parent company does not prepare group financial statements.

### 20. Related party transactions

The disclosures below show transactions with related parties which are not wholly owned within the group headed by Mitsubishi Corporation. The company has taken advantage of the exemption from disclosing details of related party transactions available under FRS101 for transactions with other wholly owned group companies.

	Mozal		Other related parties	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Turnover	-	-	159	180
Purchases	-	-	-	92
Interest income	-	-	-	56
Trade and other receivables	-	-	42	96
Payables	<u>10,756</u>	<u>8,381</u>	<u>-</u>	<u>13</u>

The company purchased aluminium on normal commercial terms from Mozal s.a.r.l, which is an associate of the company's parent undertaking, Mitsubishi Corporation until May 2014. Thereafter the company changed its arrangement and purchases aluminium directly from the parent company, but remains as a settlement agent for the parent company with Mozal.

Contributions to the defined benefit pension scheme, which is also a related party of the company, have been disclosed in note 18.

# Mitsubishi Corporation International (Europe) Plc

## Notes to the financial statements (continued) Year ended 31 March 2017

### 21. Capital risk management and dividends

#### *Capital risk management*

The company manages its capital to ensure that it will be able to fund both its own day-to-day activities and those of its subsidiaries while continuing as a going concern. The capital structure of the company consists of net debt (bank loans, overdrafts and intercompany balances disclosed in note 14 after deducting cash and bank balances) and equity (comprising issued capital, reserves and retained earnings). The company is not subject to any externally imposed capital requirements and does not manage its capital on the basis of specific target gearing or leverage ratios.

Instead, each year the directors make an assessment of the valuation of the company's assets and liabilities using assumptions which are more prudent than those adopted for financial reporting purpose, taking into account unrealised gains and losses on assets and liabilities held at fair value and unrecognised contingent liabilities. Having made this assessment the company pays out all remaining retained earnings as dividends such that the company's equity should remain broadly stable over the long term. Any requirements for additional capital identified by the company through its ongoing cash flow forecasting are met through additional borrowings obtained from the wide range of facilities available to the company, both directly from external banks and from other group undertakings.

#### *Dividends*

Amounts recognised as distributions to equity holders in the year:

	2017 £'000	2016 £'000
Dividend for the year ended 31 March 2017 of 13.17772p per share (for year ended 31 March 2016: 13.50924p per share)	15,900	16,300
	<u>15,900</u>	<u>16,300</u>

### 22. Events after the balance sheet date

On 23 May 2017 the company's Board of Directors has approved the transfer of its 9.09% shareholding in Triland Metals Limited to its parent company, Mitsubishi Corporation at a price of £4.8 million. The gain of £3.3 million has been recognised in profit and loss of next financial year. After the transfer, Triland Metals Limited becomes 100% owned by Mitsubishi Corporation in Japan.

