Company Registration No. 08261356

# SCMI Limited

## Annual Report and Financial Statements

31 March 2018

# SCMI Limited

## Report and financial statements 2018

## Contents

# SCMI Limited

## Strategic report

The directors present the audited financial statements for the year ended 31 March 2018

SCMI Limited (the "Company") is a 10% subsidiary of Sumitomo Corporation of Americas and 90% subsidiary of Sumisho Materials Corporation which is a wholly owned subsidiary of Sumitomo Corporation, whose head office is based in Tokyo, Japan Sumitomo Corporation is a global trading house operating throughout the world

### Principal activities

The Company trades in precious metals and natural gas

### Business review

Sumitomo Corporation Global Commodities Limited ('SCGC'), a fellow subsidiary, is registered with the UK Financial Conduct Authority ('FCA') In order to meet SCGC's capital adequacy requirement, the Sumitomo Group established SCMI Limited, to transact all non-regulated business and to transfer the precious metal leasing book to SCMI Limited from SCGC. As a result, the Company was incorporated in England and Wales on 19 October 2012 and commenced trading on 6 December 2012 The Company transacts the metal leasing business with third parties and enters into back to back trades with SCGC

The Company is fully aware of the European Market Infrastructure Regulation (EMIR) on Over the Counter (OTC) derivative transactions and is fully compliant with those parts of EMIR, relating to trade confirmation, portfolio reconciliation, dispute resolution, portfolio compression and trade reporting, that have come into effect Ensuring such compliance has had minimal impact on the Company's business The view of the directors is that it is difficult to judge the impact on the Company's business of those aspects of EMIR that have yet to come into full effect, particularly the introduction of mandatory clearing of derivatives contracts and of margining requirements for uncleared OTC derivatives contracts

As shown in the Company's profit and loss account there was an operating loss of $831,000 (2017. $821,000 profit) Loss on ordinary activities before taxation for the year was $595,000 (2017· $944,000 profit).

The Company's balance sheet shows net assets as at 31 March 2018 of $15,658,000 (2017 $17,204,000) Net current assets are $15,658,000 (2017 $17,203,000) Details of amounts owed to its parent company and fellow subsidiaries are shown in note 11

There are several key risk indicators that the Company constantly monitors together with the parent company, Sumitomo Corporation, incorporated in Japan These key risk indicators include value at risk, position risk and counterparty (credit) risk

### Key performance indicators

The Company manages its operations on a contract by contract basis For this reason, the Company's directors believe that key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business

## SCMI Limited

## Strategic report

### Principal risks and uncertainties

Competitive pressures in the operating environment provide a continuing risk to the Company, which could result in loss of business to its competitors The key factor for the Company in managing this risk is to maintain and enhance the close relationships with its customers and suppliers The Company continues to develop and provide innovative services to its customers. A description of the principal risks and uncertainties relating to financial instruments facing the group is set out in note 13

As the result of a referendum held in June 2016 the United Kingdom decided to leave the European Union. Since the referendum the directors have continued to monitor developments and assess the potential impact on the Company The Brexit process has been and remains subject to many uncertainties and therefore it is difficult to draw final conclusions, however, to date there have been no significant adverse impacts on the Company's business activities identified

H. Yamamura

H Yamamura
Director
28 June 2018

Vintners' Place
68 Upper Thames Street
London EC4V 3BJ

# SCMI Limited

## Directors' report

The directors present the directors' report for the year ended 31 March 2018

### Dividends

Dividend declared in the year ended 31 March 2018 was $885,000 (2017  $723,989)

### Directors

The directors who held office during the year up to the date of signing were as follows

H Yamamura
K Okui
T Haga

### Political contributions

The Company made no political donations during the year (2017  nil)

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board

H. Yamamura

H Yamamura
Director
28 June 2018

Vintners' Place
68 Upper Thames Street
London EC4V 3BJ

## SCMI Limited

## Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *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 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,
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

# Independent auditor's report to the members of SCMI Limited

We have audited the financial statements of SCMI Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and Loss Account and other Comprehensive Income, Statement of Changes in Equity and Balance Sheet and related notes, including the accounting policies in note 1

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended,
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion

**Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements We have nothing to report in these respects

**Other information**

The directors are responsible for the other information, which comprises the strategic report and the directors' report Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge Based solely on that work

- we have not identified material misstatements in the other information,
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006

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

Under the Companies Act 2006 we are required 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 We have nothing to report in these respects

## Independent auditor's report to the members of SCMI Limited

**Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**

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.

**James Lovegrove (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square
London E14 5GL
United Kingdom
28 June 2018

## SCMI Limited
## Profit and loss account and Other Comprehensive Income
## for the Year ended 31 March 2018

| | Note | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| **Dealing income** | | 676 | 1,925 |
| Administiative expenses | | (1,507) | (1,104) |
| **Operating (loss) /profit** | | (831) | 821 |
| Interest receivable and similar income | 5 | 247 | 127 |
| Interest payable and similar expenses | 6 | (11) | (4) |
| **(Loss) /profit before taxation** | | (595) | 944 |
| Tax on (loss)/profit | 7 | (66) | (59) |
| **(Loss) /profit for the financial period** | | (661) | 885 |
| Other comprehensive income | | - | - |
| **Total comprehensive (Loss)/income for the year** | | (661) | 885 |

The notes on pages 10 to 21 form part of the financial statements

# SCMI Limited
# Statement of changes in equity
# 31 March 2018

| | Called up share capital $'000 | Profit & loss account $'000 | Total $'000 |
|---|---|---|---|
| Balance brought forward 1 April 2016 | 15,000 | 2,043 | 17,043 |
| Profit retained for year | - | 885 | 885 |
| Dividend paid | - | (724) | (724) |
| Balance carried forward 31 March 2017 | 15,000 | 2,204 | 17,204 |
| Balance brought forward 1 April 2017 | 15,000 | 2,204 | 17,204 |
| Loss retained for year | - | (661) | (661) |
| Dividend paid | - | (885) | (885) |
| Balance carried forward 31 March 2018 | 15,000 | 658 | 15,658 |

The notes on pages 10 to 21 form part of the financial statements

# SCMI Limited
# Balance Sheet
# 31 March 2018

| | Note | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| **Fixed assets** | | | | | |
| Intangible assets | 8 | - | | 1 | |
| | | | - | | 1 |
| **Current assets** | | | | | |
| Debtors | 9 | 511,893 | | 492,900 | |
| Derivative asset | 13 | 9,995 | | 2,796 | |
| | | 521,888 | | 495,696 | |
| **Creditors: amounts falling due within one year** | | | | | |
| Creditors | 11 | 496,243 | | 475,697 | |
| Derivative liability | 13 | 9,987 | | 2,796 | |
| | | 506,230 | | 478,493 | |
| **Net current assets** | | | 15,658 | | 17,203 |
| **Net assets** | | | 15,658 | | 17,204 |
| **Capital and reserves** | | | | | |
| Called up share capital | 12 | | 15,000 | | 15,000 |
| Profit and loss account | | | 658 | | 2,204 |
| **Shareholders' funds** | | | 15,658 | | 17,204 |

The notes on pages 10 to 21 form part of the financial statements.

These financial statements were approved by the Board of Directors on 28 June 2018

Signed on behalf of the Board of Directors

H. Yamamura

H Yamamura
Director
Company registered number 08261356

## SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

### 1. Accounting policies

SCMI Limited (the "Company") is a company incorporated and domiciled in the UK

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporing Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclsure exemptions has been taken

The Company's ultimate parent undertaking, Sumitomo Corporation, includes the Company in its consolidated financial statements The consolidated financial statements of Sumitomo Corporation are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 8-11 Harumi, 1-chome, Chuo-ku, Tokyo, Japan

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures

- A Cash Flow Statement and related notes,
- Comparative period reconciliations for share capital , tangible fixed assets and intangible assets,
- Disclosures in respect of transactions with wholly owned subsidiaries,
- Disclosures in respect of capital management,
- The effects of new but not yet effective IFRSs,
- Disclosures in respect of the compensation of Key Management Personnel

As the consolidated financial statements of Sumitomo Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures

- IFRS 2 Share Based Payments in respect of group settled share based payments,
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets,
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations,

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial sttements

# SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

1. **Accounting policies (continued)**

**Going concern**

The Company manages its cash position in conjunction with its ultimate parent company, Sumitomo Corporation, based in Tokyo, Japan, and has access to group finance via bank facilities and the Medium Term Note and Euro Commercial Paper programs operated by a wholly owned subsidiary entity of the Group. All these facilities or programs fall due for renewal or update within the next twelve months but the directors consider that the financial strength and stability of the overall Sumitomo Corporation group means sufficient funding will be available to enable the Group to meet its liabilities for the foreseeable future.

**Measurement convention**

The financial statements are prepared on the historical cost and going concern basis except for the following·

- derivative financial instruments are measured at fair value in the profit and loss
- other investments are measured at fair value through equity

**Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation methods, useful lives and residual values are reviewed at each balance sheet date

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of intangible assets The estimated useful lives are as follows

| | |
|---|---|
| Software | Over a period between 3 and 10 years |

**Stocks, forwards, metal leases and open contracts held for dealing purposes**

Metal stocks and open contracts held for dealing purposes are valued at market prices in accordance with established industry practice Revaluation gains and losses resulting from the application of this policy are taken to the profit and loss account For metal stocks, this represents a departure, as far as gains are concerned, from the Companies Act 2006

The directors consider that this departure is necessary in order that the financial statements should give a true and fair view of the results of the group's dealing activities, in accordance with section 404(5) of the Companies Act 2006 The directors consider that it is not practicable, and moreover would be misleading, to quantify the effects of non-compliance with the Act.

Revaluation gains and losses on open contracts, which may include futures, forwards, leases and options, representing both long and short positions, are included in the balance sheet under debtors and creditors respectively

**Dealing income**

The directors believe that turnover and cost of sales do not have meaningful equivalents for the business and, in keeping with similar businesses, these items have not been separately disclosed in the profit and loss account The directors consider that dealing income, which comprises profits and losses from dealing in precious metals, is a more relevant measure of activity

Net income derived from leasing metals either in or out is included in Dealing Income

# SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

1. **Accounting policies (continued)**

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for. the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised

**Financial instruments**

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

***Trade receivables***

Trade receivables, except for lease receivables, are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account 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 computed at initial recognition All transactions are recognised on their transaction date

Metal lease arrangements comprise both the underlying metal and a fee for the lease They are not considered to be either operating leases or finance leases within the scope of International Accounting Standards relating to leases. The Accounts Receivable on leases are classified as derivatives under IAS 39/IFRS 7 Financial Instruments Recognition and Measurement and are accounted for at fair value through the profit and loss account

***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand and on demand deposits, overnight sweep balances 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 balances and cash comprise time deposits with an original term of three months or less and interest is calculated by reference to Libor The carrying amounts represent their fair value As such no disclosure of fair value is required All transactions are recognised on their transaction date

## SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

**1. Accounting policies (continued)**

*Financial liabilities and equity*

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

*Interest bearing borrowings*

Interest-bearing bank loans and overdrafts are recognised initially at fair value less attributable transaction costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the profit and loss account 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 All transactions are recognised on their transaction date

*Trade payables*

Trade payables, except for lease payables, are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method All transactions are recognised on their transaction date

Metal lease arrangements comprise both the underlying metal and a fee for the lease They are not considered to be either operating leases or finance leases within the scope of International Accounting Standards relating to leases The Accounts Payable on leases are classified as derivatives under IAS 39/IFRS 7. Financial Instruments. Recognition and Measurement and are accounted for at fair value through the profit and loss account

*Derivative financial instruments and hedge accounting*

The Company's activities expose it primarily to the financial risks of price fluctuations and marginally to financial risks of changes in foreign currency exchange rates Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative All derivatives are held for trading and are expected to be settled over their normal operating cycle and therefore are classified as current irrespective of maturity date Derivative financial instruments are recognised at fair value The gain or loss on remeasurement to fair value is recognised immediately in profit or loss

Hedge accounting is not applied as the hedge relationships do not meet the criteria under IAS 39 to qualify for hedge accounting Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise

## Notes to the accounts
*(forming part of the financial statements)*

### 1. Accounting policies (continued)

**Foreign currencies**

In preparing the financial statements transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss account for the period

### 2. Expenses and auditor's remuneration

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Included in profit / loss are the following | | |
| Amortisation and other amounts written off intangible assets: | | |
| Software | 1 | 43 |
| Net fair value losses/(gains) on financial assets and liabilities and stocks at fair value through profit and loss account | - | - |
| Net gains on foreign exchange translation | (424) | (40) |

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Auditor's remuneration audit of these financial statements | 28 | 26 |
| Auditor's remuneration. audit related services | - | - |

### 3. Staff numbers and costs

| | 2018<br>No. | 2017<br>No. |
|---|---|---|
| Average number of persons employed (including directors) analysed by category. | | |
| Sales and administration | - | - |

### 4. Directors' remuneration

The Company reimburses other group companies for the provision of various services including the secondment of executives

The directors do not receive remuneration from other group companies in relation to the provision of services to the Company

No directors are members of a defined benefit pension scheme have share options or received awards during the year in the form of shares under long-term incentive schemes

## SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

**5. Interest receivable and similar income**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Interest receivable from group companies | 242 | 122 |
| Other | 5 | 5 |
| | 247 | 127 |

**6. Interest payable and similar charges**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Interest payable to group companies | 10 | 3 |
| Other | 1 | 1 |

**7. Tax on profit on ordinary activities**

**(a) Analysis of charge in period**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Current tax. | | |
| UK corporation tax on profits of the period | - | 189 |
| Adjustments in respect of prior years | 18 | (130) |
| Foreign tax suffered | 36 | - |
| Total current tax | 54 | 59 |
| Deferred tax· | | |
| Origination of timing differences | 12 | - |
| Tax on profit on ordinary activities | 66 | 59 |

**(b) Factors affecting tax charge for period**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Profit on ordinary activities before tax | (595) | 944 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017. 20%) | (113) | 189 |
| Effects of. | | |
| Adjustments to tax change in respect of previous periods | 18 | 10 |
| Adjustment of group relief in respect of previous periods | - | (140) |
| Expenses not deductible for tax purposes | 4 | - |
| Foreign tax suffered | 44 | - |
| Foreign tax relief | (8) | - |
| Tax loss in the period not recognised | 109 | - |
| Derecognition of previously recognised deferred tax asset | 12 | - |
| | 66 | 59 |

## SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

(c) Factors affecting the tax charge for future periods
Reduction in the UK corporation tax from 23% to 21% (effective from 1 April 2014) and to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013 Further reduction to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015 An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16th March 2016 This will reduce the company's future current tax charge accordingly

### 8. Intangible assets

| | Software $'000 |
|---|---|
| **Cost:** | |
| Balance at 1 April 2017 | 244 |
| Balance at 31 March 2018 | 244 |
| **Accumulated Amortisation:** | |
| Balance at 1 April 2017 | 243 |
| Amortisation charge for the period | 1 |
| Balance at 31 March 2018 | 244 |
| **Net book value:** | |
| At 1 April 2017 | 1 |
| At 31 March 2018 | 0 |

### 9. Debtors

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Trade debtors | 168,141 | 148,359 |
| Amounts owed by group companies | 320,159 | 325,308 |
| Other debtors | 21,856 | 17,074 |
| Prepayments and accrued income | 1,737 | 2,159 |
| | 511,893 | 492,900 |
| **Total debtors** | | |
| Due within one year | 511,893 | 492,900 |

Trade debtors and amounts owed by group undertakings principally comprise amounts for open lease contracts At the balance sheet date this amount was $456 0 million (2017. $464 9 m) The length of these open leases varies from 3 day to 362 days

The directors consider that the carrying amount of trade and other receivables approximates their fair value

# SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

Lease receivables, which are considered by the directors to be derivatives, are stated at fair value calculated using the closing rates on the 31 March 2018 obtained from third party brokers, exchanges and also by using exchange settlement rates Adjustments for sponge are calculated based on the ingot price and the refining cost

### 10. Deferred taxation

The amounts of deferred taxation provided in the accounts are.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Accelerated capital allowances | - | 12 |
| Deferred tax asset | - | 12 |
| Asset at start of year | 12 | 12 |
| Deferred tax charge in profit and loss account | (12) | - |
| Asset at end of year | - | 12 |

The deferred tax asset is included within prepayments and accrued income

### 11. Creditors

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Lease creditors – parent company and fellow subsidiaries | 225,525 | 277,662 |
| Lease creditors - others | 230,474 | 187,302 |
| Corporation tax | 72 | 3 |
| Other creditors | 40,172 | 10,730 |
| | 496,243 | 475,697 |

Lease creditors, which are considered by the directors to be derivatives, are stated at fair value calculated using the closing rates on the 31 March 2018 obtained from third party brokers, exchanges and also by using exchange settlement rates Adjustments for sponge are calculated based on the ingot price and the refining cost The length of the open leases varies from 3 days to 362 days

The directors consider that the carrying amount of trade creditors approximates to their fair value

# Notes to the accounts
*(forming part of the financial statements)*

## 12. Called up share capital

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| **Allotted, called up and fully paid:** | | |
| 15,000,000 ordinary shares of $1 each | 15,000 | 15,000 |

## 13. Financial risk management

The Company's activities expose them to a variety of financial risks including market risk, credit risk and liquidity risk The main financial risks managed by the Company are price risk and value at risk, specifically the risk of changes in the value of precious metals, base metals and energy which the Company trades in and the total value at risk .The Company uses derivative financial instruments to manage the financial risks associated with the underlying business activities and the financing of those activities

### *13a Price risk*

Precious metals for leases to customers are sometimes obtained by leasing in the required quantity of metal, giving rise to both a metal receivable and metal payable balance in the balance sheet In these circumstances the net exposure to fluctuations in metal prices is minimal

In other cases the Company acquires metal inventory or enters into leasing arrangements that give rise to a lease receivable without a corresponding lease payable, increasing the Company's exposure to changes in the price of the underlying commodity In these circumstances the Company may use derivative financial instruments to manage the risks associated with their trading in precious metals

Metal commodity contracts and energy price derivatives expose the Company to risk relating to changes in market price of the underlying metals and energy The Company enters into both buy and sell contracts for these items which provide some natural offset of the price risk and monitors its exposure through its Value at Risk, as described below

### *13b Interest rate risk*

The Company's interest rate risk arises from two different types of risk – 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 entity has variable rate inter-company loans, it is exposed to cash-flow interest rate risk Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates The Company's exposure to interest rate risk is incorporated in the Value-at-Risk calculations discussed in note 13e

Any changes in Bank interest rates in the UK has a minimal affect on the Company, as any change in lease fee income is offset by the change in the financing costs of the leasing operation

### *13c Credit risk*

The Company derives its revenue from outright sales and leasing of metals and energy contracts to industrial clients and financial institutions The failure of any such company to honour its debts could materially impact the group's results. The Company derive significant benefit from trading with their large customers and manage the risk at many levels. The Company monitors the total value at risk in conjunction with the risk management department of its parent company, Sumitomo Corporation. The recent economic problems in the financial and commodity markets have not led to an increase in the bad debts incurred by the Company The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers

At 31 March 2018, debtors amounted to $511 9 million (2017 $492 9 million) The credit risk for outright trading is limited because the counterparties are banks or other financial institutions with high credit-ratings assigned by international credit-rating agencies. The credit risk for leasing trades is limited because the counterparties are large multi-national companies with high credit-ratings assigned by international credit-

## SCMI Limited

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**13. Financial risk management (continued)**

Rating agencies and also because title is retained to the underlying metal The Company monitors trade receivables in conjunction with the risk management department of its parent, Sumitomo Corporation

The credit profiles of the Company's customers are obtained from credit rating agencies and closely monitored The scope of these reviews includes amounts overdue and credit limits Payments from the financial institutions and other markets in which the Company operates are made promptly Trade receivables are considered impaired when the amount is in dispute, customers are in financial difficulty or for other reasons which imply there is doubt over the recoverability of the debt

Debtors can be analysed as

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Amounts neither past due nor impaired | | 511,803 | | 492,864 |
| Amounts past due but not impaired | | | | |
| less than 30 days | | | | |
| 30 – 90 days | 80 | | 33 | |
| more than 90 days | 10 | | 3 | |
| Total past due but not impaired | | 90 | | 36 |
| Trade receivables net of allowances | | 511,893 | | 492,900 |

The credit risk on derivative financial instruments is limited because the counterparties with significant balances are companies with high credit ratings

***13d Foreign currency risk***

The Company manages its operation on a contract by contract basis in a global competitive market. The majority of its trades are in USD and the exposure to the Company's profit is limited However, in order to protect the Company's US dollar balance sheet and reduce cash flow risk the group finances its activities by borrowing US dollars, euros, yen and GB pounds through the central pooling of bank balances with Sumitomo Corporation Capital Europe Limited

The Company uses forward exchange contracts to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies The majority of the cash flows are expected to occur and the hedge effect realised in the income statement in the year ending 31 March 2019

The Company has no significant exposure to foreign exchange risk Comparative movements in currencies in 2018 for both Profit or Loss and Equity were -

- GB pound, a 5% (6.7 cent) movement in the average exchange rate of the GB pound against the US dollar would have had a $3,000 impact on operating profit
- Euro, a 5% (5 9 cent) movement in the average exchange rate of the Euro against the US dollar would have had a $12,000 impact on operating profit
- JPY, a 5% (0 05 cent) movement in the average exchange rate of the Yen against the US dollar would have had a $2,000 impact on operating profit

# Notes to the accounts
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## 13. Financial risk management (continued)

### *13e Value at risk*

VaR is a statistical measure of the potential maximum loss in the fair value of a portfolio that may result from adverse market movements in underlying risk factors, which is calculated over a defined period and within a certain confidence level The Company uses the VaR method to measure the market risk for certain market-sensitive commodity transactions and certain financial transactions The calculation is included as part of its ultimate parent company's exposure and is included in Sumitomo Corporation group audited financial statements The calculation uses the Monte Carlo simulation method with a confidence level of 99% The Company conduct backtesting in which estimated quantitative risks are compared with actual gains or losses to verify the accuracy of the VaR measurement model The actual value of gains or losses has not exceeded VaR in the backtesting during the twelve months ended 31 March 2018 Based on the backtesting, the Company believes the VaR model provides reasonably accurate measurements. As at 31 March 2018 the VaR of the Company's commodity portfolio was nil (2017. nil), which is within the limits established by Sumitomo Corporation

### *13f Capital management*

The Company's policy for managing capital is to maintain a strong balance sheet to ensure that the Company always has sufficient resources to be able to invest in future growth The Company constantly monitors its net debt, value at risk and liquidity ratio to ensure that it maintains a good return on its capital and a sound capital position

### *13g Fair value hierarchy*

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e , as prices) or indirectly (i e , derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| **As at 31 March 2018** | **Level 2** | **Total** |
|---|---|---|
| | **\$'000** | **\$'000** |
| Derivative financial assets | 9,995 | 9,995 |
| Derivative financial liabilities | (9,987) | (9,987) |
| Debtors | 455,999 | 455,999 |
| Creditors | (455,999) | (455,999) |

# SCMI Limited

## Notes to the accounts
*(forming part of the financial statements)*

### 13. Financial risk management (continued)

| As at 31 March 2017 | Level 2 | Total |
|---|---|---|
| | $'000 | $'000 |
| Derivative financial assets | 2,796 | 2,796 |
| Derivative financial liabilities | (2,796) | (2,796) |
| Debtors | 466,710 | 466,710 |
| Creditors | (466,710) | (466,710) |

### 14. Ultimate parent company

The Company's parent company and controlling party is Sumisho Materials Corporation which is an wholly owned subsidiary of Sumitomo Corporation, a company incorporated in Japan and registered at 8-11 Harumi, 1-chome, Chuo-ku, Tokyo, Japan.

Sumitomo Corporation heads the largest and smallest group in which SCMI Limited is a member for which group accounts are prepared

The group accounts for Sumitomo Corporation are available at the registered address