Motability Operations
Group plc

Annual Report and Accounts 2011

Motability Operations is the operator of the Motability Car Scheme and, more recently, the Powered Wheelchair and Scooter Scheme. The Motability Scheme enables disabled people to exchange either their Higher Rate Mobility Component of Disability Living Allowance or their War Pensioners' Mobility Supplement to obtain a new car, powered wheelchair or scooter.

Our prime purpose, as the operator of the Scheme, is to provide our customers with independence and mobility by offering a wide choice of vehicles, powered wheelchairs or scooters at affordable prices, and to deliver outstanding customer service.

As a not-for-profit plc, we re-invest any surpluses back into the business for the benefit of our customers.

www.motabilityoperations.co.uk

Contents

Our business model

We operate a unique business model, working with Motability, stakeholders and partner suppliers, for the benefit of our customers.

As operators of the 'Motability Scheme', secured through a contract with Motability, we receive customers' mobility allowances assigned directly from the Department for Work and Pensions (DWP). This revenue stream, received directly from Government, is without credit risk. As operators of the Scheme, we seek to leverage economies of scale and to tightly manage our cost base. It is by running an efficient operation that we are able to consistently deliver a highly affordable and competitive proposition for our customers.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme you must receive the qualifying Government allowance. Motability plays no role in deciding who is eligible for this allowance. The 1.9 million people who are currently in receipt of this allowance could seek to obtain one of these products from Motability Operations. At present, around 29% of this potential customer base participates in the Scheme.

In choosing to take a vehicle, powered wheelchair or scooter on the Scheme, customers assign their mobility allowance to Motability Operations. In return, we provide worry-free mobility including full insurance, maintenance and servicing, including (as applicable) tax, tyre and windscreen replacement, breakdown assistance and 60,000 miles mileage allowance over three years. We aim to offer customers a comprehensive and affordable product range. Currently, 36 vehicle manufacturers (representing 99% brand availability) and 15 powered wheelchair and scooter manufacturers are represented on the Scheme.

Mobility allowance

There are currently over 1.9 million recipients of qualifying 'mobility' allowances. To access the Scheme, an individual must receive either the Higher Rate Mobility Component of the Disability Living Allowance (administered by the Department for Work and Pensions (DWP); in Northern Ireland this is administered by the Social Security Agency and in the Isle of Man by the Department of Health and Social Security) or the War Pensioners' Mobility Supplement (which is administered by the Service Personnel and Veterans' Agency (SPVA)). Receipt of a qualifying allowance is the sole eligibility criterion for people wishing to access the Scheme. Through its relationship with Motability, the DWP arranges for the allowance to be paid directly to us on behalf of those people who choose to use the Scheme.

Motability Operations

The UK's largest car leasing company, we have 34 years' experience in the industry and have supplied over three million vehicles since the Motability Scheme was launched.

During 2010, our remit was expanded to include delivery of the Powered Wheelchair and Scooter (PWS) Scheme on behalf of Motability. From 1 July 2010, we became responsible for all the new leases written on the Scheme. From 1 October 2010, following the acquisition of Route2mobility (R2m) – the previous service provider – Motability Operations assumed responsibility for the c.8,000 leases of existing PWS customers. This step consolidated the delivery of the PWS Scheme under one provider. Our approach to operating the PWS Scheme is wholly aligned with that of the Car Scheme proposition.

How we operate

Motability

Motability Charity directs and oversees the Scheme

Motability is a national charity, set up in 1977, to assist disabled people with their mobility needs. The Charity's prime purpose is to ensure that those disabled people who want to use their mobility allowance to obtain a vehicle, scooter or powered wheelchair on the Motability Scheme always receive the best possible service and value for money.

At Motability Operations, our relationship with Motability is governed by the Scheme Agreement, which sets out the Charity's role of directing and overseeing the Scheme. Motability and Motability Operations are constitutionally and operationally separate entities.

Mobility Allowance

Government decides who should receive motability allowances. Customers may choose to assign their mobility allowance to obtain a vehicle, powered wheelchair or scooter

Motability Operations

Manages the Motability Car, Powered Wheelchair and Scooter Scheme

Customers

Customers have access to a wide range of products that meet their specific needs

Our objective is to offer affordable, worry-free mobility to the 1.9 million people in the UK with qualifying allowances. Through the Motability Scheme, potential customers can choose to divert the allowance into leasing or the hire purchase of a new car, powered wheelchair or scooter. We aim to provide sustained value and choice, combined with first-class customer service.

On the Car Scheme, our customer numbers have increased rapidly in recent years, and our car fleet currently stands at over 590,000 vehicles. We bought over 235,000 new cars and re-sold 197,000 into the used car marketplace during the financial year ended September 2011.

As regards the PWS Scheme, over 5,030 new customers joined the Scheme during the financial year, with total customer numbers of 9,658 at September 2011.

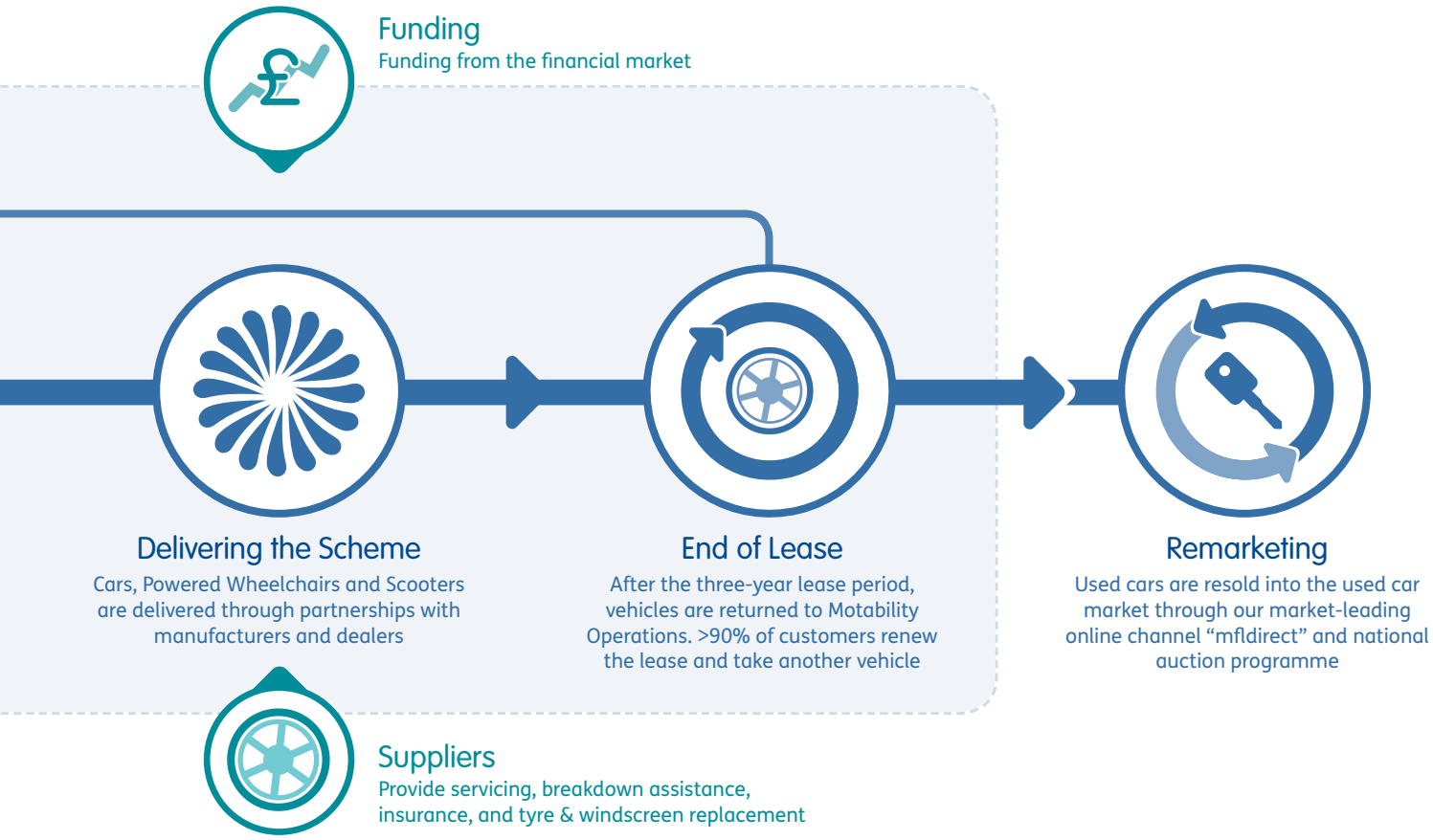
It is our strong financial position that equips us to support both this growth in the car scheme and the addition of the PWS Scheme fleet. This strength has been built upon our prudent reserves and risk management methodology; our diversified fleet portfolio; our excellent business culture and best-practice governance. It is as a result of these strengths that we are able to provide our customers with sustained affordability throughout the economic cycle. As a not-for-profit plc, we reinvest any surpluses back into the business for the benefit of our customers.

At Motability Operations, we provide:

- Worry-free mobility through a Contract Hire product including (as appropriate) insurance; maintenance and servicing; tyre and windscreen replacement; breakdown assistance and a 60,000 mileage allowance over three years
- Excellent brand choice with 36 manufacturers represented on the Car Scheme, and all of the major scooter and powered wheelchair providers represented
- Over 200 cars on the price list that are available by using the mobility allowance alone ('nil advance payment')
- A full range of adaptations and wheelchair accessible vehicles

To achieve this we:

- Manage and develop relationships with key manufacturers
- Work in partnership with over 4,900 car dealers and 146 mobility outlets to provide excellent customer service
- Proactively manage suppliers to ensure an excellent and sustained customer experience on very affordable terms
- Provide telephone support to our customers through our best-practice call centre, supported by a fully interactive web-based query tool
- Employ an engaged workforce of over 700 people across our two sites in London and Bristol



Chairman's statement

2011 has been another year of robust performance for Motability Operations

The last 12 months have consolidated our position as a heavy-weight business, offering high quality customer service aligned to excellent performance. All this has been achieved during a period when our financial position has remained robust, buoyed by strong performance achieved in vehicle sales.

Neil Johnson, Chairman

2011 has been another year of robust performance for Motability Operations. We maintained progress on delivering stability for the long term, while building strong foundations for financing, including successful execution of the company's first Eurobond.

This achievement offers a vote of confidence in us as a healthy business. It shows the confidence that the markets, including European investors, have in the Scheme's long-term future. Our investors, and other stakeholders in Motability, continue to recognise our business as well-funded, stable and sustainable, offering excellent returns.

Despite the economic pressures at this time, customer numbers continued to grow steadily this year, exceeding 590,000 vehicles. Even more significantly, we saw customer satisfaction reach a record 98%. Our customers' feedback was endorsed when we attained 2nd place overall in the Sunday Times Top 50 Call Centre rankings. These achievements are welcome recognition of the passion and commitment displayed by the many employees whose work delivers the customer experience, every day.

Affordability remains key, and we aim to do all we can to support customers with a wide choice of cars at the lowest prices. During the year we consistently offered more than 330 cars costing no more than customers' allowance, with many more at less than £500.

Renewal rates are a good measure of customer confidence, and we were pleased to maintain a steady rate of over 92% throughout the year. This positive figure was coupled with a record 97% of customers telling us they would recommend the Scheme to a friend. These welcome outcomes stem from a consistent commitment to customer service, supported through a variety of initiatives introduced during the year. These ranged from adapted test drives on offer at our open days, to changing shift patterns in Customer Services, providing greater cover for calls.

The Motability Dealer Partnership continued to drive up service standards in over 4,000 UK-wide dealerships, with particularly high levels of satisfaction reflected for after-sales care. Our partnership with dealers extends to vehicle remarketing, with increasing numbers of supplying dealers also buying used stock through our online sales channel, mfldirect. This year saw more than 60% of cars sold through this route, obtaining the optimum return, all of which feeds back into the business to keep prices low for customers.

One of the things that marks out Motability Operations is its strong belief that business culture is the bedrock of its activities. We were therefore delighted that our MyView survey again demonstrated that employee engagement levels exceeded that of other high performing companies, and in fact, had moved forward in every category.

We have now marked a full year of wheelchair and scooter provision, and are delighted to see this small fleet beginning to grow more steadily. We acquired Route2mobility in October 2010, so are now supporting all wheelchair and scooter customers. Early indications of customer satisfaction also look very promising and we will continue to monitor this, to ensure that this important group is well provided for.

The last 12 months have consolidated our position as a heavy-weight business, offering high quality customer service aligned to excellent performance. All this has been achieved during a period when our financial position has remained robust, buoyed by strong performance achieved in vehicle sales.

This is a good place to be, as we set out to address the challenges that forthcoming months will undoubtedly bring. The present economic climate and continuing focus on the balance of welfare support mean we anticipate testing times ahead, but we have a strong record of meeting such challenges with energy and confidence. We will take on board the environmental factors around us, while using our understanding of our customers to implement effective solutions.

On behalf of the Board, I should like to thank Mike Betts and his Executive colleagues for producing another outstandingly successful performance in 2011. They have been ably supported by members of the Board, and thanks go to them, as well as all the members of our Governance committees, which are so critical to our company's success. Whatever the external challenges, we have a management team with the skills, resilience, commitment and energy to move the business forward and continue to provide service excellence to our genuinely disadvantaged customers.

Once again, the year has brought us into close partnership with the Charity, and we would like to thank them for their tireless support, which has helped deliver this year's achievements. In this regard, I would like particularly to thank Lord Sterling and the Governors of the Charity.

Lastly, I'd like to thank every member of the Motability Operations team, for their unstinting commitment to our customers and our business. This has been particularly marked during a challenging period for the business, and we are proud of the way everyone, in every part of the Company, has pulled together during such times, to succeed with such confidence.

Neil Johnson OBE
Chairman

We consistently met our targets for affordability and choice throughout the year

A successful year, with exceptional customer satisfaction, and finances on a secure footing, means we are in a good place to manage whatever comes our way.

Mike Betts, Chief Executive

Motability Operations has had another highly successful year, meeting or exceeding all customer and financial targets. These goals were achieved in the face of a year of challenges, and in the context of a testing economic and political environment. We were particularly pleased to attain a new record in customer satisfaction, supported by a platform of buoyant financial performance.

Successful performance

We consistently met our targets for affordability and choice throughout the year, with more than 300 cars available in exchange for the allowance alone. Many more were available for under £500. These choices included a range of automatic models, favoured by many customers to meet disability needs, as well as fuel efficient options. These 'greener' choices helped us see a reduction in average CO_2 emissions over the year.

We were very pleased to see customer satisfaction, which is independently measured, reach new levels of 98%. This achievement was underpinned by consistent service levels delivered by our UK customer call centre, which has now achieved more than four years of answering 80 per cent of calls within 20 seconds. The quality of customer service gained additional recognition with the awards of Best Newcomer, Best in Public Services and second best overall in the Sunday Times Top 50 Call Centre rankings.

More than 97% of Motability customers continued to recommend the Scheme to others, and we maintained a renewal rate in excess of 92%. Greater awareness helped generate sustained growth. More than 77,000 new customers joined us, bringing the car fleet to 592,610 at the end of the year, representing 5.5% growth.

We are grateful to, and would like to thank, the many suppliers, including dealers and manufacturers, who have supported us in the delivery of this year's excellent results.

In October 2010 Motability Operations Group plc acquired Route2mobility, the previous provider of the Powered Wheelchair and Scooter Scheme. This meant we were able to apply consistent support for this important customer group. Transition took place extremely smoothly, and we were delighted with positive feedback from our initial round of customer research. We are not complacent and will be monitoring carefully to ensure that we can sustain this satisfaction as the wheelchair and scooter fleet grows.

Our summer One Big Day events provided an opportunity for customers old and new to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue. This year saw the first indoor event, which attracted more than 2,700 visitors, and for the first time we also offered test drives of adapted vehicles. Both innovations proved very popular and led to a record combined total of 9,000 people who took the chance to visit and find out more.

Our company culture is the essential core of our activities, and it was good to see 94% of our employees once again taking part in our MyView survey. The outcome of this survey, which is conducted independently and compares us with other high performing organisations, showed the highest ever level of employee engagement, taking our results ahead of other companies across a range of categories.

Chief Executive's review continued

During the year, office space became available at the Bristol Business Park, and we took the opportunity to extend our premises to create a campus at the Bristol Business Park which will accommodate our expected long-term employee numbers. We also secured a longer-term lease at City Gate House in London.

Financial sustainability

We have maintained stability in pricing through sustained focus on containing costs and seeking efficiencies. During the year this included the successful renegotiation of a number of key supplier contracts.

Despite a record volume of disposals, we also saw another extremely positive year for vehicle sales, including 120,000 cars sold via our online trading facility, mfldirect. The new mfldirect site was launched mid-year, offering new functionality and flexibility for our buying dealers.

Revenues have increased year on year and we continue to enjoy a robust financial position, with a level of reserves achieved in line with targets based on our Economic Capital Requirement. The Group continued to diversify its financing, and in November we carried out two bond issues, a £300m twenty-year Sterling issue, and our first Eurobond issue of €500m, extending our financing sources beyond the UK.

We believe that sound risk management is essential to effective running of the business, and throughout the year worked to ensure that both financial and operational risks were appropriately managed, and emerging risks detected.

Looking ahead

Working with Motability the Charity, we identified a series of proposed changes to our proposition (see page 18). These will be implemented over the coming year.

The uncertainties of the current climate continue to present us with many challenges. However, we have a track record of addressing such testing times with confidence, and dealing with them effectively. A successful year, with exceptional customer satisfaction, and finances on a secure footing, means we are in a good place to manage whatever comes our way.

Thank you to all employees throughout the business who have played their part in creating this success.

Mike Betts
Chief Executive

Strategy in Action and Performance

Our Prime Purpose

We have developed a clear strategic agenda designed to satisfy our prime purpose of providing our customers with independence and mobility by offering a wide choice of vehicles at affordable prices. We aim to deliver first-class customer service, and believe that understanding how disability affects our customers' needs is critical in meeting

Highlights

Build our customer and disability expertise

Overall customer satisfaction

98%

Best ever results in independent survey

Provide value and choice

Relative affordability

>200

Delivered target of a choice of over 200 vehicle models at 'nil advance payment'

Improve reach and awareness

Customer numbers

77,000

Brand new customers joined the Scheme during the year

Ensure long-term sustainability

Reserves sufficiency ratio

120%

of risk capital requirement

this objective. Ensuring the long-term sustainability of our business is essential for the delivery of these objectives.

To deliver these ambitions, we have defined four strategic 'pillars'. These set out a clear framework within which we align our business objectives, performance targets and business planning.

The pillars are: building our customer and disability expertise, providing value and choice, improving our market reach and awareness, and ensuring long-term sustainability. Our people, positioning principles, culture and values form the bedrock that underpins the delivery of these objectives.

Strategic Pillars

- Build our customer and disability expertise
- Provide value and choice
- Improve reach and awareness
- Ensure long-term sustainability

Our Values

- We aim to provide excellence in customer service
- We are passionate about what we do
- We have a high performance culture
- We think and act commercially
- We are friendly, flexible and facilitating

People and Principles

Our people are fundamental to our success and we are committed to recruiting and retaining an engaged and motivated workforce. We have created an excellent working environment, and promote a positive business culture aligned to our core values and principles. We seek to develop our people and reward and recognise excellent performance.

see page 21

Our values (which are outlined above) are central to delivering and meeting the needs and expectations of our customers. We embrace diversity, which enables us to have a wide variety of approaches and perspectives, enhancing performance and creating value for customers. We aim to be confident in meeting our customers' needs.

Performance

We track performance through a range of corporate Key Performance Indicators (KPIs). These KPIs are defined in the context of the four strategic 'pillars', thereby ensuring that activity across the business is aligned with these strategic objectives.

see pages 08-15

Risk Management

Through our comprehensive risk management processes we identify and assess the risks that we face. Having understood the nature of these risks, we ensure that we have the appropriate mitigants in place to reduce these exposures.

see pages 22-24

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Motability provides me with the security of knowing that I have a reliable new car. My dealer looks after all the routine maintenance, leaving me to get on with enjoying my motoring.

Dealers are trained to help customers enjoy worry-free motoring, with servicing, maintenance and repair all taken care of. We regularly research our marketplace to gain better understanding of customer needs.

98%

customer satisfaction rating

Strategy	Goals	Objectives
Build our customer and disability expertise We maintain consistently excellent levels of customer service throughout the leasing proposition, and demonstrate disability expertise in our approach to our customers and in our role as an employer	Understanding our customers is critical to our success. By listening and responding to their feedback, we are able to adapt our proposition and focus our resources on their needs. Our success is dependent on our ability to deliver a Scheme that meets our customers' requirements and provides excellent service. Development of our disability expertise is fundamental to our success in understanding our customers and the delivery of our customer service aspirations.	• Delivering best practice customer service through our call centre • Ensuring that the standard of services deployed through our key suppliers is commensurate with our internal targets • Building our adaptation and conversion expertise to ensure that customers have a seamless experience and that we are recognised for the excellence of our 'one-stop-shop' service • Providing our customers with the information and tools they need to select a suitable car from the wide range available • Providing information to support decision-making to meet customers' mobility needs • Working with disability organisations for guidance and support

KPIs	Result	How we achieved it
Overall customer satisfaction	98% overall satisfaction – best ever results	We deliver by listening to our customers and ensuring that we meet their requirements.
Call answering	83% of calls answered within 20 seconds	We have successfully met our target of answering 80% of calls within 20 seconds for 54 consecutive months. The removal of our IVR in 2010 means that customers quickly reach a real person.
Powered Wheelchair and Scooter customers	9,658 PWS customer numbers	With our remit now also including the PWS Scheme, we will provide the same level of customer service and expertise to this new customer group.
Call centre experience	2nd place overall in the Sunday Times Top 50 Call Centre Awards	We have a real focus on the quality of our call centre activity – this gained recognition with the awards of Best Newcomer, Best in Public Services and second best overall in the Sunday Times Top 50 Call Centre rankings.
Continuous mobility	86% average roadside fix rate	Mobility is a priority to our customers – in the event of a breakdown our customers receive priority assistance, and with an 86% roadside fix rate, the vast majority are quickly mobile again.

Strategy	Goals	Objectives
Provide value and choice We provide a wide range of vehicles to our customers at competitive and affordable prices	We are committed to providing a wide range of affordable vehicles to meet the diverse needs of our customers. To this end, we seek to leverage our purchasing power and ensure that we manage our cost base on commercial terms to provide value without compromising choice or quality.	• Maintaining a range of at least 200 cars at 'nil advance payment' • Providing a wide selection of vehicle models and brands • Ensuring that our residual value-setting and forecasting is the best in the industry • Providing stability in pricing and choice throughout the economic cycle • Retaining our market leadership for vehicle remarketing

"The dealer that brought scooters out to me was great. I test drove two, a small and a medium one and they were brilliant.

Powered wheelchair and scooter customers are an important part of our customer base, and during 2011 we worked to improve the choice of products and service standards available to this group. We have developed a strong relationship with manufacturers, helping to ensure customers obtain the best value and consistent UK-wide pricing.

Around **300** product choices are available to customers, both in the showroom and at their home, supported by a strong dealer partner network.

KPIs	Result	How we achieved it
Relative affordability	44% cheaper than equivalent commercial contract hire quotations	We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale, operational efficiencies and VAT concession deliver the majority of this differential.
Effectiveness of vehicle resale activities	>120,000 sales through the online channel	Our online sales channel, 'mfldirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals. This provides a competitive sales environment through which we seek to maximise our net return.
Affordable choice	>200 between 335 and 425 cars available at 'nil advance payment' during the year	We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. Effective cost management and a stable reserves position provide the foundation to sustain this affordability through the economic cycle.
National coverage of dealer partners	4,990 approved dealers across the UK	The extensive dealership network of the 36 manufacturers available on the Scheme provides national coverage. We have given our customers the ability to search easily for their local showroom online by introducing the 'Dealer Locator' tool on our website.

Strategy	Goals	Objectives
Improve reach and awareness We seek to create improved awareness and understanding of the Scheme proposition within our potential market. In doing so we attract new customers to the Scheme	Through promoting greater awareness and understanding of the Scheme, we attract people receiving the mobility allowance who previously either were unaware of the product offering or did not fully appreciate its components. The loyalty of our existing customers is fundamental to growth, with renewal rates being closely linked to our success in delivering sustained affordability and excellent customer service.	• Raising understanding of the Scheme and its elements • Exploring new promotional channels within the eligible customer base • Providing relevant tools and resources to allow potential and current customers to make informed choices • Seeking to identify and remove barriers for potential customers • Encouraging dealers and customers to promote the Scheme proactively

"What a brilliant day. I would like to commend ALL Motability staff for their social skills, their breadth of knowledge across a wide range of different topics, and their patience."

One Big Days bring all the elements of the Motability Scheme together in one accessible venue. The events provide a great opportunity for visitors to explore a range of cars, scooters and powered wheelchairs, without a long trek to a number of locations. Motability advisers are on hand to answer questions and our visitors tell us they really appreciate what the events offer.

The 2011 One Big Days were held in five locations across the UK to raise awareness of Motability in different communities.

New and existing customers were invited, and event information was publicised via local press and disability organisations.

Over **9,200** customers attended.

Event attendance has grown by 20 per cent each year, with the 2011 events attracting a record number of visitors.

KPIs	Result	How we achieved it
Growth in customers	**5.5%** growth in customer numbers year on year 2011 593,000 2010 562,000 2009 524,000	There were 592,610 customers on the Scheme in September, with growth driven by improved awareness and understanding amongst recipients, combined with sustained levels of customer renewals.
Volume of new customers	**77,000** brand new customers joined the Scheme during the year	We attract new customers to the Scheme by ensuring that information about the Scheme is widely and readily accessible through a range of communication channels. One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 97% would recommend the Scheme.
Renewal rate	**92%+** renewal rate	Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year this was maintained at above 92%.
Understanding of the Scheme	**18%** increase in understanding of the main components of the Scheme since 2007	Research shows that, once potential customers fully understand the Scheme proposition, they are much more likely to apply for a vehicle. We have targeted an increase in understanding through our literature, marketing material and informative website.

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Motability Operations is committed to recruiting and retaining an engaged and motivated workforce. We promote a positive business culture aligned to our core values, and encouraging internal development and promotion is key to this philosophy.

Leah Banham joined the Graduate Programme in September 2007 and experienced work placements in Marketing, HR and Finance before taking on the role of Overheads Accountant. Her successful path within the Company saw her then seconded to the role of Finance Manager (R2m) in 2011, and, having recently completed her CIMA professional level exams, she continues to develop her career with us.

120

employees gained internal promotion or secondment within the organisation in 2011, helping us to develop and retain the best talent.

Strategy	Goals	Objectives
Ensure long-term sustainability We ensure that our business model, finances, people, reputation and infrastructure are geared to support the long-term sustainability of the Scheme	Long-term sustainability is fundamental for our business and our customers. From a financial perspective, we seek to ensure that we maintain a robust balance sheet and secure longevity of funding capable of supporting our growth expectations. This, in turn, supports stability of pricing through the economic cycle. We regard the enhancement of our reputation and the continued support we enjoy from our stakeholder groups as critical to sustained success.	• Maintaining a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events • Creating opportunities to access wider sources of competitive funding. We aim to maintain our credit rating, enabling us to secure the most appropriate funding at competitive rates • Continuing to nurture effective partnerships with key stakeholders • Maintaining a forward-looking environmental policy, ensuring availability of a range of low-emission vehicles, but balancing our customers' needs with CO_2 considerations • Ensuring that our premises and information technology infrastructure are robust and future-proof • Attracting and retaining quality people

KPIs	Result	How we achieved it
Revenue	15% growth in revenue year on year 2011 £2,860m 2010 £2,491m 2009 £2,243m	Customer growth and Index-linked lease payments are the primary drivers of revenue growth. It is pleasing that this growth has continued through the difficult economic climate.
Credit rating	A+/A2 (stable outlook) credit rating	We seek to preserve our relative credit rating with our robust approach to financial and risk management and through the flexibility of our pricing engine.
Reserves sufficiency ratio	120% of risk capital requirement	Our Economic Capital model determines our reserves sufficiency requirement in the context of our risk profile. We aim to keep this ratio between 100% and 130% to protect the longevity of the Scheme.
Culture survey results	13% higher level of employee engagement compared to the 'high-performing organisations' benchmark	We participate in an independent annual review of business culture, where we have significantly outperformed the 'high-performing organisations' benchmark.

Finance Director's review

> Against the backdrop of the challenging macro-economic environment and continued uncertainty in the European capital markets, we are pleased to have further enhanced our balance sheet strength and liquidity position.

Our approach to reserves and liquidity management ensures that we have the necessary flexibility and resilience to accommodate these wider economic pressures. This financial stability gives us the platform from which to protect the customer proposition – with targets in terms of affordability and choice once again delivered consistently throughout the period.

Financial performance

Targets met

The Group delivered all financial targets during the year ended September 2011. Transfer to reserves, which are retained in the business for the benefit of our customers, was £206m (a Return on Gross Assets of 3.8%), and closing Restricted Reserves (described below) stood at £1,180m. The ratio of Total Group Assets: Total Net Debt, which is targeted to be no less than 1.25:1, was 1.64:1. From a liquidity perspective, at the end of September 2011 undrawn facilities stood at £880m.

Growth in customer numbers continued in line with the profile seen over recent years (driven by consistently high renewal rates, and stable 'brand new' customer numbers), with a closing car fleet of 592,610 – representing 5.5% year-on-year. The powered wheelchair and scooter fleet grew to 9,658 during the year – an increase of 3%.

Revenue increased to £2,860m (an increase of 14.8% year-on-year), reflecting this growth in customer numbers, but also a 3.1% uplift in the Disability Living Allowance from April 2011, and an increase in the volume and value of vehicle sales (with over 197,000 vehicles sold during the year, and turnover up 18%).

Cost management

Our operating cost base has continued to be tightly managed during the year through the application of effective cost management disciplines and via robust supplier management and procurement processes.

Assets and residual values

The net book value of our leased vehicle assets increased by £710m to £4,977m, reflecting the fleet volume growth and increase in value of the average vehicle. We carry out a quarterly re-assessment of the residual value of our leased assets.

At the financial period end, this revaluation may result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the period and over the remaining life of the lease. Our in-house model, which has been externally validated, has consistently outperformed alternative external benchmarks, and remains less volatile and typically more conservative in outlook than other market views.

At September 2011, the projected revaluation of the fleet versus the priced position reflected an anticipated gross gain of £114m, with the alternative market valuation forecasting a £270m gain – thus demonstrating our conservative and prudent positioning. This revaluation reflects not only the relative stability seen in the used-car market over the last 24 months, but also a more positive outlook in respect of future prospects.

The ultimate validation of our residual value setting and forecasting methodology is the extent to which we are able to minimise financial volatility in our resale activities. During the year, for the expiring fleet, we delivered a remarketing result within 0.04% of the targeted position – with a £0.3m gain crystallising on £800m of turnover (147,000 vehicles sold). In respect of early-terminating leases, we generated a net gain of £40m for the period.

This result not only validates the accuracy of our in-house model, but also demonstrates the effectiveness of our remarketing programme, which continues to maximise opportunities through both online and physical sales channels.

Financing

Reserves management

The strength of the Group's balance sheet underpins the long-term sustainability of the Scheme and the stability of the customer proposition. In order to deliver this fundamental protection, the Group has, over time, built up 'restricted reserves' on the balance sheet (previously referred to as 'retained reserves', these have been renamed in 2011 to more accurately describe their nature and purpose). Restricted reserves are retained exclusively for the benefit of the Scheme – with ordinary shareholders having no entitlement to dividends – their purpose being to provide the Scheme, and so customers, with protection from potential market or economic shock events.

We continue to use an Economic Capital model to determine the level of restricted reserves appropriate to protect the business from such economic shocks. The overarching principle is to ensure that we protect the sustainability of the Scheme through the economic cycle, and in so doing preserve the relative stability of prices, affordability and choice for our customers. We have adopted a conservative approach, with a core underlying assumption that we need sufficient reserves (Economic Capital) to cover the loss that may arise from all but the most extreme risk events. Not only do we perform an internal annual review of this model to ensure that it adequately reflects the current risk profile of the business, but we also, periodically, validate our approach through an independent external review.

As reported in 2010, given the newly emerging best practice in the application of economic capital principles, and with a number of financial institutions having cause to reassess their approach, the Group commissioned an independent review of its methodology. The 2010 review concluded by corroborating our approach as robust, proportionate and commensurate with emerging best practice. It identified a well developed programme of stress-testing and the active engagement of both the Board and senior management in the economic capital process, and notes that, through the application of this appropriately conservative methodology, our capital position benchmarks well to that of peer financial institutions.

It is policy to seek to manage restricted reserves within a target corridor between 100% and 130% of the calculated Economic Capital Requirement (ECR). Operating this policy aims to ensure that the Group's restricted reserves are maintained above 'sufficiency' – so providing greater tolerance in the event of economic shock, and so less volatility in lease pricing for the customer.

The appropriateness and effectiveness of this approach continues to be clearly demonstrable through the recent and ongoing macro-economic stresses – with the sustained delivery of affordability and choice to customers throughout. During the year restricted reserves have been successfully managed within the target corridor – with a closing position representing 120% of ECR.

Cash and funding

During the year ended September 2011 the Group continued to enhance its structural liquidity. Following an increase in the Group's A+/A2 rated European Medium Term Note (EMTN) programme of an additional £1 billion to £3 billion, two further bonds were issued in November 2010. The Group issued a £300m 20-year Sterling issue and an inaugural Euro transaction in the form of a €500m 7-year Euro issue. These transactions introduced further diversity and longevity into the Group's funding.

Following this refinancing activity the Group's aggregate facility stands at £4.1 billion. At the balance sheet date, we had drawn £3.3 billion of this available facility. The undrawn balance provides flexibility and sufficient headroom for growth in line with Group policy. The Group also targets a ratio of Total Group Assets: Total Net Debt of not less than 1.25:1. At the balance Sheet date this ratio was 1.64:1.

Treasury policy

Consistent with other aspects of our business activities, we have adopted a risk-averse approach to treasury management. We use derivative financial instruments (specifically interest rate swaps) to reduce our exposure to interest rate movements that affect the funding of existing leased assets and related, mainly fixed, rental income. During the period, the Group issued fixed-rate Eurobonds and at the same time entered into cross-currency interest rate swap arrangements to hedge its foreign currency and interest rate risk. The Group's overall interest rate risk management strategy is to transform all new issued foreign denominated debt into the Group's functional currency of Sterling. We have established hedge accounting, and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value is shown on the face of the balance sheet. The fair value of derivatives at 30 September 2011 was a liability of £13.9m post-tax.

Through the EMTN programme we have successfully diversified our financing profile. Furthermore, given the range of tenor in our five bond issues to date, we have also successfully diversified the maturity profile of our debt, with our structural liquidity improving year-on-year. At the balance sheet date the average tenor of our blended borrowing portfolio was 6.5 years.

David Gilman
Finance Director

Corporate structure

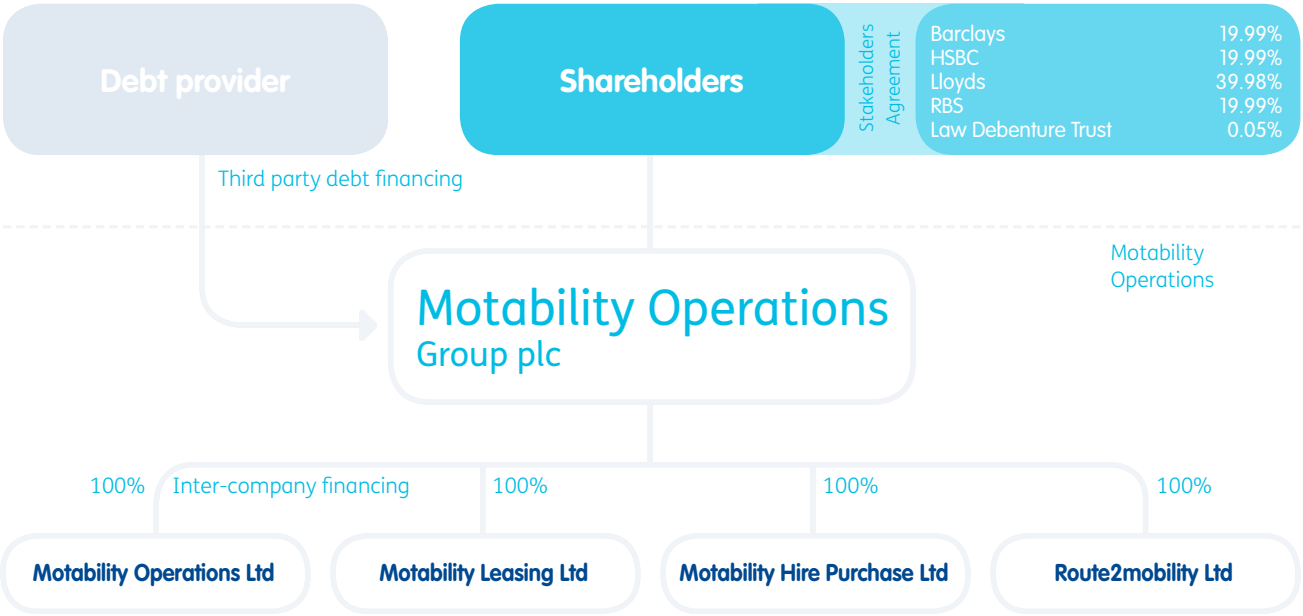
The diagram below sets out the current corporate structure

Until 2008, the main UK banks (Barclays, HBoS, HSBC, Lloyds TSB and RBS) had provided debt and equity financing for Motability Operations since the inception of the Scheme. Most of the Group's assets, liabilities and reserves were held within bank partnerships, with Motability Finance Ltd as the visible and prime contracting entity.

The current Group was established in July 2008, following the successful financial restructuring of the previous entities. Under the revised financing structure, we have broken the link between ownership and funding. Through this process we secured A+/A2 credit ratings (stable outlook) from Standard & Poor's and Moody's respectively, which gives us the ability to access both long and short-term facilities from a diverse range of sources. The Company's credit rating and outlook remained unchanged during the year.

At the point of execution of the new structure, the shareholding was equalised across the then five banks, with each holding a 19.99% interest. Following Lloyds TSB's acquisition of HBoS, its interest is currently 39.98%.

On 1 October 2010 the Group acquired Route2mobility Ltd, the previous providers of the Powered Wheelchair and Scooter Scheme.



Operational review

Overview

As outlined in the 'Strategy in action & performance' section (pages 6-15) the year ended September 2011 saw the Group continue to deliver high levels of performance across a range of targets.

Customer measures in terms of choice, affordability and satisfaction were all exceeded throughout the period, with overall customer satisfaction reaching an all-time high at 98%. Growth in customer numbers continued in line with the profile seen over recent years (driven by consistently high renewal rates, and stable 'brand new' customer numbers), with a closing car fleet of 592,610 – representing 5.5% growth year-on-year.

As reported in last year's Annual Report, during 2010 our remit was expanded to include delivery of the Powered Wheelchair and Scooter (PWS) Scheme on behalf of Motability – from 1 July 2010, we became responsible for all the new leases written on the Scheme. From 1 October 2010, following the acquisition of Route2mobility (R2m) – the previous service provider – Motability Operations assumed responsibility for the c.8,000 leases of existing PWS customers. This step consolidated the delivery of the PWS Scheme under one provider. With a successful first full year now under our belts, the powered wheelchair and scooter fleet grew to 9,658 during the year – an increase of 3%.

Customer awareness and advocacy of the Scheme

Better awareness and understanding of the key components of the Motability 'package' enables customers to make informed decisions on whether to take a vehicle, powered wheelchair or scooter on the Scheme.

Our activity aims to increase this understanding through creating opportunities to talk to potential customers, and through ensuring that information about the Scheme is widely and readily accessible through a range of communication channels.

One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 97% would recommend the Scheme.

In addition, a number of promotional programmes have enhanced customers' awareness, including our successful 'One Big Day' regional open days. These events provided an opportunity for both existing and potential customers to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue. This year saw the first indoor event, which attracted more than 2,700 visitors, and for the first time we also offered test drives of adapted vehicles. Both innovations proved very popular and led to a record combined total of 9,200 people who took the chance to visit and find out more.

A measure of our success in building greater understanding is the growth in the number of new customers. During the year, 77,000 new customers chose to take a vehicle on the Scheme. This, combined with continued excellent renewal rates of 92% among existing customers (a product of high customer satisfaction and sustained affordability), has precipitated continued growth during the financial year. Our total fleet increased by 5.5% (30,000 vehicles) year-on-year, closing at over 592,000 vehicles.

This business is well equipped to respond flexibly to accommodate further growth into the future. In addition to our fully scalable business model, our robust financial and operational platform has enabled us to respond positively to recent expansion. With diversified funding lines in place and headroom secured, the business has the necessary liquidity to support growth.

Product offering

During the year, we consistently exceeded our targets on affordability and the choice of vehicles we offer to our customers on the Scheme. This is particularly pleasing given the pressures that the wider economic environment has placed on prices.

For the Car Scheme, we monitor our performance by referring to external benchmarks and to the number of cars we offer at 'nil advance payment'. This is where the allowance alone is sufficient to fund all leasing costs, with no additional contribution required from the customer. Where a customer selects a car that does require a supplement, we receive this as a single payment from the customer at the start of the lease, so this is also without credit risk. This is called the 'advance payment'.

Our prices are over 40% cheaper than our external benchmark, which references the cost of commercial contract hire quotations. We set out to ensure that at least 200 cars are available at nil advance payment, including a wide choice of automatics and green options. We have consistently met this target throughout the year. We also supply a range of affordable Wheelchair Accessible Vehicles (WAVs).

Range and choice are important to both our renewing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail marketplace. During the financial year, we offered vehicles from up to 38 manufacturers with over 4,100 vehicle derivatives on the price list. Our approach to the PWS Scheme is also to provide customers with a wide and representative choice.

We are pleased to offer this continued stability in pricing, which allows customers to make consistent choices based on needs when selecting a car, powered wheelchair or scooter with minimal volatility between each price list.

Motability Operations, alongside the Charity, continues to monitor the Scheme offering to ensure the proposition remains appropriate, and that it continues to deliver high value to its customers consistent with the Scheme's core objectives. The latest review has led to a number of proposed changes which collectively are designed to protect the integrity and reputation of the core of the Scheme. The key changes, summarised below, are due to be implemented during 2012 :

- Vehicle offering rationalised to only offer cars with an advance payment of £2,000 or less – no impact for 95% of customers (exceptions for disability-related needs)
- Nominated drivers required to live within five miles of the disabled customer – 95% currently do
- No longer permit nominated drivers under the age of 21, unless they reside with the disabled customer
- Restrict young drivers under the age of 25 to cars in ABI Insurance Group of 16 or lower (which also have a power output of 115 BHP or less)
- Statement of Responsibilities to be signed at the start of lease by the supplying dealer, customer and any nominated drivers.

Whilst these changes will not impact the vast majority of customers, it is recognised that in certain circumstances it may be appropriate to make exceptions, in order to meet genuine customer needs.

Customer experience

We focus on providing customers with a seamless, worry-free experience. Product choice and affordability are significant elements of this, but meeting our customers' needs is about much more. We aim for excellent customer service, which in our case clearly requires that we take particular steps to meet our customers' disability-related requirements.

We have used an independent research agency to conduct bi-annual customer surveys since 2003. These surveys cover all the key customer contact points on the Scheme. The latest results showed a record level of overall customer satisfaction of 98%, indicating first-class levels of customer service. The survey continues to provide valuable feedback on our customer proposition.

Our customer call centre plays a pivotal role in supporting our customers. The excellent customer satisfaction results are in no small part attributable to the consistent service levels delivered by our customer call centre, which has now achieved more than four years of answering 80 per cent of calls within 20 seconds. The quality of customer service gained additional recognition with the awards of Best Newcomer, Best in Public Services and second best overall in the Sunday Times Top 50 Call Centre awards.

Initiatives designed to support and enhance the customer experience include:

- Removal of our Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly
- Operating an online 'Lingubot' called 'Ask Mo', which enables customers to 'chat' through their queries in ordinary language. This service has proved very popular and answered over 325,000 questions during the year
- Launch of a new online 'car search', which has been designed to be more user friendly and readily navigable
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

Excellent service helps drive up renewal rates at the end of lease, and increases the likelihood of customers recommending the Scheme to someone else. In fact, more than 97% of customers say they would recommend Motability to friends or family.

Measurement of our disability expertise is inherently more subjective and difficult. However, we are proud of a number of recent achievements which show that we are making significant progress, both as a customer service organisation and in our role as an employer. These include:

- Introduction of a Specialised Mobility Team to support the delivery of the PWS Scheme proposition
- Displaying vehicle accessibility information on our website
- The availability of targeted specialist publications including the new Wheelchair Accessible Vehicle (WAV) Guide
- The Car Price Guide has been further enhanced to include images of cars with accessibility considerations, an 'automatics' column and, for the first time, images to help customers visualise the types of cars available.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 99% brand availability based on market share, with 36 manufacturers currently on the Scheme. This now provides our customers with access to over 4,200 vehicle derivatives, delivered through a network of over 4,900 car dealerships. During the year we accounted for over 9% of UK car registrations. As a consequence we represent an increasingly important route to market for the manufacturers. We regard our partnership with them as extremely valuable to the Scheme.

While we take responsibility for the overall customer experience, Motability specialists employed by the car and PWS dealerships conduct the primary face-to-face relationship with the customer. We introduced the Motability Dealer Partnership (MDP) programme in 2004 to ensure that customers receive a consistently high level of service in the car dealerships. This is designed to influence dealer behaviour and performance in every key element of the leasing process (supply, service and after sales) with a particular emphasis on customer service. The MDP programme has, through targeted investment, delivered improvements that have led to a better customer experience at car dealerships.

Throughout the year, dealers continued to work closely with us to improve awareness and understanding of the Scheme, and provide a warm welcome for Motability customers.

Alongside dealers, a number of other key partners deliver services to our customers. These include insurance, roadside assistance and tyre replacement companies, which have to re-tender systematically for the contracts to provide these services. This process helps us leverage our significant purchasing power and ensures that our commercial terms are in line with the market.

While cost control is critical, we take careful steps to make sure that this does not affect the quality of service provided. We work closely with our service providers to ensure that they maintain our required standards, and routinely carry out supplier reviews to monitor performance against key performance indicators ensuring that suppliers implement action plans where necessary. We include insurance, roadside assistance and tyre replacement services on our Customer Satisfaction Index, enabling us to benchmark and align the performance of every provider.

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction. It is Motability Operations' policy to meet these terms of payment.

Remarketing

At the end of contract, we sell our returning fleet into the used market. During the financial year ended September 2011, we sold 197,000 cars into the used trade. We have developed an innovative multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online application which is augmented by a proactive auction programme. Our web-based tool, 'mfldirect', is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week. This route to market has a number of advantages over physical channels including its lower cost, and in that it allows a more targeted approach. This system platform was upgraded during 2011 to ensure its future capability and scalability.

Operational review continued

Our end-of-contract processes enable us to sell a car online before it is returned at the end of lease. While we target this marketing across all our registered buyers, it provides a particular opportunity for the dealers who originally supplied and then maintained the vehicle. It means that they can buy a low mileage, fully serviced vehicle that they know first-hand, and which, through our end-of-contract process, will most likely be returned to their forecourt at the end of lease. This opportunity has been promoted to the dealers through the 'Get Your Own Back' marketing campaign.

Our online sales channel, 'mfldirect', provides a competitive purchasing environment and ensures that we both maximise our sales return and minimise disposal costs. Online sales accounted for over 60% of all disposals during 2011. Cars that do not sell online are usually routed to auction and sold in one of our branded events. We have progressively routed more of our early-terminating stock via the online channel, with a 26% increase in volumes year-on-year.

Through the versatility of our remarketing strategies, the proactive management of stock, and an increased buyer base, the remarketing team has delivered a result within 0.04% of target residual value. In respect of early-terminating vehicles a gain of £39m was realised for the year.

Business developments

From 1 October 2010, following the acquisition of Route2mobility (R2m) – the previous service provider of the Powered Wheelchair and Scooter Scheme – Motability Operations assumed responsibility for the c.8,000 leases of existing powered wheelchair and scooter customers. This step consolidates the delivery of the PWS Scheme under one provider.

Environment

Environmental issues continue to feature prominently on the political and economic agenda.

We know that our customers are keen to look for greener choices. However, given their limited mobility, public transport is, for them, rarely a viable option. We therefore aim to ensure that a range of lower emitting, higher MPG vehicle choices are available (which in turn are more cost effective for our customers). We continued to take a proactive approach to managing our CO_2 emissions agenda during the year, introducing a number of initiatives that provide information and choice for our customers. These included:

- Introducing alternative vehicles with lower CO_2 emissions, including hybrids, combined fuel and new technology products
- Making attractive, low CO_2 cars available in all vehicle categories on the Scheme (the price list highlights at least two low CO_2 vehicles in each vehicle category)
- Featuring green choices (low CO_2 vehicles) in all our promotional mailings
- Providing practical advice to help lower motoring costs and CO_2 emissions in our customer publications, our annual customer newsletters and through our website.

Our approach to meeting our environmental responsibilities also extends to the management of our internal infrastructure. In terms of premises, we run a continuing programme of capital investment to ensure that our plant and equipment remain energy efficient and we actively aim to recycle an increasing proportion of our waste. We encourage employees to minimise their environmental footprint through use of video-conferencing facilities, promoting lift-share arrangements and our membership of the Government's Cycle to Work Scheme.

Corporate Social Responsibility

Motability Operations actively embraces its Corporate Social Responsibility obligations. This manifests in a number of ways, including:

- Through the Scheme's core objectives, we help customers to gain independence and lead fuller lives through affordable, worry-free mobility
- We offer our facilities to various disability organisations and local associations
- We have an environmental policy which is reviewed through the Health and Safety Committee and Risk Management Committee. Motability Operations is also registered with the Carbon Trust
- Our HR policies allow for flexible working, including staggered and reduced working hours
- We operate a scholarship programme which is designed to provide financial support and work experience (through summer placements) for a number of disabled students each year.

Charitable and political donations

During the year the Company made charitable donations of £32,414 (2010: £44,055) to support and sponsor local initiatives through our 'mycommunity' programme. In addition the Group made a £30m donation to the Motability Tenth Anniversary Trust. The principal objective of the Tenth Anniversary Trust is to promote and support the objectives of Motability by making grants and investing in research and special projects to facilitate mobility needs.

Our policy is to be non-political and, consistent with this, we have not made any political donations.

Proposed dividend

In accordance with the Shareholder's agreement, the ordinary shareholding carries no rights to income.

Directors' indemnity

Pursuant to the provisions of the Companies Act 2006, the Company is required to disclose that under article 163 of the Company's articles of association the Directors have the benefit of an indemnity, to the extent permitted by the Companies Act 2006, against liabilities incurred by them in the execution of their duties and the exercise of their powers.

People and principles

People

Our people are fundamental to our success and we are committed to recruiting and retaining an engaged and motivated workforce. We have created an excellent working environment and promote a positive business culture aligned to our core values and principles. We seek to develop our people and reward and recognise excellent performance.

Our values (which are described to the right) are central to delivering and meeting the needs and expectations of our customers. We embrace diversity, which enables us to have a wide variety of approaches and perspectives, enhancing performance and creating value for customers. We aim to be confident in meeting our customers' needs.

We believe that our business culture provides a foundation for success. For this reason, we are committed to carrying out independent benchmarking through an annual employee survey conducted by a global employee research and consulting firm. The results are shared with employees through road shows hosted by the Chief Executive, with key themes identified and actions being agreed to address any issues that may emerge. Results are compared against a UK benchmark of high-performing organisations. In the last four years, our results have significantly outperformed the 'high-performing' norm.

Our leaders are assessed every year using 360-degree feedback.

We also operate a structured graduate programme that seeks to attract and recruit a number of high-calibre graduates each year from a range of academic disciplines. This involves an intensive 18-month programme that includes rotations in a number of areas of the business. After this period, we expect graduates to move into key line management or specialist roles.

Our scholarship programme offers disabled students the opportunity for work experience and financial assistance during their degree course.

While regretted attrition levels are low, we manage the risk of losing key individuals through detailed succession planning. Our Nomination Committee reviews the plans for Directors and divisional senior managers.

Principles

We have defined a number of positioning principles that underpin our business strategy. We use these alongside our values and culture as reference points in conducting our day-to-day interactions with customers, employees and other stakeholders. Our positioning principles ensure that we:

- Compete on value and customer and disability expertise
- Provide specialist support to remove barriers where appropriate
- Have excellent plc practices and governance
- Work closely with Motability
- Maintain excellent relations with stakeholders
- Are recognised as an outstanding and responsible employer
- Are non-political and transparent
- Ensure that our financial position is capable of sustaining the Scheme into the future
- Provide value for stakeholders
- Are recognised and respected in the community
- Maintain a forward-looking green policy, balancing needs with emissions.

Our Values

We strive for excellence in customer service

- Our customers are our first and major focus
- We take ownership
- We are disability-confident

We are passionate about what we do

- We understand the aims and objectives of our business
- We set high standards and go the extra mile
- We trust and respect others and value differences

We have a high performance culture

- We strive for the highest standards
- We recognise and reward strong performance and success
- We are resilient and professional

We think and act commercially

- We have sound business judgement
- We manage our business for the long term
- We understand the impact of our decisions

We are friendly, flexible and facilitating

- We act honestly and with integrity
- We have a 'can do' and solution-based approach
- We work together and communicate openly

Employment of disabled people

We are committed to employing and retaining the best person for the job, whoever that person may be. Our policy is to ensure that disabled people receive equal and fair consideration in recruitment, training and career development. Support and adjustments are provided to ensure that the needs of employees who are, or become, disabled are met. The Company ensures that its policies and practices are not barriers to disabled people. We are 'Gold Card Members' of the Employers' Forum on Disability, and were third in the Forum's most recent Standard Benchmark Survey. We are accredited by Jobcentre Plus to use the Disability 'two ticks' symbol ('positive about disabled people').

Employee involvement

The Company seeks to engage all employees in short and long-term goal setting. This is achieved through the use of a number of communication methods including senior management briefings, workshops, the Company newsletter, employee consultation forums and through a corporate intranet.

Risk management

At Motability Operations, we recognise that sound risk management is fundamental to the successful and sustainable operation of the business. It is a core commitment that our approach protects the interests of customers and seeks to ensure that risks are managed sufficiently to avoid pricing shocks through the extremes of the economic cycle.

Our approach to risk management is both dynamic and robust, aiming to ensure that we identify, quantify and manage all material risks. Our Risk Policy, which is enshrined within our governance framework, is overseen and managed by our Risk Management Committee.

We make certain that, through this policy and approach, our activities meet standards of behaviour and fall within boundaries that are consistent with our approved level of appetite for risk. Whilst we do not fall under FSA regulation, we seek to align our risk management approach with best market practice.

We use Economic Capital principles (described opposite) to determine and manage our reserves position.

Risk identification and monitoring

We have designed our risk management framework around the 'three lines of defence' approach to risk governance. Consistent with this approach, we have a dedicated risk management function that is integral in coordinating, monitoring and advising on control activities.

This holistic approach encompasses all material risks, with clearly identified accountabilities and responsibilities for risk management, control and assurance. As such, risk management is incorporated as a core part of effective business planning and capital management.

We regularly update our risk management framework to ensure that it remains appropriate to the business. These updates include regular assessments of risks and controls, including the update of risk registers, and early identification of any emerging risks to the achievement of our stated objectives.

Key risks and mitigations

Residual values

The most significant risk we face is the exposure to unforeseen and material movement in the market value of second-hand vehicles. This is measured as the difference between the forecast values used for pricing and the latest projected market value at the end of lease.

Through our team of experts, we have developed and implemented an in-house residual value forecasting model to help manage this risk. This combines the latest econometric modelling techniques with subjective feedback gathered from used car buyers and market experts. We developed the model in consultation with Oxford Economic Forecasting, which has validated and endorsed our approach. The model is periodically re-calibrated and validated. Since it was first implemented in October 2004, our in-house model has outperformed the alternative market benchmarks. We also undertake a quarterly re-forecasting exercise to review and monitor the actual position and assess the associated financial impacts of any movement in residual values.

There is, in addition, an associated risk of differences arising between the benchmark market value and the net proceeds we are able to realise on disposal. This gap can be affected by the effectiveness of our remarketing performance, by vehicle mix, concentration and condition.

We manage this disposal performance risk through the effectiveness of our remarketing activity; through our streamlined logistics operation and through our commercial sales force. Our proactive portfolio management has reduced concentration risk in recent years, with a broader spread of models and manufacturers now represented in our diversified fleet than in any previous period.

Risk management framework

We have designed our risk management framework around the 'three lines of defence' approach to risk governance.

Supplier failure

Our core product offering is delivered through contracts with key suppliers who provide vehicle insurance, roadside assistance, and tyre and windscreen replacement services. The failure of a key supplier would create difficulty for customers and potentially have significant financial implications as we seek alternative service providers. We manage this risk primarily through ongoing liaison and maintenance of strong relationships with our key suppliers. We also routinely reassess their creditworthiness.

We have specifically assessed the risk of failure of one or more of our key manufacturers. Such a failure would probably lead to impaired residual values, invalid warranties, non-availability of parts and maintenance providers, and the potential withdrawal or renegotiation of discounts. We seek to manage this risk through routinely monitoring manufacturer-related news and by diversifying our portfolio to minimise our exposure to the default of any one manufacturer. We have also developed scenarios to stress-test our durability in the face of such a failure, and are confident that our economic capital approach means that we have assigned sufficient risk capital to withstand such an event.

Credit risk

Our income is principally received from the DWP, through the allowances assigned to us by our customers, hence the credit risk is considered to be very low.

We proactively manage the small residual credit risk that arises from miscellaneous customer billings, monies due from dealers, auction houses and vehicle manufacturers. To this end, we regularly carry out credit assessments of the limits set for auction houses, manufacturers and dealers and receive exception reports from monitoring agencies. Exposure to dealer debt is largely mitigated through the 'zero-day' direct debit collection process – with the cash collection being triggered at the point the sale is transacted (and before title is passed).

Treasury risk

The availability of sustainable funding and liquidity is critical to our ongoing operation. This has been brought into sharpened focus during the 'credit crunch' with scarcity of competitive funding affecting many businesses. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.

We manage these risks through a well defined Treasury Policy, the operation of which is overseen by the Asset and Liability Management Committee – a sub-committee of the Executive Committee. We maintain a risk-averse stance and continue to develop a diversified portfolio of funding maturities, seeking to lock the majority of funding onto fixed rates. Our policy is also to avoid exotic treasury products. Through our robust financial management and governance we seek to maintain a credit rating that allows us access to a range of debt markets on competitive terms. It is our policy to ensure that we maintain sufficient financing facilities in place to cater for projected growth over the next 12 months, plus 20% headroom.

Restricted reserves and economic capital

Ensuring that we have the financial resilience to withstand economic turbulence without compromising the customer offering is at the forefront of our approach to balance sheet management. The Group holds 'restricted reserves' to provide the necessary financial shock-absorber to ensure this sustainability into the long term. Restricted reserves – previously referred to as 'retained reserves' (renamed in 2011 to more accurately describe their nature and purpose) – are retained exclusively for the benefit of the Scheme – with ordinary shareholders having no entitlement to dividends.

The Group uses Economic Capital (EC) principles to determine the appropriate level of restricted reserves. The EC process involves undertaking a comprehensive assessment of the material risks and evaluated potential impacts the Group faces given its core activities. The key risks are outlined in the table on page 24.

This enables us to calculate our Economic Capital Requirement (ECR), using a model to aggregate potential losses at the required confidence level and determine a 'per vehicle' requirement. The EC methodology we use is conservative, and encompasses all material risks, delivering an outcome that management views as reasonable and prudent.

We then apply the estimated ECR per vehicle to our current and projected contract hire fleet size. This gives us an overall current and projected ECR for the full contract hire fleet. We periodically refresh the EC model to reflect changes to the risk profiling and refinements in the modelling. This process is governed by the Risk Management Committee.

Not only do we perform an annual review of this model to ensure that it adequately reflects the current risk profile of the business, but we also periodically validate our approach through an independent external review.

As reported in 2010, given the newly emerging best practice in the application of economic capital principles, and with a number of financial institutions having cause to reassess their approach, the Group commissioned an independent review of its methodology. The 2010 review concluded by corroborating our approach as robust, proportionate and commensurate with emerging best practice. It identified a well developed programme of stress-testing and the active engagement of both the Board and senior management in the economic capital process, and notes that, through the application of this appropriately conservative methodology, our capital position benchmarks well to that of peer financial institutions.

Our policy is to seek to manage reserves within a target operating corridor of between 100% and 130% of the ECR, to protect the longevity of the Scheme. Operating this policy aims to ensure that the Group's restricted reserves are maintained above sufficiency – so providing greater tolerance in the event of economic shock, and so less volatility in lease pricing for the customer.

Summary of our key risks and mitigations

Through our comprehensive risk management processes we identify and assess the potential risks that we face. Having understood the nature of these risks, we ensure that we have the appropriate mitigants in place to reduce these exposures.

We use Economic Capital principles to determine and manage our reserves position in the context of these risks. Through this policy and approach we ensure that the business remains sustainable through the economic cycle.

Risk factors	Potential impact	Mitigation
Residual values Unexpected movements in used car values, failure to achieve market value on disposal	• Volatility in profitability, reserves and pricing. Potential impact on affordability and choice	• Sophisticated in-house residual value setting and forecasting process • Risk Capital management for asset risk using Economic Capital principles • Market-leading remarketing approach
Supplier failure Failure of key manufacturer or other key Scheme supplier	• Compromised customer service provision and potential financial impact of securing alternative supplier • In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties	• Active monitoring of credit ratings and market announcements • Strong supplier relationships and communication • Diversified portfolio
Credit Risk of default of key income streams and exposure to bad debt	• Potential impact on cash inflows and consequent write-off to Income Statement	• Principal income stream directly from DWP – therefore minimal credit risk • Residual credit risks are managed through credit assessments and an effective credit control function
Treasury Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk	• Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth funding	• Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps • Balanced portfolio of funding maturities and diversification into bond market • Maintenance of good credit rating • Good treasury system, controls and governance

Board of Directors

Membership of the Board comprises a Non-Executive Chairman, five Executive Directors, five Independent Non-Executive Directors and four Non-Executive Directors.

Neil Johnson OBE
Non-Executive Chairman

Neil was appointed Chairman of Motability Operations in 2001. He was appointed as Non-Executive Chairman of Motability Operations Group plc on 20 March 2008.

Executive Directors

Mike Betts
Chief Executive

Mike joined the Motability Operations Board in 2002 and was appointed to the position of Chief Executive Officer in September 2003. He was appointed as Chief Executive Officer of Motability Operations Group plc on 20 March 2008.

Anne Downey
HR Director

Anne joined Motability Operations in 1997, and was appointed to the Board in 2004. She was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

David Gilman
Finance Director

David joined the Motability Operations Board in 2003 as Finance Director. He was appointed as an Executive Director of Motability Operations Group plc on 30 June 2008.

Ian Goswell
Commercial Services Director

Ian joined the Motability Operations Board as Commercial Services Director in 2004. He was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

Ashley Sylvester
Operations Director

Ashley joined the Motability Operations Board in 2004 as Asset and Pricing Director and in 2006 was appointed Operations Director. He was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

Non-Executive Directors

John Callender
Independent Non-Executive Director

John has been a Non-Executive Director of Motability Operations since 1993. He was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 30 June 2008.

Nigel Clibbens
Non-Executive Director

Nigel has been a Non-Executive Director of Motability Operations since 2002. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Peter Lord, appointed 17 September 2008).

Frank Gardner OBE
Independent Non-Executive Director

Frank was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 10 December 2008.

Joe Hennessy OBE
Independent Non-Executive Director

Joe has been an Independent Non-Executive Director of Motability Operations since 2006. He was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 30 June 2008.

Antony Jenkins
Non-Executive Director

Antony was appointed as a Non-Executive Director of Motability Operations Group plc on 1 April 2011 (alternate – Ian Stuart, appointed 1 April 2011).

Christopher Lendrum CBE
Independent Non-Executive Director

Christopher was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 10 June 2009.

David Oldfield
Non-Executive Director

David was appointed as a Non-Executive Director of Motability Operations Group plc on 14 September 2011 (alternate – Richard Francis, appointed 14 September 2011).

Mike Russell-Brown
Non-Executive Director

Mike has been a Non-Executive Director of Motability Operations since 2006. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Malcolm Brookes, appointed 17 September 2008).

David Smith
Independent Non-Executive Director

David was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 July 2010.

Jo Pentland
Company Secretary

Jo joined Motability Operations in 2003 and as a fully qualified Chartered Secretary was appointed to the role of Company Secretary in 2005. She was appointed as Company Secretary of Motability Operations Group plc on 20 March 2008.

Other statutory information

Statement of Directors' responsibilities

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements that are prudent and reasonable
- State whether applicable IFRSs as adopted by the European Union have been followed
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each Director is aware there is no relevant information of which the Group's auditors are unaware. Each Director has taken all the steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant information and to establish that the Group's auditors are aware of that information.

Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Directors

Neil Johnson, Mike Betts, John Callender, Nigel Clibbens, Anne Downey, Frank Gardner, David Gilman, Ian Goswell, Joe Hennessy, Christopher Lendrum, Mike Russell-Brown, David Smith and Ashley Sylvester served as Directors throughout the year.

Malcolm Brookes and Peter Lord served as alternate Directors throughout the year.

Antony Jenkins was appointed as a Director on 1 April 2011.

David Oldfield was appointed as a Director on 14 September 2011.

Richard Francis was appointed as David Oldfield's alternate as of 14 September 2011.

Ian Stuart resigned as a Director on 1 April 2011 and was appointed as Antony Jenkins' alternate as of 1 April 2011.

Nigel Stead resigned as a Director on 30 June 2011.

Duncan Rowberry resigned as an alternate Director on 1 April 2011.

Directors' interests

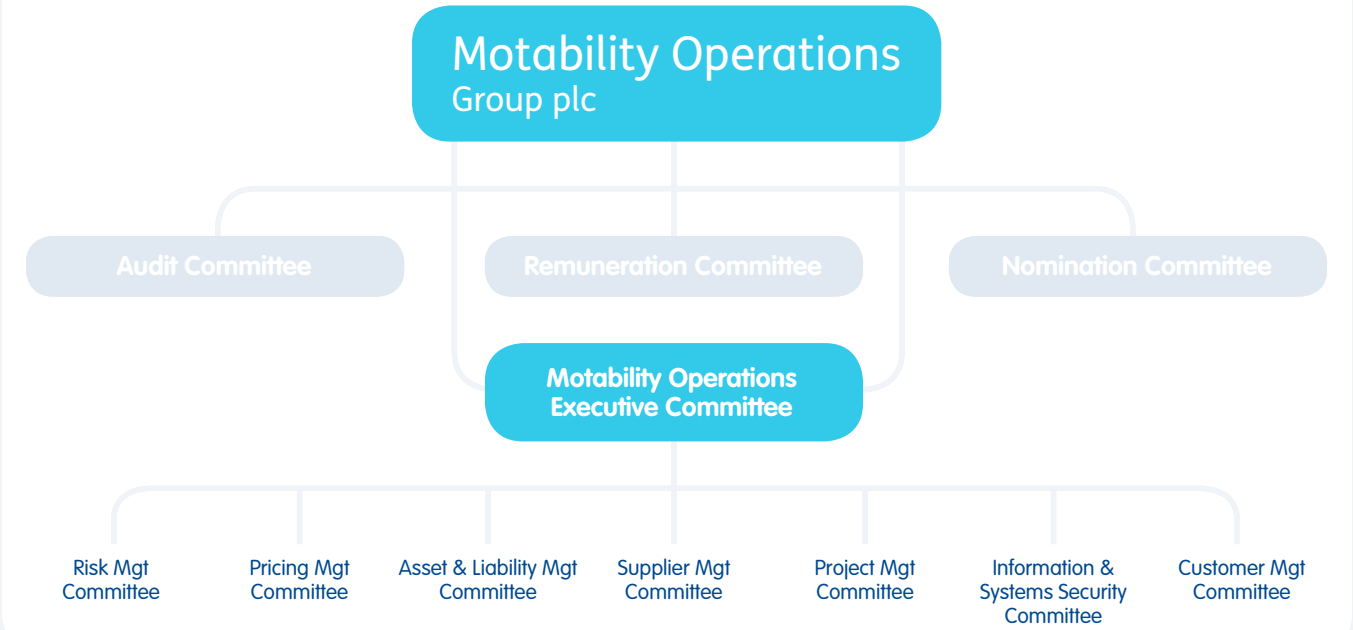
No Directors have any share interest in the Group, nor any material interest in any contract entered into by the Group.

Signed by order of the Board

Jo Pentland
Company Secretary

14 December 2011

Governance structure



Corporate governance

The Board considers that good corporate governance is central to achieving the objectives of Motability Operations, and that this underpins the sustainability of our product offering. As such we are committed to high standards of corporate governance.

While the Board has overall responsibility for the success of the business, its strategic direction, governance and financial control, the Executive Committee is responsible for the day-to-day management of the Group and, in particular, for the formulation of strategy, supervising operational management, and providing structure and leadership for the business.

The Board meets on a quarterly basis, in December, March, June and September. The agenda will typically include a review of the Company Performance Report (including a financial and operational review), a Chief Executive's update, and Company Secretary updates.

The Board's responsibilities

Matters reserved for the Board include:

- Promoting the success of the business
- Approval of strategy proposed by the Executive Committee
- Approval of financial reporting and controls
- Ensuring maintenance of a sound system of internal control and risk management
- Approval of major capital projects
- Ensuring adequate succession planning for the Board and senior management
- Undertaking reviews of its own performance and that of other Board committees
- Approval of Group policies
- Approval of the structure and terms of reference of the Board committees.

Roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive has been clearly established. The responsibility of the Non-Executive Chairman includes leading the Board and ensuring its effectiveness. This includes setting the agenda for Board meetings and, with the assistance of the Company Secretary, arranging for the Directors to receive timely, accurate and clear information ahead of Board meetings.

The Chief Executive is responsible for leading and managing the business on a day-to-day basis with authorities delegated by the Board, and is accountable to the Board for the financial and operational performance of the Group. This day-to-day management is effected through the Executive Committee, with the Chief Executive as Chair.

Non-Executive Directors

The Non-Executive Directors combine broad business and commercial knowledge to enable them to challenge and contribute to the development of our strategy. They bring an independent judgement to all business issues through their contribution at Board and Committee meetings. The Chairman is satisfied that the Independent Non-Executive Directors are independent in both character and judgement.

Executive Committee

The Executive Committee is chaired by Mike Betts, Chief Executive, and includes: David Gilman, Finance Director; Anne Downey, HR Director; Ian Goswell, Commercial Services Director; Ashley Sylvester, Operations Director; and Jo Pentland, Company Secretary, as members.

The Executive Committee met 12 times during the financial year and it has delegated authority from the Board to:

- Manage the day-to-day business operation
- Develop and set strategic objectives
- Agree policy guidelines
- Agree the Group's budgets and plans and, once these are adopted by the Board, be responsible for achieving them
- Ensure appropriate levels of authority are delegated to senior management
- Ensure the co-ordination and monitoring of the Group's internal controls and ensure that activities undertaken are conducted within the Group's risk appetite
- Safeguard the integrity of management information and financial reporting systems
- Approve all supplier agreements
- Ensure the provision of adequate management development and succession, and recommendation and implementation of appropriate remuneration structures
- Develop and implement Group policies through the Governance Committees (Asset and Liability Management; Risk Management; Supplier Management; Information & Systems Security Committee; Project Management; Pricing Management and Customer Management)
- Agree internal authority limits and control.

The Executive Committee meeting is kept informed and updated by the subordinate Governance Committees and monthly Executive Committee packs are sent to the Non-Executive Directors for information. The Executive Committee reports quarterly to the main Board and there is a standard Board agenda item which allows any Director to comment or ask questions on the content of the Executive Committee packs.

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors and four Non-Executive Directors. The Committee is chaired by Christopher Lendrum, and the other members include John Callender, Nigel Clibbens, Antony Jenkins, David Oldfield, Mike Russell-Brown and David Smith. The Committee meets quarterly prior to the Board meetings and has delegated authority from the Board to:

- Review and recommend the annual assurance plan to the Board and receive reports from the audit function on progress against plan
- Oversee all assurance activity and monitor the adequacy and effectiveness of such activity
- Review audit reports and monitor management's progress against agreed actions
- Monitor the objectivity and independence of the external auditors, including the sanction of non-audit activity undertaken
- Consider any substantive control issues arising, including major control failures or incidents
- Oversee the risk management framework
- Oversee financial reporting.

Corporate governance continued

Nomination Committee

The Nomination Committee comprises the Non-Executive Chairman and two Independent Non-Executive Directors. It is chaired by Neil Johnson and the other members are John Callender and Christopher Lendrum. The Committee meets bi-annually and has delegated authority from the Board to:

- Review succession plans
- Review plans for the appointment of new Directors and reappointment of Non-Executive Directors at the end of their term
- Review the structure, size and composition of the Board.

The Committee reports bi-annually to the main Board. Following a recommendation from the Nomination Committee, the Board, in recognising the importance of evaluating the Board's effectiveness and performance for good corporate governance, introduced for the first time Board Evaluation. Evaluation was undertaken by the Board members in October 2011 with each completing a questionnaire assessing a number of areas including:

- The Board's processes, composition and size;
- The Board's objectives, remit and terms of reference;
- Skills of the Directors; and
- Relations with stakeholders.

The results of the evaluation exercise will be reviewed by the Chairman and the Nomination Committee and fed back to the Board.

Remuneration Committee

The Remuneration Committee comprises the Non-Executive Chairman, three Independent Non-Executive Directors and one Non-Executive Director. It is chaired by John Callender, and the other members are Neil Johnson, Christopher Lendrum and David Smith. In addition the Committee draws on the expertise of an external independent specialist for benchmarking and to ensure a thorough and well governed robust process is applied. The Committee meets bi-annually and has delegated authority from the Board which includes to review and approve:

- The overall market positioning of remuneration packages
- Base salaries and increases
- The design, terms and eligibility of performance related pay schemes including long-term incentive arrangements
- When short and long-term payments will be made and whether any portion of such payments should be deferred
- The policy for pension arrangements and other benefits for the Directors
- The broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive Committee.

The Committee reports bi-annually to the main Board and works closely with the Audit and Nomination Committees.

Remuneration report

There is strong alignment between Directors' remuneration and the achievement of the Company's objectives, both short-term and long-term.

Directors' remuneration seeks to strike an appropriate balance between fixed and variable pay. Elements of remuneration include a base salary, an annual bonus and a long-term incentive. Both potential annual bonuses and any payments into Long-Term Incentive Plans are not guaranteed and are overtly linked to clear and sustainable measures of business performance. Other elements of Directors' remuneration comprise benefits and pension contributions. Details of the Directors' remuneration are set out in note 31 on page 55 of the Financial Statements. All remuneration for the Directors is reviewed and approved by the Remuneration Committee.

In recent years the business has consistently exceeded external benchmarks both financially and in terms of customer satisfaction; running costs have reduced by over 20%; and total director salary, bonus and pension costs have reduced from £3.7m in 2008 to £3.1m in 2011. A key consideration is, however, sensitivity to our environment, and with this in mind, Executive pay has been frozen for the past three years.

Given another year of excellent performance in 2011, both the Remuneration Committee and Board were minded to lift this pay-freeze for the coming year. However, the Executive team has volunteered to accept a further deferral of pay review into a fourth year. The Board has accepted this offer, but recognises that it would be short-sighted to allow the Executive team to be put at risk by failing to recognise their contribution to a secure future. Senior pay will be revisited by the Remuneration Committee in 2012.

Annual bonuses are linked to both business and personal performance. They are discretionary and cannot exceed 50% of base salary. The incentive plan is linked to the Company's long-term objectives and credit rating, and aims to encourage the performance and retention of Directors. Due to the ownership structure of the business, this Long-Term Incentive Plan (LTIP) precludes the use of shares or share options. However, the plan overtly links any future payout with clear and unambiguous measures of sustained performance which in turn have 'line of sight' with the Company's overarching strategic framework (see Directors' report pages 8-15). The LTIP takes into account external factors such as the credit rating. The company's remuneration policy and processes benchmark well against best practice.

In October 2010, a separate five year long-term scheme was introduced for the CEO. Payout under this scheme is linked to a number of performance and employment criteria being satisfied over the next five years.

Independent Auditors' report to the Members of Motability Operations Group plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of Motability Operations Group plc for the year ended 30 September 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows, the Accounting Policies, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 26, 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.

This report, including the opinions, has been prepared for and only for the Company's Members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the 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 Group's and Parent 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 and Accounts to identify material inconsistencies with the audited financial statements. 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 Group's and of the Parent Company's affairs as at 30 September 2011 and of the Group's surplus and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

Anne Simpson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
14 December 2011

Income statement

For the year ended 30 September 2011

	Note	2011 Group £'000	2010 Group £'000
Revenue	4	2,860,199	2,491,259
Net operating costs	6	(2,483,671)	(2,096,786)
Surplus from operations		376,528	394,473
Finance costs	9	(143,268)	(132,798)
Surplus before tax		233,260	261,675
Taxation	10	(27,316)	(59,647)
Surplus for the year		205,944	202,028

All amounts in current and prior years relate to continuing operations (see note 2).

Under section 408 of the Companies Act 2006, the Group has elected to take the exemption with regard to disclosing the Company income statement. The Company's surplus for the year was £9.7m (2010: £5.9m).

The surplus is non-distributable and held for the benefit of the Scheme.

Statement of comprehensive income

For the year ended 30 September 2011

	2011 Group £'000	2010 Group £'000
Surplus for the year	205,944	202,028
Other comprehensive income:		
(Losses)/gains on movements in fair value of cash flow hedging derivatives	(7,273)	19,813
Tax relating to components of other comprehensive income	1,627	(5,605)
Other comprehensive (deficit)/income for the year, net of tax	(5,646)	14,208
Total comprehensive income for the year attributable to equity	200,298	216,236

The notes on pages 34 to 64 form part of these financial statements

Balance sheets
As at 30 September 2011

	Note	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Assets					
Non-current assets					
Intangible assets	11	3,406	3,401	–	–
Property, plant and equipment	12	6,203	3,112	–	–
Assets held for use in operating leases	13	4,976,582	4,266,106	–	–
Deferred tax asset	24	7,270	5,823	4,754	3,127
Investment in subsidiaries	15	–	–	12,582	10,000
Loans to other Group companies	15	–	–	3,195,200	2,725,000
Hire purchase receivables	17	40,559	51,554	–	–
		5,034,020	4,329,996	3,212,536	2,738,127
Current assets					
Trade and other receivables	18	210,360	179,791	10,521	4,378
Corporation tax receivable		13,961	–	1,242	–
Hire purchase receivables	17	22,233	23,086	–	–
Inventories	14	60,751	57,219	–	–
Loans to other Group companies	15	–	–	40,375	33,201
Cash and bank balances	16	31,899	34,607	31,000	34,500
		339,204	294,703	83,138	72,079
Total assets		5,373,224	4,624,699	3,295,674	2,810,206
Liabilities					
Current liabilities					
Deferred income	19	(146,364)	(144,898)	–	–
Trade and other payables	20	(132,076)	(128,943)	(42,550)	(52,151)
Corporation tax payable		–	(6,802)	–	(1,375)
Derivative financial instruments	22	(7,166)	(294)	(7,166)	(294)
Financial liabilities	21	(78,413)	(53,367)	(35,238)	(16,224)
Provision for other liabilities	23	(2,078)	–	–	–
		(366,097)	(334,304)	(84,954)	(70,044)
Net current liabilities		(26,893)	(39,601)	(1,816)	2,035
Non-current liabilities					
Deferred income	19	(181,279)	(149,652)	–	–
Derivative financial instruments	22	(7,213)	(11,077)	(7,213)	(11,077)
Financial liabilities	21	(3,193,838)	(2,723,368)	(3,193,708)	(2,723,368)
Provision for other liabilities	23	–	(1,862)	–	–
Deferred tax liabilities	24	(458,711)	(438,648)	–	–
		(3,841,041)	(3,324,607)	(3,200,921)	(2,734,445)
Total liabilities		(4,207,138)	(3,658,911)	(3,285,875)	(2,804,489)
Net assets		1,166,086	965,788	9,799	5,717
Equity					
Ordinary share capital	25	50	50	50	50
Hedging reserve		(13,890)	(8,244)	(13,890)	(8,244)
Restricted reserves (*)		1,179,926	973,982	23,639	13,911
Total equity		1,166,086	965,788	9,799	5,717

(*) Restricted reserves are retained for the benefit of the Scheme. As regards ordinary shareholders, there is no dividend entitlement. A reserves management policy has been established to ensure that the business and the customer proposition are sustainable throughout the economic cycle.

These financial statements were approved by the Board of Directors on 14 December 2011

Mike Betts
Chief Executive

Motability Operations Group plc
Registered no. 6541091

The notes on pages 34 to 64 form part of these financial statements

Statements of changes in equity

For the year ended 30 September 2011

Group	Ordinary share capital £'000	Hedging reserve £'000	Restricted reserves £'000	Total equity £'000
At 1 October 2009	50	(22,452)	771,954	749,552
Comprehensive income				
Surplus for the year	–	–	202,028	202,028
Other comprehensive income				
Gains on movements in fair value of cash flow hedging derivatives	–	19,813	–	19,813
Tax relating to components of other comprehensive income	–	(5,605)	–	(5,605)
Total comprehensive income	–	14,208	202,028	216,236
At 1 October 2010	50	(8,244)	973,982	965,788
Comprehensive income				
Surplus for the year	–	–	205,944	205,944
Other comprehensive income				
Losses on movements in fair value of cash flow hedging derivatives	–	(7,273)	–	(7,273)
Tax relating to components of other comprehensive income	–	1,627	–	1,627
Total comprehensive (deficit)/income	–	(5,646)	205,944	200,298
At 30 September 2011	50	(13,890)	1,179,926	1,166,086

Company	Ordinary share capital £'000	Hedging reserve £'000	Restricted reserves £'000	Total equity £'000
At 1 October 2009	50	(22,452)	7,985	(14,417)
Comprehensive income				
Surplus for the year	–	–	5,926	5,926
Other comprehensive income				
Gains on movements in fair value of cash flow hedging derivatives	–	19,813	–	19,813
Tax relating to components of other comprehensive income	–	(5,605)	–	(5,605)
Total comprehensive income	–	14,208	5,926	20,134
At 1 October 2010	50	(8,244)	13,911	5,717
Comprehensive income				
Surplus for the year	–	–	9,728	9,728
Other comprehensive income				
Losses on movements in fair value of cash flow hedging derivatives	–	(7,273)	–	(7,273)
Tax relating to components of other comprehensive income	–	1,627	–	1,627
Total comprehensive (deficit)/income	–	(5,646)	9,728	4,082
At 30 September 2011	50	(13,890)	23,639	9,799

The notes on pages 34 to 64 form part of these financial statements

Statements of cash flows

For the year ended 30 September 2011

	Note	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Net cash flows from operating activities	26	(451,101)	(290,075)	(463,604)	(283,015)
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired		(3,829)	–	(4,059)	–
Purchase of corporate property, plant and equipment and intangible assets		(7,339)	(1,192)	–	–
Proceeds from sale of corporate property, plant and equipment		442	418	–	–
Net cash used in investing activities		(10,726)	(774)	(4,059)	–
Cash flows from financing activities					
New loans raised		720,153	395,015	719,163	395,015
Bank loans repaid		(263,599)	(77,500)	(255,000)	(77,500)
Net cash generated from financing activities		456,554	317,515	464,163	317,515
Net increase/(decrease) in cash and cash equivalents		(5,273)	26,666	(3,500)	34,500
Cash and cash equivalents at beginning of year		(2,536)	(29,202)	34,500	–
Cash and cash equivalents at end of year	16	(7,809)	(2,536)	31,000	34,500

The notes on pages 34 to 64 form part of these financial statements

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 2 and 3.

Motability Operations Group plc ('the Company') and its subsidiaries will be referred to as 'the Group' in this report.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

Accounting convention

The financial statements have been prepared under the historical cost convention, except the revaluation of financial assets and financial liabilities (including derivative instruments) which are valued at fair value through profit or loss.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The preparation of financial statements in conformity with IFRSs requires the use of 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. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Except as described below, the accounting policies have been applied consistently to the years 2011 and 2010.

Adoption of new or revised standards

The following new and revised standards and interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported.

Amendments to IFRS 1	*First-time Adoption of IFRS*
Amendments to IFRS 2	*Share Based Payments*
Amendments to IFRS 3	*Business Combinations*
Amendments to IAS 27	*Consolidated and Separate Financial Statements*
Amendments to IAS 32	*Financial Instruments: Presentation*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRS 2009	

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective (and in some cases had not been adopted by the EU) and have not been early adopted by the Group.

Amendments to IFRS 1	*First-time Adoption of IFRS*
Amendments to IFRS 7	*Financial Instruments: Disclosures*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
Amendments to IAS 1	*Presentation of Financial Statements*
Amendment to IAS 12	*Income Taxes*
Amendment to IAS 19	*Employee Benefits*
IAS 24 (revised)	*Related Party Disclosures*
Amendment to IAS 27	*Consolidated and Separate Financial Statements*
Amendment to IAS 28	*Investments in Associates*
Amendments to IAS 34	*Presentation of Financial Statements*
Amendments to IFRIC 13	*Customer Loyalty Programmes*
Amendments to IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group.

Other standards, amendments and interpretations not described above are not relevant to the Group.

2. Significant accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The net assets and results of acquired businesses are included in the consolidated financial statements from their respective dates of acquisition, being the date on which the Group obtains control.

All intra-Group transactions and balances are eliminated on consolidation.

Investment in subsidiaries

The Company's investments in its subsidiaries are stated at cost less any provision for impairment in the Parent Company's balance sheet. Impairment provisions are charged to the income statement.

Intangible assets

Computer software

Intangible assets represent computer software costs. In accordance with IAS 38, computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software and includes capitalised internal labour where appropriate. These costs are amortised on a straight-line basis over their estimated useful lives, between three and five years.

Acquired rights on lease contracts

On 1 October 2010, the Group acquired 100% of the share capital of Route2mobility Limited which is the former operator of Motability Powered Wheelchair and Scooter Scheme. As part of this acquisition acquired rights on lease contracts amounting to £1.4m were recognised at fair value at the acquisition date and included in 'intangible assets'.

The acquired rights on lease contracts have a finite useful life of four years, and are carried at cost less accumulated realised earnings and accumulated impairment thereon. Cost is calculated as the fair value of the acquired rights at the acquisition date.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and provision for any impairment in value. The carrying values of all other tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is calculated to write down assets, on a straight-line basis, over the estimated useful life of the assets as follows:

Motor vehicles	Four years
Leasehold improvements	Remaining term of lease
Fixtures, fittings and office equipment	Three years

Assets held for use in operating leases

Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating lease assets are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are reviewed at the balance sheet date against revised projections of used car prices at the end of the lease term and the resulting changes of estimate are accounted for as a recalibration of depreciation for the year and remaining lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the net carrying value of the operating lease assets, which were previously held for use in operating leases and then become held for sale, as at the date of the transfer to inventory. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Revenue recognition

Rental revenue from operating leases is recognised on a straight-line basis over the lease term.

Revenue comprises both advance rentals payable directly by lessees and periodic rentals receivable from lessees by means of mandated payments of their higher rate mobility component of the Disability Living Allowance or War Pensioners' Mobility Supplement.

Proceeds from disposal of operating lease assets are recognised when the significant risks and rewards of ownership of the assets have been transferred to the buyer.

Deferred income – maintenance

Rental income in respect of vehicle maintenance is deferred to the extent that it relates to future maintenance activities. See note 19.

Deferred income – vehicle condition

Rental income is deferred on a straight-line basis over the life of the lease to the extent that it is expected to be repaid to lessees for returning leased assets in good condition. See note 19.

Leasing obligations

The costs of operating leases are charged to the income statement on a straight-line basis.

Notes to the financial statements continued

2. Significant accounting policies continued

Net operating costs

Net operating costs comprise net book value of disposed operating lease assets, depreciation, insurance, maintenance, dealer supply and service payments, roadside assistance and other Scheme-related costs including the Motabilty levy (see note 30) and overheads. An analysis is provided in note 6.

Overheads include the cost to the Group of the Directors' long-term incentives, recognised on an accruals basis over the period to which the performance criteria relate, adjusted for changes in the probability of performance criteria being met or conditional awards lapsing.

Finance costs

Finance costs are recognised as an expense on an accruals basis, using the effective interest rate method.

Retirement benefit costs

Company pension contributions are calculated as a fixed percentage of the pensionable salaries of eligible employees. These contributions are charged in the period to which the salary relates. The Company pension scheme is a defined contribution scheme.

Taxation

Taxation on the surplus for the year comprises both current and deferred tax as well as adjustments in respect of prior years. Taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity.

Current tax is the expected tax payable on the surplus for the period, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities for reporting purposes and the amounts charged or credited for tax purposes. Deferred tax is calculated at the rate of tax expected to apply when the liability is settled or the asset is realised using tax rates enacted or substantially enacted by the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable surplus will be available against which the asset can be utilised.

Provision for other liabilities

The Group is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term. Provision for such costs is made where a legal obligation is identified and the liability can be reasonably quantified.

Share capital

Ordinary share capital is classified as equity. The Group's preference shares are classified as debt, with the associated dividend being recognised on an amortised cost basis in the income statement as a finance cost.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, trade and other payables, hire purchase receivables, debt, preference shares and derivative instruments.

Foreign currency translation

During the period, the Group issued fixed-rate Eurobonds and at the same time entered into cross-currency interest rate swap arrangements to hedge its foreign currency risk. The Group's overall interest rate risk management strategy is to transform all new issued foreign denominated debt into the Group's functional currency of Sterling.

Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at rates of exchange prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the rates of exchange prevailing on the dates of the transactions. Individual transactions denominated in foreign currencies are translated into Sterling at the exchange rates prevailing on the dates payment takes place. Gains and losses arising on retranslation are, with the exception of the effective portion of foreign exchange gains or losses on debt instruments designated as hedging instruments in a cash flow hedge relationship, included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them. The Group hedged all its foreign currency risks on the Eurobonds and does not have any other monetary assets or liabilities in foreign currencies.

Financial assets

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods and services directly.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Hire purchase receivables

Under IAS 17, hire purchase agreements, which transfer substantially all the risks and rewards of ownership to the customer, are treated in the same way as finance leases.

Assets purchased by customers under hire purchase contracts are included in 'hire purchase receivables' at gross amount receivable, less unearned finance charges. Finance income is recognised over the lease term using a net investment method so as to reflect a constant periodic rate of return on the Group's net investment in the contract. Hire purchase receivable balances also include an allowance for estimated irrecoverable amounts by reference to past default experience.

2. Significant accounting policies continued

Financial assets continued

Cash and bank balances

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Financial liabilities including trade and other payables

Trade and other payables

Trade and other payables are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and reliable estimates of the amount of obligation can be made.

Trade and other payables are short-term financial liabilities which do not carry any interest and are stated at nominal value.

Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. They are subsequently held at amortised cost unless they are part of a fair value hedge. Any difference between the amount on initial recognition and the redemption value is recognised in the income statement using the effective interest method.

Short-term financial liabilities, such as bank overdrafts, are measured at nominal value.

Derivative financial instruments

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk. Further details of derivative financial instruments are disclosed in note 22 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are subsequently remeasured 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.

Hedge accounting

The Group designates hedging instruments, mainly interest rate and cross-currency swaps, as cash flow hedges. Hedges of interest rate risk on firm commitment are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether or not the hedging instrument that is used in a hedging relationship is effective in offsetting changes in cash flows of the hedged item.

Note 22 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the fair value reserve (net of tax effects) are also detailed in the statement of changes in equity.

Cash flow hedge

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item is recognised in profit or loss. The gain/loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within ‘finance costs’. Any gain or loss relating to the ineffective portion is recognised in the income statement as ‘other gains/(losses)’.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Notes to the financial statements continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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 Group's accounting policies:

Residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 13.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2011, if the future value of the net sale proceeds for our existing portfolio of operating leases were to (decrease)/increase by one percent from our estimates, the effect would be to (decrease)/increase the depreciation on these vehicles by about £36.2m (2010: £31.4m). This change in depreciation would be charged /credited to depreciation expense on operating leases over the remaining terms of the operating leases so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value.

Derivatives

As described in note 22, the Directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on the quoted market rates adjusted for the specific features of the instruments.

4. Revenue

An analysis of the Group's revenue is provided below.

	2011 £'000	2010 £'000
Rentals receivable from operating leases	1,592,971	1,415,903
Proceeds from disposal of operating lease assets	1,258,385	1,066,440
Contingent rentals	467	306
Hire purchase earnings	7,221	7,596
Other income	1,155	1,014
Total revenue	2,860,199	2,491,259

Contingent rentals relate to variable charges for excess mileage.

5. Segmental analysis

The Motability Operations Group is managed as a single integrated business unit. Accordingly no segmental analysis is applicable.

6. Net operating costs

An analysis of the Group's net operating costs is provided below:

	2011 £'000	2010 £'000
Net book value of disposed operating lease assets	1,218,467	1,030,430
Fleet operating costs including insurance, maintenance and roadside assistance costs	409,241	369,511
Other operating costs	44,958	27,119
Employee costs	40,069	35,276
Donation to the Motability Tenth Anniversary Trust	30,000	–
Other product costs including continuous mobility costs, adaptations support, communications	21,810	19,045
Legal and professional fees	12,932	7,216
Bad debt charges and movement in bad debt provisions	7,565	2,674
Motability levy and rebates	7,298	4,048
Management fees	2,500	2,500
Inventory write-down	–	850
Net operating costs before depreciation	1,794,840	1,498,669
Depreciation on assets used in operating leases (*)	683,459	594,193
Depreciation and amortisation on property, plant and equipment and intangible assets	5,372	3,924
Net operating costs	2,483,671	2,096,786

(*) The depreciation charge on assets used in operating leasing includes a £21.4m release (2010: £3.9m charge) relating to the change in estimate during the year of future residual value (see note 13).

7. Surplus from operations

Surplus from operations is stated after charging/(crediting):

		2011 £'000	2010 £'000
Bank charges		162	292
Auditors' remuneration:	Audit fees	185	165
Total audit fees		185	165
	Audit fees paid on behalf of subsidiaries	95	60
	Taxation advice	–	30
	Other services relating to corporate finance transactions	35	184
	Other services pursuant to internal audit	–	18
	All other services	–	8
Total other fees payable to Auditors		130	300

Notes to the financial statements continued

8. Employee costs

The average monthly number of employees (including Executive Directors) was:

Group

	2011	2010
Administrative staff	734	664

	2011 £'000	2010 £'000
The breakdown of staff costs is as follows:		
Wages and salaries	33,396	28,974
Pensions and healthcare benefits	3,036	3,074
Social security costs	3,637	3,228
Total employee costs	40,069	35,276

9. Finance costs

	2011 £'000	2010 £'000
Interest and charges on bank loans and overdrafts	36,205	59,580
Interest on debt issued under the Euro Medium Term Note Programme	107,106	72,555
Interest receivable	(740)	(34)
Preference dividends	697	697
Total finance costs	143,268	132,798

10. Taxation

The major components of the Group tax expense are:

	2011 £'000	2010 £'000
Current tax		
Charge for the year	8,011	37,752
Total	8,011	37,752
Deferred tax		
Origination and reversal of temporary differences	55,663	36,744
Impact of change in UK tax rate	(36,358)	(14,849)
Total	19,305	21,895
Tax on surplus	27,316	59,647

The tax on the Group's surplus before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to surplus of the consolidated entities as follows:

	2011 £'000	2010 £'000
Surplus before taxation from continuing operations	233,260	261,675
Tax calculated at appropriate tax rates applicable to surplus	62,973	73,269
Expenses not deductible for tax purposes	699	301
Utilisation of previously unrecognised tax losses	–	–
Adjustment relating to prior years deferred tax	(50)	926
Adjustments recognised in the current year in relation to the current tax of prior years	52	–
Re-measurement of deferred tax due to change in the UK corporation tax rate	(36,358)	(14,849)
Total tax on surplus	27,316	59,647

The weighted average applicable tax rate is 27% (2010: 28%).

11. Intangible assets

Group

Cost	Acquired rights on lease contracts £'000	Computer software £'000	Total £'000
At 1 October 2009	–	7,584	7,584
Additions	–	–	–
At 1 October 2010	–	7,584	7,584
Additions	1,393	2,533	3,926
Derecognition	(1,393)	–	(1,393)
At 30 September 2011	**–**	**10,117**	**10,117**
Accumulated amortisation and impairment			
At 1 October 2009	–	1,655	1,655
Amortisation charge for the year	–	2,528	2,528
At 1 October 2010	–	4,183	4,183
Amortisation charge for the year	–	2,528	2,528
Impairment charge for the year	1,393	–	1,393
Derecognition	(1,393)	–	(1,393)
At 30 September 2011	**–**	**6,711**	**6,711**
Carrying amount			
At 1 October 2009	–	5,929	5,929
Additions	–	–	–
Amortisation	–	(2,528)	(2,528)
At 1 October 2010	–	3,401	3,401
Additions	1,393	2,533	3,926
Amortisation	–	(2,528)	(2,528)
Impairment	(1,393)	–	(1,393)
Derecognition	–	–	–
At 30 September 2011	**–**	**3,406**	**3,406**

The intangible assets relate to IT projects held by the Company's wholly-owned subsidiary Motability Operations Limited and acquired rights on lease contracts (now in run-off) arising from the acquisition of Route2mobility Ltd held by the Company.

The impairment and derecognition of acquired rights on lease contracts is a result of higher termination rates reducing the amount of future rentals receivable.

Notes to the financial statements continued

12. Property, plant and equipment

Group

Cost	Motor vehicles £'000	Leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 October 2009	1,726	5,377	5,582	12,685
Additions	676	–	516	1,192
Disposals	(713)	–	–	(713)
At 1 October 2010	1,689	5,377	6,098	13,164
Additions	898	1,652	2,255	4,805
Acquisition of subsidiary	73	–	123	196
Disposals	(809)	–	(123)	(932)
At 30 September 2011	**1,851**	**7,029**	**8,353**	**17,233**
Accumulated depreciation				
At 1 October 2009	524	3,683	4,803	9,010
Charge for the year	479	366	551	1,396
Eliminated on disposals	(354)	–	–	(354)
At 1 October 2010	649	4,049	5,354	10,052
Charge for the year	418	383	650	1,451
Acquisition of subsidiary	28	–	111	139
Eliminated on disposals	(494)	–	(118)	(612)
At 30 September 2011	**601**	**4,432**	**5,997**	**11,030**
Carrying amount				
At 1 October 2009	1,202	1,694	779	3,675
Additions	676	–	516	1,192
Disposals	(359)	–	–	(359)
Depreciation	(479)	(366)	(551)	(1,396)
At 1 October 2010	1,040	1,328	744	3,112
Additions	898	1,652	2,255	4,805
Acquisition of subsidiary	45	–	12	57
Disposals	(315)	–	(5)	(320)
Depreciation	(418)	(383)	(650)	(1,451)
At 30 September 2011	**1,250**	**2,597**	**2,356**	**6,203**

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £'000
At 1 October 2009	4,521,410
Additions	2,191,012
Transfer to inventory	(1,486,281)
At 1 October 2010	5,226,141
Additions	2,607,954
Acquisition of subsidiary	20,024
Transfer to inventory	(1,813,369)
At 30 September 2011	**6,040,750**

Accumulated depreciation	
At 1 October 2009	816,694
Charge for the year	594,193
Eliminated on transfer to inventory	(450,852)
At 1 October 2010	960,035
Charge for the year	683,459
Acquisition of subsidiary	11,961
Eliminated on transfer to inventory	(591,287)
At 30 September 2011	**1,064,168**

Carrying amount	
At 1 October 2009	3,704,716
Additions	2,191,012
Depreciation	(594,193)
Transfer to inventory (note 14)	(1,035,429)
At 1 October 2010	4,266,106
Additions	2,607,954
Acquisition of subsidiary	8,063
Depreciation	(683,459)
Transfer to inventory (note 14)	(1,222,082)
At 30 September 2011	**4,976,582**

Residual values

Residual values represent the estimated net sale proceeds expected from the sale of the asset at the end of the leasing period. A review is undertaken at the balance sheet date using market data to identify net residual values which differ from the sum anticipated at the inception of the lease.

In addition, the assets' resale market value and disposal costs structure are monitored and the process of realising asset values is managed in order to seek to maximise the net sale proceeds.

The following residual values are included in the calculation of the net book value of fixed assets held for use in operating leases:

Years in which unguaranteed residual values are recovered

	2011 £'000	2010 £'000
No later than one year	**951,583**	950,483
Later than one year and not later than two years	**1,134,672**	883,033
Later than two years and not later than five years	**1,531,935**	1,303,688
Total exposure	**3,618,190**	3,137,204

Notes to the financial statements continued

13. Assets held for use in operating leases continued

The total unguaranteed residual value exposure presented above consists of the original priced residual values net of revisions in estimation (see the 'Critical accounting judgements' policy in note 3). The amounts resulting from change in estimate on the live fleet at the balance sheet date are detailed below, together with the timing of the effects on the income statement.

Effects of changes in estimates included in the unguaranteed residual values above

	2011 £'000	2010 £'000
Prior years	(53)	(18,247)
Current year	21,412	(3,890)
Amounts carried at 30 September	21,359	(22,137)
Amounts to be charged in future years	(34,668)	(14,952)
Total effect of changes in estimated residual value	(13,309)	(37,089)

The Group and Company as lessor

The rentals receivable are determined by the Disability Allowances and as such include income in respect of services and insurance. The future rentals receivable under non-cancellable operating leases with customers, in total, for each of the following three periods after the balance sheet date are:

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
No later than one year	1,178,150	1,153,632	–	–
Later than one year and not later than two years	721,589	699,653	–	–
Later than two years and not later than five years	276,619	277,589	–	–
	2,176,358	2,130,874	–	–

14. Inventories

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Ex-operating lease assets held for sale	61,033	57,418	–	–
Provisions	(282)	(199)	–	–
Ex-operating lease assets held for sale (net)	60,751	57,219	–	–

Inventories represent the operating lease assets previously held for rental to others and which cease to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £282k has been provided against irrecoverable vehicles (2010: £199k).

The cost of inventories recognised as expense and included in net operating costs amounted to £1,218,467k (2010: £1,030,430k).

The movements of the inventories in 2011 and 2010 are as follows:

	£'000
At 1 October 2009	53,269
Transfer from operating lease assets (note 13)	1,035,429
Inventory write-down	(850)
Disposals	(1,030,430)
At 1 October 2010	57,418
Transfer from operating lease assets (note 13)	1,222,082
Inventory write-down	–
Disposals	(1,218,467)
At 30 September 2011	61,033

15. Investment in subsidiaries

	2011 £'000	2010 £'000
Investments in subsidiaries at 30 September	12,582	10,000

The Company's subsidiaries are set out below:

Directly owned	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Operations Limited	100%	Operation of the Scheme
Motability Leasing Limited	100%	Financing of Scheme contract hire agreements
Motability Hire Purchase Limited	100%	Financing of Scheme hire purchase agreements
Route2mobility Limited (*)	100%	Financing of Scheme powered wheelchair and scooter agreements

(*) Route2mobility Limited was acquired by the Group on 1 October 2010.

All of the above subsidiaries are incorporated in Great Britain. The Directors consider the value of the investments to be supported by underlying assets.

Loans to other Group companies

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Motability Leasing Limited	–	–	3,203,582	2,709,090
Motability Hire Purchase Limited	–	–	31,993	49,111
Total	–	–	3,235,575	2,758,201

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Loans to other Group companies – current	–	–	40,375	33,201
Loans to other Group companies – non-current	–	–	3,195,200	2,725,000
Total	–	–	3,235,575	2,758,201

The loans to other Group companies do not have a defined maturity. The current balance represents interest, charged on an arm's length basis.

16. Cash and bank balances

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Cash and bank balances	31,899	34,607	31,000	34,500

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximate to their fair value.

For the purposes of the statements of cash flows, cash and cash equivalents are as follows:

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Cash and bank balances	31,899	34,607	31,000	34,500
Bank overdrafts	(39,708)	(37,143)	–	–
Total	(7,809)	(2,536)	31,000	34,500

Notes to the financial statements continued

17. Hire purchase receivables

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Gross repayments receivable				
No later than one year	27,097	29,226	–	–
Later than one year and not later than five years	44,817	57,886	–	–
Total	71,914	87,112	–	–
Unearned income receivable				
No later than one year	(4,864)	(6,140)	–	–
Later than one year and not later than five years	(4,258)	(6,332)	–	–
Total	(9,122)	(12,472)	–	–
Net total within one year	22,233	23,086	–	–
Net total due in the second to fifth years inclusive	40,559	51,554	–	–
Present value of minimum hire purchase receivables	62,792	74,640	–	–

The average term of hire purchase agreements entered into is five years.

Hire purchase receivable balances are secured over the vehicles subject to hire purchase contracts. The Group is not permitted to sell or repledge the collateral in the absence of default by the customer.

The interest rate inherent in hire purchase agreements is fixed at the contract date. The effective interest rate ranges between 8% and 10% per annum, and reflects provision for early termination losses and other costs (2010: 8% – 11%).

Hire purchase receivable balances include an allowance for estimated irrecoverable amounts of £1.0m (2010: £0.9m). This allowance has been made by reference to past default experience. There are no hire purchase receivables which are past due at the reporting date.

The fair value of the hire purchase receivables as at 30 September 2011 is estimated to be £63.1m (2010: £75.4m) using discount rates based on the market rate for similar consumer credit transactions.

18. Trade and other receivables

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Trade receivables	60,096	59,554	–	–
Other receivables	69,206	59,124	–	–
Prepayments and accrued income	81,058	61,113	10,521	4,378
Total	210,360	179,791	10,521	4,378

Trade receivables include an allowance for estimated irrecoverable amounts of £7.1m (2010: £4.5m). This allowance has been made by reference to past default experience. The average receivable days period is three days (2010: two days).

The Directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in Sterling.

The Group's principal source of income is the Department for Work and Pensions through the assigned allowances receivable by customers of the Group. In effect the income stream is sourced from the UK Government, hence credit risk is considered by the Directors to be very low. A small residual credit risk arises from miscellaneous customer billings, monies due from dealers, auction houses and vehicle manufacturers. The Group's management carries out regular credit assessments of the limits set for auction houses, manufacturers and dealers.

Included in the Group's trade receivable balance are receivables with a carrying value of £1.4m (2010: £3.4m) which are past due at the reporting date. The Group has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances. The average past due period of these receivables is ten days (2010: eight days).

Ageing of past due but not impaired receivables:

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Past due by 1-30 days	1,287	3,177	–	–
Past due by 31-60 days	–	104	–	–
Past due by 61-90 days	74	102	–	–
Past due by 91-120 days	9	35	–	–
Past due by more than 120 days	8	1	–	–
Total	1,378	3,419	–	–

19. Deferred income

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Customers' advance payments (*)	101,361	103,426	–	–
Vehicle maintenance income	13,747	10,597	–	–
Vehicle good condition bonus income	31,256	30,875	–	–
Total current	146,364	144,898	–	–
Customers' advance payments (*)	109,938	83,328	–	–
Vehicle maintenance income	44,479	34,756	–	–
Vehicle good condition bonus income	26,862	31,568	–	–
Total non-current	181,279	149,652	–	–
Total	327,643	294,550	–	–

(*) Customers may choose a leased vehicle where the price exceeds the mobility allowance. In such cases they make an advance payment which is recognised over the life of the lease.

20. Trade and other payables

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Trade payables	50,667	52,685	–	–
Accruals	74,444	68,919	–	–
Other payables	3,102	1,697	42,550	52,151
Advance payments received from DWP	3,863	5,642	–	–
Total	132,076	128,943	42,550	52,151

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2010: 30 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the financial statements continued

21. Financial liabilities

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Current				
Accrued interest and coupon	35,238	16,224	35,238	16,224
Bank overdrafts	39,708	37,143	–	–
Bank loans	3,467	–	–	–
Total current	78,413	53,367	35,238	16,224
Non-current				
Bank loans	1,120,130	1,375,000	1,120,000	1,375,000
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	2,063,758	1,338,418	2,063,758	1,338,418
Preference shares	9,950	9,950	9,950	9,950
Total non-current	3,193,838	2,723,368	3,193,708	2,723,368
Total	3,272,251	2,776,735	3,228,946	2,739,592

The financial liabilities are repayable as follows:				
On demand or due within one year	78,413	53,367	35,238	16,224
Due within two years	1,120,130	–	1,120,000	–
Due within two to five years	496,604	1,375,000	496,604	1,375,000
Due in more than five years	1,577,104	1,348,368	1,577,104	1,348,368
Total	3,272,251	2,776,735	3,228,946	2,739,592

All borrowings are denominated in (or swapped into) Sterling.

Bank borrowings

All bank borrowings as at 30 September 2011 and 2010 are at floating rates.

As at 30 September 2011 the Group has two principal bank loans:

a) A five-year Term Loan of £1 billion (2010: £1 billion) taken out on 26 June 2008. Loan repayment date is 26 June 2013.

b) A five-year Revolving Credit Facility of £900m (2010: £900m) taken out on 26 June 2008 of which £120m was drawn as at 30 September 2011 (2010: £375m). Facility repayment date is 26 June 2013.

All bank borrowings carry LIBOR interest rates plus bank margins at a market rate.

Debt issued under the Euro Medium Term Note Programme

The Company has a £3 billion Euro Medium Term Note Programme with denominations of GBP 50,000. The bonds were admitted to trading on London Stock Exchange's regulated market and have been admitted to the Official List. The £3 billion Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by three subsidiaries, namely Motability Operations Limited, Motability Leasing Limited and Motability Hire Purchase Limited. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by these companies.

During the year, the Company issued two additional fixed-rate bonds under this programme; a Sterling bond with a semi-annual coupon of 5.625% and a nominal value of £300m, and a Euro-denominated bond with an annual coupon rate of 3.75% and a nominal value of €500m.

Preference shares

Cumulative preference shares of £9,950,000 were issued on 30 June 2008 at an issue price of £1 per share. The shares carry interest at 7%. The preference shares of the Group are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

21. Financial liabilities continued

The weighted average interest rates on borrowings as at 30 September 2011 and 30 September 2010 were as follows:

	2011 Group %	2010 Group %	2011 Company %	2010 Company %
Current bank loans and overdrafts	1.4	2.5	–	–
Non-current bank loans	1.5	1.4	1.5	1.4
Non-current debt issued under the Euro Medium Term Note Programme	5.4	5.7	5.4	5.7
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2011 and 30 September 2010, the Group had the following undrawn committed borrowing facilities:

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Working capital facility	100,000	100,000	95,000(*)	95,000(*)
Revolving credit facility	780,000	525,000	780,000	525,000
Total	880,000	625,000	875,000	620,000

(*) Working capital facilities of the Group are cross guaranteed between Group companies Motability Operations Limited and Motability Operations Group plc.

Undrawn committed facilities expire as follows:

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Within one year	5,000	100,000	–	95,000
Within one to two years	780,000	–	780,000	–
Within two to five years	95,000	525,000	95,000	525,000
Total	880,000	625,000	875,000	620,000

The carrying amounts and fair value of the borrowings are as follows:

	2011 Group carrying amount £'000	2011 Group fair value £'000	2011 Company carrying amount £'000	2011 Company fair value £'000
Current financial liabilities (including accrued interest and coupon)	78,413	78,413	35,238	35,238
Non-current debt issued under the Euro Medium Term Note Programme (*)	2,063,758	2,266,933	2,063,758	2,266,933
Non-current bank loans	1,120,130	1,120,130	1,120,000	1,120,000
Non-current preference shares	9,950	13,051	9,950	13,051
Total	3,272,251	3,478,527	3,228,946	3,435,222

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

	2010 Group carrying amount £'000	2010 Group fair value £'000	2010 Company carrying amount £'000	2010 Company fair value £'000
Current financial liabilities (including accrued interest and coupon)	53,367	53,367	16,224	16,224
Non-current debt issued under the Euro Medium Term Note Programme (*)	1,338,418	1,497,355	1,338,418	1,497,355
Non-current bank loans	1,375,000	1,375,000	1,375,000	1,375,000
Non-current preference shares	9,950	12,862	9,950	12,862
Total	2,776,735	2,938,584	2,739,592	2,901,441

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

As at 30 September 2011, the fair value of current and non-current bank loans approximates to their carrying values, because all the bank loans carry floating interest rates. The fair value of preference shares for disclosure purposes is estimated by discounting the cash flows at a discount rate which is derived from the yield curve at the balance sheet date. The fair value of the debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on the market data at the balance sheet date.

Notes to the financial statements continued

22. Derivative financial instruments

	Group 2011		Company 2011	
	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000
Cash flow hedges				
Cross-currency swaps	(7,213)	425,200	(7,213)	425,200
Interest rate swaps	(7,166)	900,000	(7,166)	900,000
Total	(14,379)	1,325,200	(14,379)	1,325,200
Included in non-current liabilities	(7,213)	425,200	(7,213)	425,200
Included in current liabilities	(7,166)	900,000	(7,166)	900,000
Derivative financial instrument liabilities	(14,379)	1,325,200	(14,379)	1,325,200

	Group 2010		Company 2010	
	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000
Cash flow hedges				
Cross-currency swaps	–	–	–	–
Interest rate swaps	(11,371)	900,000	(11,371)	900,000
Total	(11,371)	900,000	(11,371)	900,000
Included in non-current liabilities	(11,077)	800,000	(11,077)	800,000
Included in current liabilities	(294)	100,000	(294)	100,000
Derivative financial instrument liabilities	(11,371)	900,000	(11,371)	900,000

Cross-currency swaps

On 29 November 2010, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 3.75% is fully swapped into the GBP rate of 4.242%.

Interest rate swaps

At 30 September 2011, the fixed interest rates vary from 1.92% to 2.45% (2010: the fixed interest rates vary from 1.65% to 2.45%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 30 September 2011 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

The following table details the contractual maturity of the Group's interest rate and cross-currency swap liabilities. The undiscounted cash flows are settled on a net basis.

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Within one year	(9,227)	(5,917)	(9,227)	(5,917)
Due within three years	(4,140)	(5,576)	(4,140)	(5,576)
Due within three to five years	(4,233)	–	(4,233)	–
Due in more than five years	4,804	–	4,804	–
Total	(12,796)	(11,493)	(12,796)	(11,493)

Further details of derivative financial instruments are provided in note 33.

23. Provision for other liabilities

	Group £'000
At 1 October 2009	1,645
Additional provision in the year	217
At 1 October 2010	1,862
Additional provision in the year	216
Utilisation/release of provision	–
At 30 September 2011	2,078
Included in current liabilities	2,078
Included in non-current liabilities	–
Total	2,078

The provision for other liabilities has been set up in respect of obligations arising due to dilapidations payable at the end of operating leases on the properties occupied by the Group. These provisions are expected to be fully utilised by 2012.

24. Deferred tax

The following are the deferred tax liabilities and assets recognised by the Group and Company and movements thereon during the current and prior reporting periods.

Group	Accelerated tax depreciation £'000	Short-term timing differences £'000	Derivatives £'000	Tax losses £'000	Total £'000
Net at 1 October 2009	426,716	(1,225)	(8,732)	(11,435)	405,324
Charge/(credit) to income	25,415	(105)	–	11,435	36,745
Charge/(credit) to income due to change in UK tax rate	(14,892)	43	–	–	(14,849)
Charge/(credit) to equity	–	–	5,662	–	5,662
Charge/(credit) to equity due to change in UK tax rate	–	–	(57)	–	(57)
Utilisation of previously recognised tax losses	–	–	–	–	–
Losses surrendered as group relief	–	–	–	–	–
Net at 1 October 2010	437,239	(1,287)	(3,127)	–	432,825
Charge/(credit) to income	55,450	213	–	–	55,663
Charge/(credit) to income due to change in UK tax rate	(35,133)	69	–	–	(35,064)
Charge/(credit) to equity	–	–	(1,907)	–	(1,907)
Charge/(credit) to equity due to change in UK tax rate	–	–	280	–	280
Acquisition of subsidiary	975	(37)	–	–	938
Adjustment in respect of prior periods	(1,294)	–	–	–	(1,294)
Net at 30 September 2011	457,237	(1,042)	(4,754)	–	451,441

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (as the deferred taxes relate to the same fiscal authority). The presentation of the deferred tax on the balance sheet is as follows;

	2011 £'000	2010 £'000
Deferred tax asset	(7,270)	(5,823)
Deferred tax liabilities	458,711	438,648
Net at 30 September	451,441	432,825

During the year, as a result of the change in the UK corporation tax rate from 28% to 26% that was substantially enacted on 29 March 2011 (effective from 1 April 2011) and the subsequent change to 25% substantially enacted on 19 July 2011 (effective from 1 April 2012), the relevant deferred tax balances have been re-measured. The re-measurement incorporates a 2% reduction to the main rates of capital allowances, also substantially enacted with effect from 1 April 2012.

The Government has also announced its intention to reduce the main rate of corporation tax to 23% by 2014/15, with the change to be phased in 1% stages over the next three years. Had these changes been substantially enacted before 30 September 2011 a further £26.1m would have been credited to the tax charge for 2011.

Notes to the financial statements continued

24. Deferred tax continued

Company	Accelerated tax depreciation £'000	Short-term timing differences £'000	Derivatives £'000	Tax losses £'000	Total £'000
At 1 October 2009	–	–	(8,732)	–	(8,732)
Charge/(credit) to income	–	–	–	–	–
Charge/(credit) to equity	–	–	5,662	–	5,662
Charge/(credit) to equity due to change in UK tax rate	–	–	(57)	–	(57)
At 1 October 2010	–	–	(3,127)	–	(3,127)
Charge/(credit) to income	–	–	–	–	–
Charge/(credit) to equity	–	–	(1,907)	–	(1,907)
Charge/(credit) to equity due to change in UK tax rate	–	–	280	–	280
At 30 September 2011	–	–	4,754	–	4,754

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable surplus is probable.

25. Share capital

The Company has one class of ordinary shares, which carry no rights to income.

	2011	2010
Authorised:		
100,000 Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 Ordinary shares of £1 each (2010: 50,000 Ordinary shares of £1 each)	£50,000	£50,000

In accordance with the shareholders' agreement, the ordinary shareholders will not procure a dividend and, in the event of a winding up, all reserves surplus to the redeeming ordinary and preference share capital at par and outstanding dividends on the preference shares will be covenanted to Motability, the Charity.

The Company has 10,900,000 authorised 7% redeemable cumulative preference shares of £1 each (classified as a liability). These shares do not carry voting rights. Further details are provided in note 21.

26. Notes to the statements of cash flows

Reconciliation of surplus to net cash flow from operating activities:

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
Surplus from operations	376,528	394,473	(1,478)	–
Adjustments for:				
Depreciation charge on corporate assets	5,372	3,924	1,478	–
Depreciation charge on operating lease assets	683,459	594,193	–	–
Inventory write-down	–	850	–	–
(Gains) on disposal of operating lease assets	(39,918)	(36,010)	–	–
(Gains) on disposal of corporate assets	(118)	(59)	–	–
Increase/(decrease) in provisions	2,316	(1,509)	–	–
Operating cash flows before movements in working capital	1,027,639	955,862	–	–
Purchase of assets held for use in operating leases	(2,607,954)	(2,191,012)	–	–
Proceeds from sale of assets held for use in operating leases	1,258,385	1,066,440	–	–
Decrease/(increase) in receivables	(49,700)	(35,955)	1,281	1,971
(Increase) in loans to and investment in subsidiaries	–	–	(470,200)	(322,500)
Increase in deferred income	33,093	45,176	–	–
Increase/(decrease) in creditors	45,005	29,909	(9,601)	18,411
Cash generated from / (used in) operations	(293,532)	(129,580)	(478,520)	(302,118)
Net interest (paid)/received	(129,819)	(129,545)	17,533	20,303
Income taxes (paid)	(27,750)	(30,950)	(2,617)	(1,200)
Net cash flows from operating activities	(451,101)	(290,075)	(463,604)	(283,015)

27. Analysis of changes in net debt

Group	At 1 October 2010 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2011 £'000
Cash and bank balances	34,607	(2,708)	–	31,899
Borrowings due within one year	(53,367)	199	(25,245)	(78,413)
Borrowings due after one year	(1,375,000)	254,870	–	(1,120,130)
Debt issued under the Euro Medium Term Note Programme due after one year	(1,338,418)	(719,163)	(6,177)	(2,063,758)
Preference shares	(9,950)	–	–	(9,950)
	(2,742,128)	(466,802)	(31,422)	(3,240,352)

	At 1 October 2009 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2010 £'000
Cash and bank balances	57	34,550	–	34,607
Borrowings due within one year	(95,968)	44,616	(2,015)	(53,367)
Borrowings due after one year	(1,400,000)	25,000	–	(1,375,000)
Debt issued under the Euro Medium Term Note Programme due after one year	(942,165)	(395,015)	(1,238)	(1,338,418)
Preference shares	(9,950)	–	–	(9,950)
	(2,448,026)	(290,849)	(3,253)	(2,742,128)

28. Operating lease arrangements

The Group as lessee

	2011 Group £'000	2010 Group £'000
Minimum lease payments under operating leases recognised in the income statement in the year	3,181	2,920

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 Group £'000	2010 Group £'000
Within one year	2,974	2,925
In the second to fifth year inclusive	11,846	9,020
After five years	24,530	2,913
Total	39,350	14,858

Operating lease payments represent rentals payable by the Group for use of office properties. Leases are negotiated for an average term of five years and rentals fixed for an average of four years.

29. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the year to 30 September 2011 amounted to £2,522,816 (2010: £2,667,453). Net contributions due at the balance sheet date were £8,114 (2010: £233,629).

Notes to the financial statements continued

30. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note (see note 15 for the details of the intercompany transactions). The Group's corporate and finance structures are set out in the Finance Director's Review on pages 16 and 17.

Related parties comprise Directors (and their close families and service companies), the Motability Charity and the shareholder banks. Transactions entered into with related parties are in the normal course of business and on an 'arms length' basis.

The relationship of the Company to the Motability Charity is set out in the Business overview.

Transactions

During the year Motability charitable grants totalling £20.5m (2010: £20.9m) were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf. The Group also paid £5.4m (2010: £3.2m) relating to Motability administration costs (the "Motability levy").

A further £2.5m (2010: £2.4m) was paid as rebates in respect of grant awards towards advance payments where customers terminated their hire agreements and rebates in respect of grants made where the Group-managed adaptations could not be processed.

In addition, £1.9m (2010: £0.9m) was paid as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair accessible vehicles. £4,285 (2010: £6,160) was donated to Motability's charitable funds during the year.

The funding of the Group and the Company through bank loans is provided by the shareholder banks on commercial terms as detailed in note 21 (see note 9 for details of financing costs on bank loans and note 7 for bank charges). Additionally, total fees of £2.5m (2010: £2.5m) were due to the shareholder banks in proportion to their shareholdings for management and advisory services.

During the year the Group made a £30m donation to the Motability Tenth Anniversary Trust. The principal objective of the Tenth Anniversary Trust is to promote and support the objectives of Motability by making grants and investing in research and special projects to facilitate mobility needs.

Remuneration of key management personnel

The remuneration of the key management personnel who are the Directors of the Group is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'.

	2011 £'000	2010 £'000
Short-term employee benefits	2,933	2,910
Post-employment benefits	215	369
Other long-term benefits	2,134	1,525
Termination benefits	–	272
	5,282	5,076

31. Directors' remuneration

During the year there were five Directors (2010: six) accruing benefits under money purchase pension schemes. The Chairman makes separate provision for pension from his aggregate emoluments.

	2011	2010
Chairman		
Salary	£170,000	£170,000
Benefits	£18,535	£18,535
Aggregate emoluments in respect of qualifying services	£188,535	£188,535
Pension contributions under money purchase pension schemes	£nil	£nil

	2011	2010
Highest-paid Director		
Salary	£475,000	£475,000
Bonuses	£237,500	£237,500
Payments in lieu of pension (*)	£48,958	–
Benefits	£23,394	£23,394
Aggregate emoluments in respect of qualifying services	£784,852	£735,894
Pension contributions under money purchase pension schemes	£69,792	£118,750
All Directors		
Salary	£1,900,000	£1,978,965
Bonuses	£765,000	£772,500
Payments in lieu of pension (*)	£151,923	–
Benefits	£115,871	£158,754
Aggregate emoluments in respect of qualifying services	£2,932,794	£2,910,219
Pension contributions under money purchase pension schemes	£214,792	£368,749
Compensation for loss of office	–	£272,283

(*) Payments in lieu of pension amounts relate to emoluments where the Remuneration Committee have agreed that Directors can opt to take taxable income instead of pension contribution entitlements under money purchase schemes.

Long-Term Incentives

In addition to the above, Motability Operations Group plc operates Long-Term Incentive arrangements.

Long-Term Incentive Plan (LTIP) A

Until the financial year ended September 2008, the Executive Directors were able to invest a proportion of any awarded bonus into a Long-Term Incentive Plan. This plan was introduced to provide a retention mechanism for key senior individuals and to recognise the importance of long-term strategic objectives as well as short-term goals. The Company's ownership structure precluded the adoption of conventional long-term incentive schemes (principally share option schemes), so LTIP A was introduced as a cash-based scheme under which Directors could elect to deposit up to 50% of any awarded (and accounted) annual bonus into a fund. At the discretion of the Remuneration Committee this fund can then be uplifted in each subsequent year on a basis linked to individual performance. Subject to satisfactory business and individual performance, this accumulated fund would then be released on the third anniversary of the deposit. This LTIP A is now closed and the last releases were in December 2010.

During the year to September 2011, in aggregate £904,010 of LTIP A was released, including £274,219 in respect of the highest-paid Director (2010: £1,368,985, including £405,000 in respect of the highest-paid Director).

Notes to the financial statements continued

31. Directors' remuneration continued

Long-Term Incentive Plan (LTIP) B

Following the restructuring of the business in June 2008, a revised Long-Term Incentive Plan has been introduced for the Executive Directors. The new plan, effective from 1 October 2008, focuses on ensuring that any reward is linked to measureable long-term objectives. As was the case for the original LTIP A, due to the ownership structure of the business, the use of shares or share options is precluded. However, the new LTIP B specifically links any future cash payout with measures of sustained performance aligned to the Company's strategic objectives. LTIP B also takes into account external factors such as the credit rating of the business and is consistent with Financial Services Authority principles in respect of long-term incentives, with performance criteria designed so that units allocated into the plan can both increase and decrease in value. The main features of LTIP B are as follows;

- The Remuneration Committee determines annually, on a discretionary basis, whether LTIP B units should be allocated to any Director. The notional initial value of an allocated unit is £1,000, with the accumulated value varying (up or down) in subsequent years
- Potential payouts are deferred for three years
- The value of any potential payout is determined by annual assessment against specific performance requirements in respect of level of customer service, reserves adequacy and business culture
- Potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the plan, the accumulated units can be converted into cash and released. During the reported year to September 2011, in aggregate an allocation of 550 units was made into the plan. These units will not become eligible for possible cash conversion until 2013 (2010: 550 units eligible for release in 2012).

Long-Term Incentive Scheme (LTIS)

A LTIS for the Chief Executive Officer has been introduced effective from 1 October 2010. As regards any future value the Scheme mirrors the LTIP B except in the following respects:

- Any value attaching to units allocated at the discretion of the Remuneration Committee to be paid, subject to continued satisfactory performance and continuing employment, only after the fifth anniversary of the initial allocation and after audit sign off of the Annual Accounts for the year ended September 2015
- The CEO can elect at the point of allocation that the value of any units be released in five years at the nominal allocation value, thereby foregoing any potential value enhancement but avoiding also the prospect of units having no value. Alternatively the CEO can elect that any allocated units be subject to the same valuation criterion as those applying to LTIP B. That is, the value of any potential payout is determined by annual assessment against specific performance requirements in respect of level of customer service, reserves adequacy and business culture. Also, any payout will be impacted by any movements in the Company's credit rating
- Further allocations may be made at the discretion of the Remuneration Committee in 2011 and 2012 but there is no opportunity for allocations in 2013 and 2014
- The CEO has elected that any value attaching to further allocations be determined by reference to the same criteria as those applying to LTIP B.

During the reported year to September 2011, an initial allocation of 72 units, each with a nominal value of £1,000, was made. The CEO has elected that these units be subject to the same valuation criteria as those applying to LTIP B. These allocated units will not become eligible for possible cash conversion until late 2015.

32. Events after the reporting period

There have been no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2011.

33. Funding and financial risk management

Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 21, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

The Group's debt funding is provided through the Company via bank loans and debt issuance.

The objective of the Group's capital and reserves management policy is to ensure that the Group maintains adequate levels of equity capital and reserves to:

- Maintain the sustainability and longevity of the business through having adequate reserves to withstand the impact of potential macroeconomic, industry and company specific shock events
- Provide relative stability of pricing and affordability to customers
- Provide confidence to lenders and credit rating agencies that allows the Group to raise sufficient funding at competitive rates.

As part of the capital and reserves management policy of the Group, any surpluses that arise in the Group are reinvested back into the Scheme for the benefit of disabled customers. The Banks as owners of the Group cannot access reserves (the ordinary shares do not carry any entitlement for dividend).

The Risk Management Committee reviews the capital structure and particularly the level of restricted reserves on a regular basis. The Group operates an Economic Capital methodology to determine the level of capital required in the business. In calculating the Economic Capital requirement, a comprehensive assessment of material risks and potential impacts is undertaken. The Economic Capital model is periodically refreshed to reflect changes to the risk profile.

The policy of the Group is to seek to manage reserves within a target operating corridor between 100% and 130% of the Economic Capital Requirement. The actual capital and the Economic Capital Requirement corridor at the year end are as follows:

	2011 £million	2010 £million
Actual capital (restricted reserves and equity share capital)	1,180	974
Economic Capital requirement corridor (100% – 130%)	986 – 1,282	834 – 1,084

The Group is not subject to externally imposed regulatory capital requirements.

The Group's debt financing (bank loans) is subject to a customary loan covenant and the Group has complied with the terms of the covenant throughout the period.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

Significant accounting policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in note 2 to the financial statements.

Categories of financial instruments

	2011 Group carrying value £'000	2010 Group carrying value £'000	2011 Company carrying value £'000	2010 Company carrying value £'000
Non-derivative financial assets				
Hire purchase receivables	62,792	74,640	–	–
Trade and other receivables	60,474	59,569	–	–
Loans to other Group companies	–	–	3,235,575	2,758,201
Cash and bank balances	31,899	34,607	31,000	34,500
Total non-derivative financial assets	155,165	168,816	3,266,575	2,792,701
Non-derivative financial liabilities				
Trade and other payables	(132,076)	(128,943)	(42,550)	(52,151)
Financial liabilities	(3,272,251)	(2,776,735)	(3,228,946)	(2,739,592)
Total non-derivative financial liabilities	(3,404,327)	(2,905,678)	(3,271,496)	(2,791,743)
Net non-derivative financial instruments	(3,249,162)	(2,736,862)	(4,921)	958
Derivative financial instruments				
Interest rate swaps	(7,166)	(11,371)	(7,166)	(11,371)
Cross-currency swaps	(7,213)	–	(7,213)	–
Total derivative financial instruments	(14,379)	(11,371)	(14,379)	(11,371)
Total financial instruments	(3,263,541)	(2,748,233)	(19,300)	(10,413)

Notes to the financial statements continued

33. Funding and financial risk management continued

Fair value of financial instruments

		2011 Group carrying value £'000	2011 Group fair value £'000	2010 Group carrying value £'000	2010 Group fair value £'000
Cash and bank balances	IV	31,899	31,899	34,607	34,607
Trade and other receivables	III	60,474	60,474	59,569	59,569
Hire purchase receivables – current	I	22,233	23,474	23,086	25,297
Hire purchase receivables – non-current	I	40,559	39,593	51,554	50,103
Trade and other payables – current	III	(132,076)	(132,076)	(128,943)	(128,943)
Bank loans including bank overdrafts – current	II	(78,413)	(78,413)	(53,367)	(53,367)
Bank loans – non-current	II	(1,120,130)	(1,120,130)	(1,375,000)	(1,375,000)
Debt issued under the Euro Medium Term Note Programme (*)	I	(2,063,758)	(2,266,933)	(1,338,418)	(1,497,355)
Redeemable preference share liabilities	I	(9,950)	(13,051)	(9,950)	(12,862)
Net non-derivative financial instruments		(3,249,162)	(3,455,163)	(2,736,862)	(2,897,951)
Interest rate swap – cash flow hedge		(7,166)	(7,166)	(11,371)	(11,371)
Cross-currency swap – cash flow hedge		(7,213)	(7,213)	–	–
		(3,263,541)	(3,469,542)	(2,748,233)	(2,909,322)

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

I Bearing interest at fixed rate
II Bearing interest at floating rate
III Non-interest bearing
IV Interest bearing portion of the cash and cash equivalents consists of overnight deposits

		2011 Company carrying value £'000	2011 Company fair value £'000	2010 Company carrying value £'000	2010 Company fair value £'000
Cash and bank balances		31,000	31,000	34,500	34,500
Loans to other Group companies	II	3,235,575	3,395,335	2,758,201	2,895,308
Trade and other payables – current	III	(42,550)	(42,550)	(52,151)	(52,151)
Financial liabilities – current	II	(35,238)	(35,238)	(16,224)	(16,224)
Bank loans – non-current	II	(1,120,000)	(1,120,000)	(1,375,000)	(1,375,000)
Debt issued under the Euro Medium Term Note Programme (*)	I	(2,063,758)	(2,266,933)	(1,338,418)	(1,497,355)
Redeemable preference share liabilities	I	(9,950)	(13,051)	(9,950)	(12,862)
Net non-derivative financial instruments		(4,921)	(51,437)	958	(23,784)
Interest rate swap – cash flow hedge		(7,166)	(7,166)	(11,371)	(11,371)
Cross-currency swap – cash flow hedge		(7,213)	(7,213)	–	–
		(19,300)	(65,816)	(10,413)	(35,155)

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

I Bearing interest at fixed rate
II Bearing interest at floating rate
III Non-interest bearing

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. The following methods and assumptions were used to estimate the fair values of the financial instruments for disclosure purposes:

- The carrying value of cash and cash equivalents approximates to the carrying amount due to its short-term nature
- The carrying values less impairment provision of trade and other receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables
- The hire purchase receivables are interest bearing and the inherent interest rate is fixed at the contract date. The fair value of hire purchase receivables for disclosure purposes is estimated by a discount rate based on the market rate for similar consumer credit transactions
- The fair value of preference shares and loans to other Group companies for disclosure purposes is estimated by discounting the cash flows using market data at the balance sheet date
- The fair value of debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date
- The fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date.

33. Funding and financial risk management continued

Fair value of financial instruments continued

With effect from 1 January 2009, the Group and the Company adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements using the following hierarchy:

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

The only financial instruments of the Group and the Company that are measured subsequent to initial recognition at fair value are interest rate and cross-currency swaps, grouped into level 2.

Financial risk management objectives

The Group's funding and financial risk is overseen and managed by the Asset and Liability Management Committee.

The Group's treasury function, operating under the control of the Asset and Liability Management Committee, monitors and manages the financial risks relating to the funding and treasury operations, as well as co-ordinating access to the financial markets. The Treasury Policy of the Group and the principles set out by the Policy are endorsed by the Board and applied through delegated authority to the Chief Executive Officer operating through the Executive Committee and the Asset and Liability Management Committee. The Treasury Policy and treasury control framework are overseen by the Audit Committee.

The risks of the Group arising from its funding activities include interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into interest rate swaps and issues fixed rate bonds to mitigate the risk of movements in interest rates. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's debt funding is provided through the Company via bank loans and capital markets issuance. As with the capital risk management, the overall funding and financial risk management of the Company is integrated with the funding and financial risk management of the Group and is not managed separately. As with the Group, the Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk. The Company's exposure to these risks is disclosed separately in the related sections below.

Interest rate risk management

The Group's revenues arise primarily from operating lease rentals, proceeds from disposal of operating lease assets and hire purchase repayments that are fixed for the period of the contract – typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN programme, the Group and the Company's borrowings are subject to floating interest rates. Borrowings arranged at floating rates of interest expose the Group and Company to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group and Company to fair value interest rate risk.

The Group and the Company seek to minimise cash flow interest rate risk by entering into fixed interest rate swaps to hedge floating rate borrowings. Interest rate swaps are employed to fix the interest rate profile of the borrowings and align these borrowings to the repayment profile of the assets. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the total borrowings should be fixed in nature except where specific short-term dispensations are permitted (and commensurate with the overall funding policy). The Group only hedges the variable rate term borrowings; variable rate working capital facilities are not hedged.

Floating rate debt substantially swapped into fixed interest rates has a carrying value as at 30 September 2011 of £1,120m (2010: £1,375m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2011 of £2,064m (2010: £1,338m).

The Group and the Company have interest rate swaps of £900m maturing over the next year (2010: £900m, maturing over the next two years). Under these swaps the Group and the Company pay an average fixed rate of 2.18% (2010: 2.10%).

Funding derived from bonds issuance has increased during the year. Two bonds have been issued; one in Sterling for a nominal amount of £300m (maturing in 2030) and one in Euros for a nominal amount of €500m (maturing in 2017).

Foreign exchange risk

The Group is exposed to foreign exchange risk due to the issue of a Euro denominated fixed-rate bond. This risk has been managed by use of a cross-currency swap to fix the exchange rate on all coupon and principal cash flows from the outset of the bond.

Interest rate sensitivity analysis

The sensitivity analysis stated below is based on exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

In the event of any change in interest rates, there would be no material effect on the reserves of the Group and the Company. Although an increase in interest rates will lead to changes in interest payable on borrowings, this will be offset by a corresponding effect in either interest rate swaps or rental increases on new assets purchased during the year.

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax surplus decrease of approximately £1.5m as at 30 September 2011 (2010: £5m).

Notes to the financial statements continued

33. Funding and financial risk management continued

Interest rate swap contracts

Under interest rate swap contracts, the Group and the Company agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on future cash flows on the variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using a GBP market yield curve; the results are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

All interest rate swap contracts are designated as cash flow hedges in order to reduce the Group and the Company's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swaps and floating rate borrowings re-fix and settle on the same day each month thereby minimising interest rate exposure further. Interest rate swaps settle net on a monthly basis.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date:

	2011 Average contract fixed interest rate %	2010 Average contract fixed interest rate %	2011 Nominal principal amount £'000	2010 Nominal principal amount £'000	2011 Fair value £'000	2010 Fair value £'000
Under one year	2.18	1.65	900,000	100,000	(7,166)	(294)
Between one to three years	–	2.15	–	800,000	–	(11,077)
Between three to five years	–	–	–	–	–	–
Over five years	–	–	–	–	–	–
			900,000	900,000	(7,166)	(11,371)

Cross-currency swap contract

Under the cross-currency swap contract, the Group and the Company agree to exchange Euro and Sterling amounts of the principal and fixed interest amounts calculated on the principal. This contract enables the Group and the Company to eliminate the risk of changing exchange rates on future cash flows on the foreign currency debt issued. The fair value of the cross-currency swap at the reporting date is determined by discounting the future cash flows using foreign currency spot rates; the results are disclosed below.

The cross-currency swap contract is designated as a cash flow hedge and reduces the Group and the Company's cash flow exposure resulting from variable exchange rates on borrowings. The cross-currency swap eliminates all exchange rate risk by settling on the same day as foreign currency liabilities.

The following table details the notional principal amount and average interest rate of the swap contract outstanding at the reporting date:

	2011 Contract fixed GBP interest rate %	2010 Contract fixed GBP interest rate %	2011 Nominal principal amount £'000	2010 Nominal principal amount £'000	2011 Fair value £'000	2010 Fair value £'000
Under one year	–	–	–	–	–	–
Between one to three years	–	–	–	–	–	–
Between three to five years	–	–	–	–	–	–
Over five years	4.24	–	425,200	–	(7,213)	–
			425,200	–	(7,213)	–

33. Funding and financial risk management continued

Credit risk management

Credit risk is managed using an established process encompassing credit limits, credit approvals, control of exposures and the monitoring and reporting of exposures. Credit risk may arise from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as from credit exposures to customers.

The Group's principal source of income is the Department for Work and Pensions, through the assigned allowances received by customers of the Group, and therefore the credit risk is considered to be very low. A small residual credit risk arises from miscellaneous customer billings, monies due from dealers, auction houses and vehicle manufacturers. Group management regularly carries out credit assessments of the limits set for auction houses, manufacturers and dealers.

For banks and financial institutions, only independently rated institutions with a minimum 'A' rating are accepted. All new proposed counterparties are subject to internal credit approval and Asset and Liability Management Committee ratification prior to entering into any transaction. Credit limits are set by the treasury function and are subject to approval by the Asset and Liability Management Committee.

For the year under review the following figures represent the Group's and the Company's total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2011 and 2010 attributable to banks/financial institutions.

	2011 Total limit £'000	2011 Maximum utilisation £'000	Balance as at 30 September 2011 £'000	2010 Total limit £'000	2010 Maximum utilisation £'000	Balance as at 30 September 2010 £'000
Counterparty credit limit	160,000	316,893	42,522	160,000	129,334	69,711

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. During the year the credit limits were temporarily increased to £400m to accommodate temporary surplus liquidity arising from the November 2010 bond issues.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's and the Company's maximum exposure to credit risk. The limit and utilisation calculations consist of monies on deposit, asset fair value of derivatives and a calculated facility utilisation in respect of the interest rate swap notional principal amounts.

Liquidity risk management

The Group and the Company are exposed to changes in market conditions which in turn, and over time, could affect the provision of debt available to the Group.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The treasury policy has an appropriate liquidity risk management framework for the management of the Group and the Company's short-, medium- and long-term funding.

The Group policy for managing liquidity risk is to maintain undrawn headroom on its committed banking facilities of at least 20% of borrowings plus one year's projected funding growth. The Group has five-year bank term loans and a revolving credit facility with 1.75 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed rate bonds. The bonds, with average maturities of 10 years, provide increased sustainability and diversity to the Group's funding profile.

The Group continuously monitors forecast and actual cash flows. Included in note 21 is a description of additional undrawn facilities that the Group has at its disposal.

The following tables detail the contractual maturity of the Group and the Company's non-derivative financial liabilities. The table has been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group / the Company can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

Group

	2011 Weighted average interest rate %	2011 Under 1 year £'000	2011 Between 1-3 years £'000	2011 Between 3-5 years £'000	2011 Over 5 years £'000	2011 Total £'000
Financial liabilities – bank loans – variable interest rate	1.55	(20,710)	(1,133,169)	–	–	(1,153,879)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.42	(112,535)	(224,936)	(725,121)	(2,080,177)	(3,142,769)
Financial liabilities – bank overdrafts and short-term borrowings	1.50	(42,073)	–	–	–	(42,073)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(697)	(1,393)	(1,393)	(11,343)	(14,826)
Trade and other payables – non-interest bearing	–	(132,076)	–	–	–	(132,076)
		(308,091)	(1,359,498)	(726,514)	(2,091,520)	(4,485,623)

(*) The preference shares are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up, as stated in the Memorandum and Articles of Association of the Company.

Notes to the financial statements continued

33. Funding and financial risk management continued
Liquidity risk management continued

Group

	2010 Weighted average interest rate %	2010 Under 1 year £'000	2010 Between 1-3 years £'000	2010 Between 3-5 years £'000	2010 Over 5 years £'000	2010 Total £'000
Financial liabilities – bank loans – variable interest rate	2.3	31,692	1,428,711	–	–	1,460,403
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.7	77,563	155,269	169,987	1,645,960	2,048,779
Financial liabilities – bank overdrafts and short-term borrowings	2.5	37,143	–	–	–	37,143
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	697	1,393	1,393	11,343	14,826
Trade and other payables – non-interest bearing	–	128,943	–	–	–	(128,943)
		276,038	1,585,373	171,380	1,657,303	3,690,094

(*) The preference shares are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up, as stated in the Memorandum and Articles of Association of the Company.

Company

	2011 Weighted average interest rate %	2011 Under 1 year £'000	2011 Between 1-3 years £'000	2011 Between 3-5 years £'000	2011 Over 5 years £'000	2011 Total £'000
Financial liabilities – bank loans – variable interest rate	1.55	(17,243)	(1,133,039)	–	–	(1,150,282)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.42	(112,535)	(224,936)	(725,121)	(2,080,177)	(3,142,769)
Financial liabilities – bank overdrafts and short-term borrowings	–	–	–	–	–	–
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(697)	(1,393)	(1,393)	(11,343)	(14,826)
Trade and other payables – non-interest bearing	–	(42,550)	–	–	–	(42,550)
		(173,025)	(1,359,368)	(726,514)	(2,091,520)	(4,350,427)

(*) The preference shares of the Company are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

Company

	2010 Weighted average interest rate %	2010 Under 1 year £'000	2010 Between 1-3 years £'000	2010 Between 3-5 years £'000	2010 Over 5 years £'000	2010 Total £'000
Financial liabilities – bank loans – variable interest rate	2.3	31,692	1,428,711	–	–	1,460,403
Financial liabilities – debt issued under Euro Medium Term Note Programme – fixed interest rate	5.7	77,563	155,269	169,987	1,645,960	2,048,779
Financial liabilities – bank overdrafts and short-term borrowings	–	–	–	–	–	–
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	697	1,393	1,393	11,343	14,826
Trade and other payables – non-interest bearing	–	52,151	–	–	–	52,151
		162,103	1,585,373	171,380	1,657,303	3,576,159

(*) The preference shares of the Company are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

33. Funding and financial risk management continued

Liquidity risk management continued

The following tables detail the contractual maturity of the Group and the Company's interest rate and cross-currency swap liabilities. The cash flows are settled on a net basis.

Group

	2011 Weighted average interest rate %	2011 Under 1 year £'000	2011 Between 1-3 years £'000	2011 Between 3-5 years £'000	2011 Over 5 years £'000	2011 Total £'000
Interest rate swaps	2.18	(7,166)	–	–	–	(7,166)
Cross-currency swaps	4.24	(9,198)	(3,413)	(3,324)	8,722	(7,213)

Group

	2010 Weighted average interest rate %	2010 Under 1 year £'000	2010 Between 1-3 years £'000	2010 Between 3-5 years £'000	2010 Over 5 years £'000	2010 Total £'000
Interest rate swaps	2.10	(5,917)	(5,576)	–	–	(11,493)
Cross-currency swaps	–	–	–	–	–	–

Company

	2011 Weighted average interest rate %	2011 Under 1 year £'000	2011 Between 1-3 years £'000	2011 Between 3-5 years £'000	2011 Over 5 years £'000	2011 Total £'000
Interest rate swaps	2.18	(7,166)	–	–	–	(7,166)
Cross-currency swaps	4.24	(9,198)	(3,413)	(3,324)	8,722	(7,213)

Company

	2010 Weighted average interest rate %	2010 Under 1 year £'000	2010 Between 1-3 years £'000	2010 Between 3-5 years £'000	2010 Over 5 years £'000	2010 Total £'000
Interest rate swaps	2.10	(5,917)	(5,576)	–	–	(11,493)
Cross-currency swaps	–	–	–	–	–	–

Notes to the financial statements continued

33. Funding and financial risk management continued

Liquidity risk management continued

The following tables detail the Group and the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including the interest that will be earned on those assets except where the Group and the Company anticipate that the cash flow will occur in a different period. Apart from hire purchase receivables the non-derivative financial assets are anticipated to mature within one year. The maturity of the hire purchase receivables is matched by the term borrowings.

Group

	2011 Weighted average interest rate %	2011 Under 1 year £'000	2011 Between 1-3 years £'000	2011 Between 3-5 years £'000	2011 Over 5 years £'000	2011 Total £'000
Hire purchase receivables – fixed interest rate	10.1	27,456	35,900	9,466	79	72,901
Trade and other receivables – non-interest bearing	–	60,474	–	–	–	60,474
Cash and bank balances – non-interest bearing	–	31,899	–	–	–	31,899
		119,829	35,900	9,466	79	165,274

Group

	2010 Weighted average interest rate %	2010 Under 1 year £'000	2010 Between 1-3 years £'000	2010 Between 3-5 years £'000	2010 Over 5 years £'000	2010 Total £'000
Hire purchase receivables – fixed interest rate	10.2	29,528	42,832	15,447	205	88,012
Trade and other receivables – non-interest bearing	–	59,569	–	–	–	59,569
Cash and bank balances – non-interest bearing	–	34,607	–	–	–	34,607
		123,704	42,832	15,447	205	182,188

Company

	2011 Weighted average interest rate %	2011 Under 1 year £'000	2011 Between 1-3 years £'000	2011 Between 3-5 years £'000	2011 Over 5 years £'000	2011 Total £'000
Loans to other Group companies	4.86	159,819	311,723	315,827	3,492,632	4,280,001
		159,819	311,723	315,827	3,492,632	4,280,001

Company

	2010 Weighted average interest rate %	2010 Under 1 year £'000	2010 Between 1-3 years £'000	2010 Between 3-5 years £'000	2010 Over 5 years £'000	2010 Total £'000
Loans to other Group companies	4.66	129,555	209,269	216,893	2,944,774	3,500,491
		129,555	209,269	216,893	2,944,774	3,500,491

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