Motability Operations Group plc

Half Year Report

for the six months ended 31 March 2011

Chairman's statement

> The strong performance delivered over the last financial year continued through the first six months of this year, with the business consistently delivering exacting standards of affordability and choice.

The first six months of this year have demonstrated the ability of Motability Operations to meet the current economic challenges and continue to thrive. The strong performance delivered over the last financial year continued into the first six months of this year, and the business consistently performed to rigorous standards of affordability and choice.

The autumn saw us attain another record level of customer satisfaction, measuring over 97% across a range of customer measurements. This independently conducted survey confirms our ongoing commitment to excellence and customer service. We also saw a continuation of steady fleet growth, and with renewal levels exceeding 92%, we now have more than 575,000 customers.

It is always pleasing to see these achievements recognised externally, and it is a credit to the hard work and commitment of our customer service teams that we attained top placings within the Sunday Times Top 50 Call Centre rankings. We also won the Publications category of the Ability Media International Awards in November.

Assimilation of the wheelchair and scooter fleet continues, and following acquisition of Route2mobility (R2m) in October, dedicated teams are now supporting these customers and offering them the high standards of customer service enjoyed by the wider Motability customer base.

All this has been achieved during a period when our financial position has remained robust, buoyed by strong performance achieved in vehicle sales. While the economic outlook remains uncertain, the first half year provides firm foundations for continued strong performance in the second half.

Neil Johnson OBE
Chairman

Contents

Half Year Report

2

Financial Statements

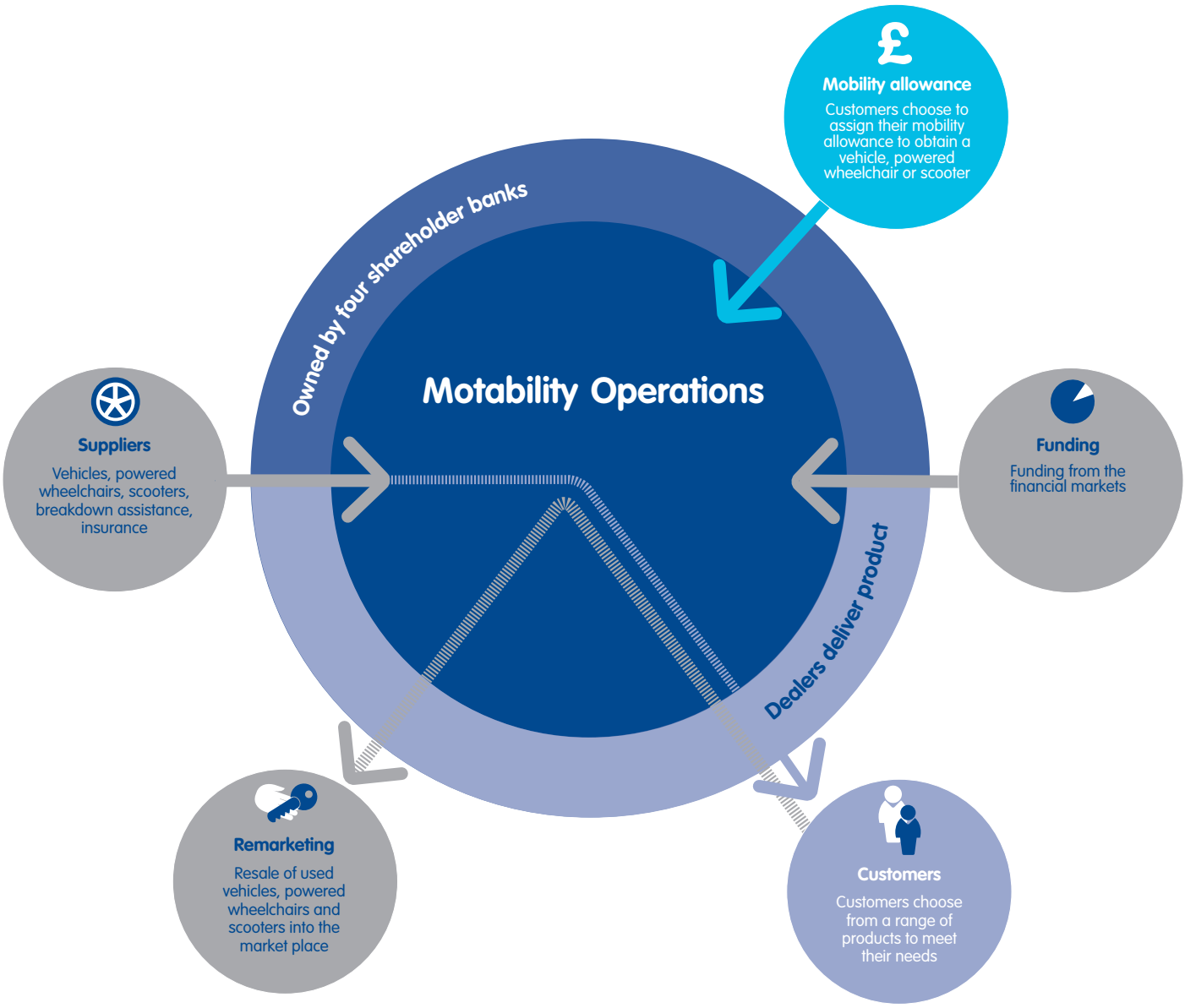
8

Motability Operations is overseen and directed by the Charity, Motability, and comprises the 'not-for-profit' group of companies that provide lease cars, powered wheelchairs and scooters to eligible disabled customers. The overarching objective is to consistently provide affordable leases and choices to customers. This objective is sustained through a reserves policy which aims to ensure that surpluses, which are all reinvested back into the business, are maintained at a level commensurate with a predetermined Economic Capital Requirement (ECR). This ECR is set at a level appropriate to protect the Motability Scheme from all but the most extreme risks and related financial shocks. As regards ordinary shareholders, there is no dividend entitlement.

Business overview: How we operate

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

The Charity directs and oversees the Scheme



Motability (the Charity)

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

There are currently over 1.9 million recipients of qualifying 'mobility' allowances. To access the Scheme, the 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 over 30 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. 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 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 575,000 vehicles. We bought over 210,000 new cars and re-sold 173,000 into the used car marketplace during the financial year ended September 2010.

As regards the PWS Scheme, over 2,400 new customers joined the Scheme between 1 July 2010 and the end of March 2011. With the amalgamation of this customer base and that of R2m, the total PWS Scheme fleet stood at over 9,000 in March 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 38 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 5,100 car dealers and 135 PWS dealer sites 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, national award-winning 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

Interim management report

A key measure of our success is not only the extent to which we are able to deliver solid financial results, but also provide consistently high and sustained levels of affordability, choice and service to our customers. In the first six months of the financial year to March 2011 we continued to deliver against all of these objectives.

Performance

Overview

The first six months of the 2011 financial year saw the continuation of the strong performance delivered over recent years, with targets for affordability and choice being exceeded throughout the period. This consistency and stability is key to ensuring that we deliver the best possible service for our customers.

An important benchmark for measuring how successfully we deliver against these targets is through our independently measured customer satisfaction scores, which continue to track with overall satisfaction at 97%. The excellent performance of our professional call centre remains central to this success. We were delighted to see this performance formally recognised in the "Sunday Times Top 50 Call Centres" awards in October 2010, where Motability Operations was awarded "Best Newcomer", "Best in Public Services", and "2nd Best Overall".

Customer numbers continue to increase, with 2.2% growth in Car Scheme customers in the first six months of the financial year. Renewal rates continue to track in excess of 92%.

As signalled in the 2010 Annual Report, on 1st October 2010 Motability Operations Group plc acquired Route2mobility Ltd (R2m) – the previous service provider of the Powered Wheelchair & Scooter (PWS) Scheme. Following the acquisition, plans are well advanced to migrate R2m's activities into Motability Operation's operations, so consolidating the delivery of the PWS Scheme under one service provider and delivering the same high quality customer proposition across the whole Scheme. Whilst of strategic importance, the acquisition is not material from the Group financial perspective, with a total acquisition cost of £4.1m, and with net assets representing c.0.1% of the Group's assets at March 2011.

Financial performance

Revenue in the six months to March 2011 was £1,355m up 13.4% year on year (2010 £1,195m). The carrying value of Operating Lease Assets increased 8.3% since September 2010, to £4,621m at the half-year point.

The Surplus for the period, which is retained in the Scheme for the benefit of our customers, was £121m, with closing Balance Sheet reserves in line with the target corridor based on our Economic Capital Requirement.

Assets and residual values

We carry out a quarterly reassessment of the residual value of our leased assets. At the financial period end this can lead to 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.

Given previous conservative adjustments, and with greater stability in the used car market, the latest valuation results in the write back of depreciation previously charged, with £19.4m credited in the first half of the year. Whilst this reflects a more positive residual value outlook when compared to recent forecasts, our assessment remains more conservative than the alternative market view.

Financing and liquidity

The Group continued to diversify its financing and enhance its liquidity position during the six months to March 2011. In order to enable further expansion into the bond markets the existing A+/A2 rated EMTN programme was increased to £3 billion. In November 2010, following the extension of this programme, we simultaneously executed two further bond issues – a £300m twenty-year Sterling issue and an inaugural Eurobond issue of €500m with a seven-year term. These bonds provide the Group with facility headroom to cover for at least twelve months growth plus 20%.

The Group 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 1.66:1.

Outlook

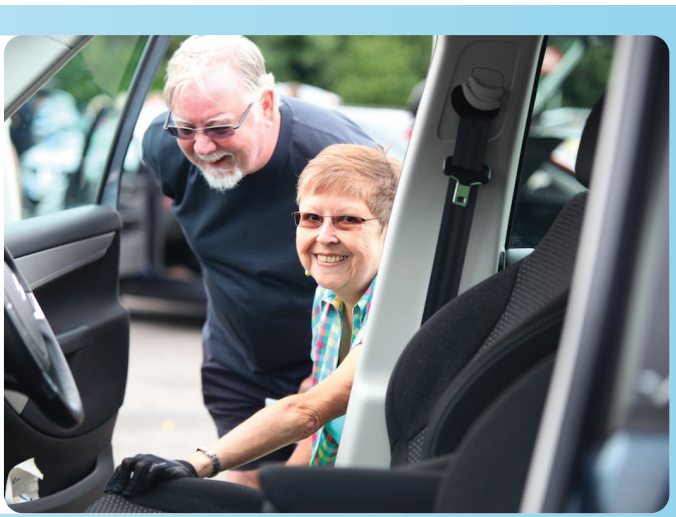
During the first six months of the financial year we have continued to deliver excellent performance in respect of customer and financial targets.

Whilst these sustained results enable us to approach the future with confidence, we remain vigilant to emerging challenges as they may unfold. Cost inflation is one such challenge with, for example, the well publicised increase in the cost of bodily injury claims driving up insurance premiums. However we remain well placed to respond flexibly to these challenges and are confident that the financial strength of the business will not be compromised.

"My Motability vehicle is such an essential part of my life"

I have used the Motability Scheme since learning to drive in around 1992, and do not know what I would do without a car now. It is such a valuable part of my life due to my severe disability meaning that the use of public transport is not possible. The Motability Scheme has allowed me to drive many, many thousands of pleasurable miles over the last 18 years or so.

Motability customer



Our strategy and performance

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

Strategy

We have a strategic framework with four pillars that will help us to deliver our objectives. Our people, positioning principles, culture and values form the bedrock that underpins the delivery of these 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

Performance

- Overall customer satisfaction: remains at

97%

- Call Centre Performance

2nd

place in "Times Top 50 Call Centre" Awards & 1st in Sector

- Powered Wheelchair & Scooter Customers

2,400

customers joining since July 2010

Provide value and choice

We provide a wide range of vehicles to our customers at competitive and affordable prices

Performance

- Affordable choice: continued availability of

>200

cars available at 'nil advance payment' during the first half of the year

- Range of choice:

38

manufacturers represented on the Scheme, and a choice from over 99% of vehicle brands (weighted by share of the UK market)

- Effective resale activities

87%

conversion rate of vehicles published online, and > 56k total online vehicle sales year to date

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

Performance

- Growth in customer numbers:

2.2%

growth in customer numbers, driven by improved awareness of the Scheme offering

- Renewal rate: sustained above

92%

through the economic cycle

- Customer advocacy of the Scheme: over

97%

of customers would recommend the Scheme to a friend or relative

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

Performance

- Credit rating:

A+/A2

rating maintained, with a stable oulook

- Reserves sufficiency: balance sheet reserves continue to track within the target corridor

- Financing: further diversified into the bond market, including issuance of inaugural Euro-bond; average tenor of financing in excess of seven years

Interim management report continued

Summary of our key risks and mitigations

At Motability Operations we recognise that sound risk management is fundamental to the successful and sustainable operation of the business. 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. The table below summarises our key risks and mitigations. There is no material change in the risk profile compared with that reported at the September 2010 financial year end.

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 or contract failure		
Failure of key manufacturer or other key Scheme supplier; Contract breach/failure	• 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 • Contingency plans in place in the event of supplier and/or contract failure • 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 rate movements, 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 swaps • Hedging of exchange rate risk • Balanced portfolio of funding maturities and diversification into bond market • Maintenance of good credit rating • Good treasury system, controls and governance

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and
- a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board

Mike Betts
18 May 2011
Chief Executive

David Gilman
18 May 2011
Finance Director

Independent review report to the Directors of Motability Operations Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2011, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors have voluntarily elected to be responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Directors as a body for management purposes and for no other purpose. We do not, in producing this report, 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. We consent to disclosure of our report to assist the Company to comply with the Disclosure and Transparency Rules of the Financial Services Authority, as adopted, without accepting or assuming responsibility to any other party on our part.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom
18 May 2011

a) The maintenance and integrity of the Motability Operations Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the six months ended 31 March 2011

	Note	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Revenue	4	1,354,718	1,194,672
Net operating costs	6	(1,142,561)	(959,887)
Total surplus from operations		212,157	234,785
Finance costs	7	(68,640)	(68,352)
Surplus before tax		143,517	166,433
Tax	8	(22,357)	(46,699)
Surplus for the period		121,160	119,734

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

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

Consolidated statement of comprehensive income

For the six months ended 31 March 2011

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Surplus for the period	121,160	119,734
Other comprehensive income:		
Gains/(losses) on cash flow hedges	(7,444)	14,859
Tax on items taken directly to equity	1,953	(4,161)
Other comprehensive (deficit)/income for the period, net of tax	(5,491)	10,698
Total comprehensive income for the period attributable to equity	115,669	130,432

Consolidated balance sheet

As at 31 March 2011

	Note	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Assets				
Non-current assets				
Intangible assets		3,021	3,401	4,665
Property, plant and equipment		2,875	3,112	3,066
Assets held for use in operating leases	9	4,621,170	4,266,106	3,892,158
Deferred tax asset		7,776	5,823	6,774
Hire purchase receivables		50,482	51,554	51,620
Derivative financial instruments	13	8,213	–	–
		4,693,537	4,329,996	3,958,283
Current assets				
Trade and other receivables		196,009	179,791	170,035
Hire purchase receivables		24,535	23,086	22,511
Inventories	10	77,149	57,219	60,719
Cash and bank balances		151,726	34,607	33,497
		449,419	294,703	286,762
Total assets		5,142,956	4,624,699	4,245,045
Current liabilities				
Deferred income	11	(151,978)	(144,898)	(127,932)
Trade and other payables		(113,071)	(128,943)	(93,847)
Corporation tax payable		(23,048)	(6,802)	(53,425)
Derivative financial instruments	13	(3,541)	(294)	(10,901)
Financial liabilities	12	(79,777)	(53,367)	(78,635)
		(371,415)	(334,304)	(364,740)
Net current assets/(liabilities)		78,004	(39,601)	(77,978)
Non-current liabilities				
Deferred income	11	(159,387)	(149,652)	(135,969)
Derivative financial instruments	13	(6,886)	(11,077)	(5,424)
Financial liabilities	12	(3,086,225)	(2,723,368)	(2,447,642)
Deferred tax liabilities		(435,616)	(438,648)	(409,533)
Long-term provisions		(1,970)	(1,862)	(1,753)
		(3,690,084)	(3,324,607)	(3,000,321)
Total liabilities		(4,061,499)	(3,658,911)	(3,365,061)
Net assets		1,081,457	965,788	879,984
Equity				
Share capital		50	50	50
Hedging reserve		(13,735)	(8,244)	(11,754)
Retained reserves (*)		1,095,142	973,982	891,688
Issued share capital and reserves		1,081,457	965,788	879,984

(*) All reserves are retained for the benefit of the Scheme. As regards ordinary shareholders, there is no dividend entitlement.

These financial statements were approved by the Board of Directors on 18 May 2011.

Mike Betts
Chief Executive

Consolidated statement of changes in equity

For the six months ended 31 March 2011

	Share capital £'000	Hedging reserve £'000	Retained reserves £'000	Total £'000
At 1 October 2009	50	(22,452)	771,954	749,552
Comprehensive income				
Surplus for the period	–	–	119,734	119,734
Other comprehensive income				
Change in fair value of hedging derivatives (net of tax)	–	10,698	–	10,698
Total comprehensive income		10,698	119,734	130,432
At 31 March 2010	50	(11,754)	891,688	879,984
At 1 October 2010	50	(8,244)	973,982	965,788
Comprehensive income				
Surplus for the period			121,160	121,160
Other comprehensive income				
Change in fair value of hedging derivatives (net of tax)		(5,491)		(5,491)
Total comprehensive income		(5,491)	121,160	115,669
At 31 March 2011	**50**	**(13,735)**	**1,095,142**	**1,081,457**

Consolidated cash flow statement

For the six months ended 31 March 2011

	Note	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Cash flows from operating activities	14	**(227,779)**	(43,926)
Cash flows from investing activities			
Purchase of corporate property, plant and equipment and intangible assets		**(479)**	(306)
Proceeds from sale of corporate property, plant and equipment		**104**	210
Acquisition of subsidiary, net of cash acquired		**(3,829)**	–
Net cash used in investing activities		**(4,204)**	(96)
Financing activities			
New loans raised		**719,163**	395,106
Bank loans repaid		**(379,609)**	(352,500)
Net cash generated from financing activities		**339,554**	42,606
Net increase/(decrease) in cash and cash equivalents		**107,571**	(1,416)
Cash and cash equivalents at beginning of period		**(2,536)**	(29,201)
Cash and cash equivalents at end of period		**105,035**	(30,617)

Notes to the interim financial statements

1. General information

Motability Operations Group plc is a company incorporated 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.

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

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

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2010 were approved by the Board of Directors on 15 December 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed consolidated half-yearly financial information has been reviewed, not audited.

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivatives and in accordance with applicable accounting standards.

2. Significant accounting policies

Basis of preparation

This condensed consolidated half-yearly financial information for the six months ended 31 March 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Service Authority and IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated half-yearly financial information should be read in conjunction with the annual financial statements for the year ended 30 September 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2010, as described in those annual financial statements.

Tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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.

Intangible assets

Goodwill and acquired rights on lease contracts

As stated in the "events after the reporting period" note of the latest statutory accounts for the year ended 30 September 2010, during the period the Group obtained control of Route2mobility Ltd which is the former operator of the Motability Powered Wheelchair and Scooter Scheme. As part of this acquisition, goodwill amounting to £95k and acquired rights on lease contracts amounting to £1.2m are recognised at fair value at the acquisition date and included in "intangible assets".

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

The acquired rights on lease contracts have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment thereon.

2. Significant accounting policies continued

Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group.

The following new standards, amendments and interpretations are mandatory for the first time for the financial year beginning 1 October 2010 but are not expected to result in a material impact on the Group's financial statements:

IAS 1 (amendment) 'Presentation of financial statements'

IAS 7 (amendment) 'Statement of Cash Flows'

IAS 17 (amendment) 'Leases'

IAS 27 (amendment) 'Consolidated and separate financial statements'

IAS 32 (amendment) 'Financial Instruments-Presentation'

IAS 36 (amendment) 'Impairment of Assets'

IAS 39 (amendment) 'Financial Instruments- Recognition and measurement'

IFRS 3 (amendment) 'Business combinations'

IFRS 5 (amendment) 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'

Other standards, amendments and interpretations effective for the first time for the financial year beginning 1 October 2010 and not discussed above are not relevant to the Group.

The following standards and amendments and interpretations to existing standards, issued after the issue of the last annual accounts, are not yet effective and will not be effective for the financial year beginning on 1 October 2010 and have not been early adopted by the Group:

IFRS 1, 'First-time adaptation of International Financial Reporting Standards' – Amendments in December 2010

IAS 12, 'Income Taxes- Limited scope amendment (recovery of underlying assets)

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

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgments, 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 judgments 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 9.

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 9). As at 31 March 2011, if 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 £34m (2010: £29m). 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 13, the Directors use their judgment 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.

Notes to the financial statements continued

4. Revenue

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

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Rentals receivable	765,140	699,318
Proceeds from disposal of operating lease assets	584,624	491,083
Contingent rentals	205	152
Hire purchase earnings	4,169	3,701
Other income	580	418
Total revenue	**1,354,718**	**1,194,672**

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:

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Net book value of disposed operating lease assets	559,234	468,193
Fleet operating costs including insurance, maintenance and roadside assistance costs	196,052	172,046
Other product costs including continuous mobility costs, adaptations support, communications	11,177	7,517
Employee costs	18,036	16,027
Other operating costs	21,245	9,953
Legal and professional fees	3,585	1,093
Bad debt charges and movement in bad debt provisions	3,465	3,329
Management fees	1,250	1,250
Motability levy and rebates	2,352	1,950
Net operating costs before depreciation	**816,396**	**681,358**
Depreciation on assets used in operating leases (*)	323,713	276,532
Depreciation and other amounts written-off property, plant and equipment and intangible assets	2,452	1,997
Net operating costs	**1,142,561**	**959,887**

(*) The depreciation charge on assets used in operating leasing includes a £20.5m release (six months ended 31 March 2010: £11.8m release) relating to changes in estimates during the period of future residual values.

7. Finance costs

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Interest and charges on bank loans and overdrafts (*)	17,554	36,027
Interest on debt issued under the Euro Medium Term Note Programme	51,321	32,006
Interest receivable	(584)	(30)
Preference dividends	349	349
Total finance costs	**68,640**	**68,352**

(*) Includes amortisation of the fees relating to term loans.

8. Tax

The major components of the Group tax expense are:

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Current tax		
Charge for the period	26,378	53,425
Adjustment in respect of prior period	(52)	–
Total	26,326	53,425
Deferred tax		
Origination and reversal of temporary differences	12,610	(6,726)
Impact of change in UK tax rate	(16,579)	–
Total	(3,969)	(6,726)
Tax on surplus from continuing operations	22,357	46,699

Income tax expenses have been recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year. The estimated average annual tax rate used for the current year is 27.1% (the estimated tax rate for the prior year was 28.1%). This estimate takes into account the announcement by Government on 23 March 2011 of their intention to reduce the main rate of corporation tax from 28% to 26% with effect from 1 April 2011, which was substantially enacted as at 31 March 2011 as a result of Budget Resolution 5 issued on 29 March 2011.

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, together with a 2% reduction to the main rates of capital allowances with effect from 1 April 2012. Should all of these changes become substantially enacted before the full year end a further £40.9m would be credited to the tax charge in the full year accounts from deferred tax.

9. Assets held for use in operating leases

	Motor vehicle assets £'000
Cost	
At 1 October 2009	4,521,410
Additions	940,344
Transfer to inventory (note 10)	(687,895)
At 31 March 2010	4,773,859
At 1 October 2010	5,226,141
Additions	1,257,921
Transfer to inventory (note 10)	(858,095)
At 31 March 2011	5,625,967
Accumulated depreciation	
At 1 October 2009	816,694
Charge for the period	276,532
Eliminated on transfer to inventory (note 10)	(211,525)
At 31 March 2010	881,701
At 1 October 2010	960,035
Charge for the period	323,713
Eliminated on transfer to inventory (note 10)	(278,951)
At 31 March 2011	1,004,797
Carrying amount	
At 31 March 2011	4,621,170
At 30 September 2010	4,266,106
At 31 March 2010	3,892,158

(*) As reported in the latest annual accounts, both cost and accumulated depreciation for October 2009 and March 2010 have been restated by £157m due to the correction of a misclassification. This has no impact on the net book value of the assets.

Notes to the financial statements continued

9. Assets held for use in operating leases continued

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

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Within 1 year	962,850	950,483	965,849
Between 1-2 years	964,610	883,033	939,579
Between 2-5 years	1,484,676	1,303,688	985,793
Total exposure	**3,412,136**	3,137,204	2,891,221

The total unguaranteed residual value exposure presented above consists of the original priced residual values net of revisions in estimation (see the 'Critical accounting judgments' policy in note 3). The amounts resulting from changes in estimates 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

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Amounts carried at 31 March/30 September	10,167	(22,137)	(7,770)
Amounts to be released /(charged) in future years	14,001	(14,952)	(7,153)
Total effect of changes in estimated residual value	**24,168**	(37,089)	(14,923)

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:

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Within 1 year	1,204,920	1,153,632	1,105,007
Between 1-2 years	765,065	699,653	637,103
Between 2-5 years	297,016	277,589	241,764
	2,267,001	2,130,874	1,983,874

10. Inventories

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Ex-operating lease assets held for sale	77,328	57,418	61,446
Provisions	(179)	(199)	(727)
Ex-operating lease assets held for sale (net)	77,149	57,219	60,719

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, £179k has been provided against irrecoverable vehicles (30 September 2010: £199k, 31 March 2010: £727k).

The cost of inventories recognised as an expense and included in net operating costs amounted to £559,234k (31 March 2010: £468,193k).

10. Inventories continued

The movement of the inventories in first six month period ended 31 March 2011 and 2010 respectively are as follows;

	£'000
At 1 October 2009	53,269
Transfer from operating lease assets (note 9)	476,370
Disposals	(468,193)
At 31 March 2010	61,446
At 1 October 2010	57,418
Transfer from operating lease assets (note 9)	579,144
Disposals	(559,234)
At 31 March 2011	**77,328**

11. Deferred income

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Customers' advance payments (*)	103,855	103,426	101,478
Vehicle maintenance income	14,142	10,597	9,832
Vehicle good condition bonus income	33,981	30,875	16,622
Total current	151,978	144,898	127,932
Customers' advance payments (*)	87,954	83,328	86,905
Vehicle maintenance income	41,599	34,756	33,408
Vehicle good condition bonus income	29,834	31,568	15,656
Total non-current	159,387	149,652	135,969
Total	**311,365**	294,550	263,901

(*) 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.

12. Financial liabilities

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Current bank loans	5,475	–	–
Accrued interest and coupon	27,611	16,224	14,521
Bank overdrafts	46,691	37,143	64,114
Total current	79,777	53,367	78,635
Non-current			
Bank borrowings	1,001,192	1,375,000	1,100,000
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	2,075,083	1,338,418	1,337,692
Preference shares	9,950	9,950	9,950
Total non-current	3,086,225	2,723,368	2,447,642
Total	**3,166,002**	2,776,735	2,526,277
The financial liabilities are repayable as follows:			
On demand or due within one year	79,777	53,367	78,635
Due within two years	–	–	–
Due within two to five years	1,001,192	1,375,000	1,100,000
Due in more than five years	2,085,033	1,348,368	1,347,642
Total	**3,166,002**	2,776,735	2,526,277

All borrowings are denominated in or swapped into sterling.

Notes to the financial statements continued

12. Financial liabilities continued

Bank borrowings

As at 31 March 2011 the Group has the following principal bank loans:

a) A five year Term Loan of £1,000m (30 September 2010: £1,000m, 31 March 2010: £1,000m) taken out 26 June 2008. Loan repayment date is 26 June 2013 and the loan carries LIBOR interest rates plus bank margins at a market rate.

b) A five year Revolving Credit Facility of £900m (30 September 2010: £900m, 31 March 2010: £900m) taken out 26 June 2008 of which £nil drawn as at 31 March 2011 (30 September 2010: £375m, 31 March 2010: £100m). Facility repayment date is 24 June 2013 and the loan carries LIBOR interest rates plus bank margins at a market rate.

c) Term loans of £6.7m incur interest at rates between 3.19% and 7.41% and are repayable in quarterly instalments ending in July 2012.

Debt issued under the Euro Medium Term Note Programme

Bonds issued under the Euro Medium Term Note Programme are analysed as follows*:

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
5.250% sterling bond due 2016	496,340	496,008	495,636
3.750% Eurobond due 2017 **	438,358	–	–
6.625% sterling bond due 2019	447,477	447,332	447,187
5.375% sterling bond due 2022	395,288	395,078	394,869
5.625% sterling bond due 2030	297,620	–	
	2,075,083	1,338,418	1,337,692

* Amounts are shown net of unamortised discount and issue costs.

** The repayment obligation in respect of the Eurobonds of Euro 500m (£441.8m) is hedged by cross currency swap contracts (Note 13) for the purchase of Euro 500m and for the sale of £425.2m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

The bonds were issued under the £3,000m Euro Medium Term Note Programme of the Company. The bonds were admitted to trading on London Stock Exchange's regulated market and have been admitted to the Official List. The £3,000m Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by other Group companies, 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.

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.

The weighted average interest rates on borrowings as at 31 March 2011, 30 September 2010 and 31 March 2010 were as follows:

	31 March 2011 %	30 September 2010 %	31 March 2010 %
Current bank loans and overdrafts	4.8	2.5	–
Non-current bank loans	1.5	1.4	1.4
Non-current debt issued under the Euro Medium Term Note Programme	5.4	5.7	5.7
Non-current preference shares	7.0	7.0	7.0

At 31 March 2011, 30 September 2010 and 31 March 2010, the Group had the following undrawn committed borrowing facilities:

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Working capital facility (*)	100,000	100,000	100,000
Revolving credit facility	900,000	525,000	800,000
Total	1,000,000	625,000	900,000

(*) 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:

	31 March 2011 £'000	30 September 2010 £'000	31 March 2010 £'000
Within 1 year	5,000	100,000	100,000
Within 1-2 years	–	–	–
Within 2-5 years	995,000	525,000	800,000
Total	1,000,000	625,000	900,000

13. Derivative financial instruments

	31 March 2011		30 September 2010		31 March 2010	
	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000
Cash flow hedges						
Interest rate swaps	(10,427)	900,000	(11,371)	900,000	(16,325)	1,900,000
Cross currency swaps to hedge debt issued under Euro Medium Term Bond Programme	8,213	425,200	–	–	–	–
	(2,214)	1,325,200	(11,371)	900,000	(16,325)	1,900,000
Included in non-current assets	8,213	425,200	–	–	–	–
Included in current assets	–	–	–	–	–	–
Included in non-current liabilities	(6,886)	450,000	(11,077)	800,000	(5,424)	1,000,000
Included in current liabilities	(3,541)	450,000	(294)	100,000	(10,901)	900,000
Derivative financial instrument liabilities	(2,214)	1,325,200	(11,371)	900,000	(16,325)	1,900,000

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 Euro 500m. The Company entered into cross currency swap arrangements to hedge its currency and interest rate risks on its Eurobond debts. EUR coupon of 3.75% is fully swapped into the GBP rate of 4.242%.

Interest rate swaps

At 31 March 2011, the fixed interest rates vary from 2.45% to 1.65% (30 September 2010: 2.45% to 1.65%, 31 March 2010: 1.62% to 5.95 %,) and the main floating rates are LIBOR.

Gains and losses recognised in the fair value reserve in equity on interest rate and cross currency swap contracts as of 31 March 2011 will be continuously released to the income statement within finance costs in accordance with the maturity of the swap contracts. The undiscounted cash flows are settled on a net basis for interest rate swaps and on a gross basis for cross currency swap contracts.

14. Notes to the cash flow statement

Reconciliation of surplus to net cash flow from operating activities:

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000
Operating surplus from operations	212,157	234,785
Adjustments for:		
Depreciation, amortisation and write off charges on corporate assets and other intangibles	2,452	1,997
Depreciation charge on operating lease assets	323,713	276,532
Gains on disposal of operating lease assets	(25,390)	(22,890)
Gains on disposal of corporate assets	(10)	(28)
Increase/(decrease) in provisions	727	(1,261)
Operating cash flows before movements in working capital	513,649	489,135
Purchase of assets held for use in operating leases	(1,249,858)	(940,344)
Proceeds from sale of assets held for use in operating leases	584,624	491,083
Increase in receivables	(8,171)	(25,522)
Increase in deferred income	16,815	14,527
Decrease in creditors	(18,165)	(5,186)
Cash generated from operations	(161,106)	23,693
Net interest paid	(56,353)	(67,619)
Income taxes paid	(10,320)	–
Net cash flows from operating activities	(227,779)	(43,926)

Cash and cash equivalents are net of cash and bank balances (which comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less) and the bank overdrafts.

Notes to the financial statements continued

15. Analysis of changes in net debt

	At 1 October 2010 £'000	Cash flows £'000	Non-cash flows £'000	At 31 March 2011 £'000
Cash and bank balances	34,607	117,119	–	151,726
Borrowings due within one year	(53,367)	(4,939)	(21,471)	(79,777)
Borrowings due after one year	(1,375,000)	375,000	(1,192)	(1,001,192)
Debt issued under the Euro Medium Term Note Programme due after one year	(1,338,418)	(719,163)	(17,502)	(2,075,083)
Preference shares	(9,950)	–	–	(9,950)
	(2,742,128)	(231,983)	(40,165)	(3,014,276)

	At 1 October 2009 £'000	Cash flows £'000	Non-cash flows £'000	At 31 March 2010 £'000
Cash and bank balances	57	33,441	–	33,498
Borrowings due within one year	(95,968)	17,643	(310)	(78,635)
Borrowings due after one year	(1,400,000)	300,000	–	(1,100,000)
Debt issued under the Euro Medium Term Note Programme due after one year	(942,165)	(395,106)	(421)	(1,337,692)
Preference shares	(9,950)	–	–	(9,950)
	(2,448,026)	(44,022)	(731)	(2,492,779)

16. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The Company's newly acquired subsidiary Route2mobility Limited also operates an independently administered defined contribution pension scheme. The total charge for the six months ended 31 March 2011 on both schemes amounted to £1,256k (six months ended 31 March 2010: £1,358k). Net contributions due at the balance sheet date were £5k (31 March 2010: £227k).

17. 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.

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 'arm's length' basis.

The relationship of the Group to the Motability Charity is set out on pages 2 and 3.

Transactions

During the six months ended 31 March 2011 Motability grants totalling £9,105k were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf (six months ended 31 March 2010: £10,866k). During the same period, the Group also paid £1,683k relating to Motability administration costs (six months ended 31 March 2010: £1,463k). A further £1,006k (six months ended 31 March 2010: £1,356k) 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, £668k was paid as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants (six months ended 31 March 2010: £487k). £576 was donated to Motability's charitable funds during the period (six months ended 31 March 2010: £860).

The funding of the Group through bank loans is provided by the Shareholder Banks on commercial terms as detailed in note 12 (see note 7 for details of financing costs on bank loans). Additionally, total fees of £1,250k (six months ended 31 March 2010: £1,250k) were due to the Shareholder Banks in proportion to their shareholdings for management and advisory services.

Designed and produced by Black Sun Plc. Printed in England by Pureprint Group Limited.

Motability Operations Group plc

City Gate House
22 Southwark Bridge Road
London SE1 9HB
Registered in England and Wales
Company Number 6541091

www.motabilityoperations.co.uk