Motability Operations
Group plc

Half Year Report
for the six months ended 31 March 2012

Motability Operations is the operator of the Motability Car Scheme and 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

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Chairman's statement

> The year opened with a significant milestone, as HM The Queen formally handed over the three millionth Motability car at Westminster Hall.
>
> The Queen also presented the keys of seven cars to Paralympic athletes, in recognition of the valuable part Motability plays in helping leading sportsmen and women meet their training and event commitments.
>
> **Neil Johnson OBE,** Chairman

Despite the challenges of the current climate, an excellent first six months have enabled us to maintain a consistent track record of achievement. A strong financial performance has been matched by an all-time high of 98% in customer satisfaction.

The autumn saw us reach a record level of customer satisfaction, with customers rating the Scheme at 9.8 out of 10, up from 9.7 in the last survey. This result, measured through independent research, underlines ongoing commitment to achieving exemplary levels of customer service.

Renewal levels remained at 92%, and we attracted over 37,000 new customers during the first half of the year. The wheelchair and scooter fleet continues to build, and recently exceeded 10,000 for the first time. With more experience under our belts, we are now in a position to review the wheelchair and scooter proposition more fully, to ensure we continue to meet the needs of this important customer group appropriately.

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. As outlined in the 2011 Annual Report, the latest review led to a number of proposed changes which collectively are designed to safeguard the Scheme from abuse and to protect the integrity and reputation of the core of the Scheme.

The first six months also saw us implementing a number of these changes, particularly in relation to the appropriate use of a Motability car. New guidelines for drivers, and a streamlining of the price list, were introduced successfully during January. Exceptions to the rules are possible in line with disability need, and we are working closely with Motability to ensure this process works efficiently for our customers.

Our achievements would not be possible without the commitment of our employees, and their engagement with our culture and values lies at the heart of our service delivery.

All this has been delivered alongside an excellent financial performance, supported by the robust outcomes achieved in vehicle sales.

While the political and economic situation remains challenging, our first half year positions us well for sustained success over the rest of 2012.

Neil Johnson OBE
Chairman

Our business model

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

To access a vehicle, powered wheelchair or scooter on the Motability Scheme an individual 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 eligible could lease one of these products from Motability Operations. At present, around 29% of this potential customer base participates in the Scheme.

In choosing to lease 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.

As operators of the 'Motability Scheme', secured through a contract with Motability, we receive customers' assigned mobility allowances directly from the Department for Work and Pensions (DWP). This revenue stream, received directly from Government, is virtually 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.

Mobility allowances

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 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 mobility allowances. Recipients 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 use their allowance to lease or for 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 600,000 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 10,040 at March 2012.

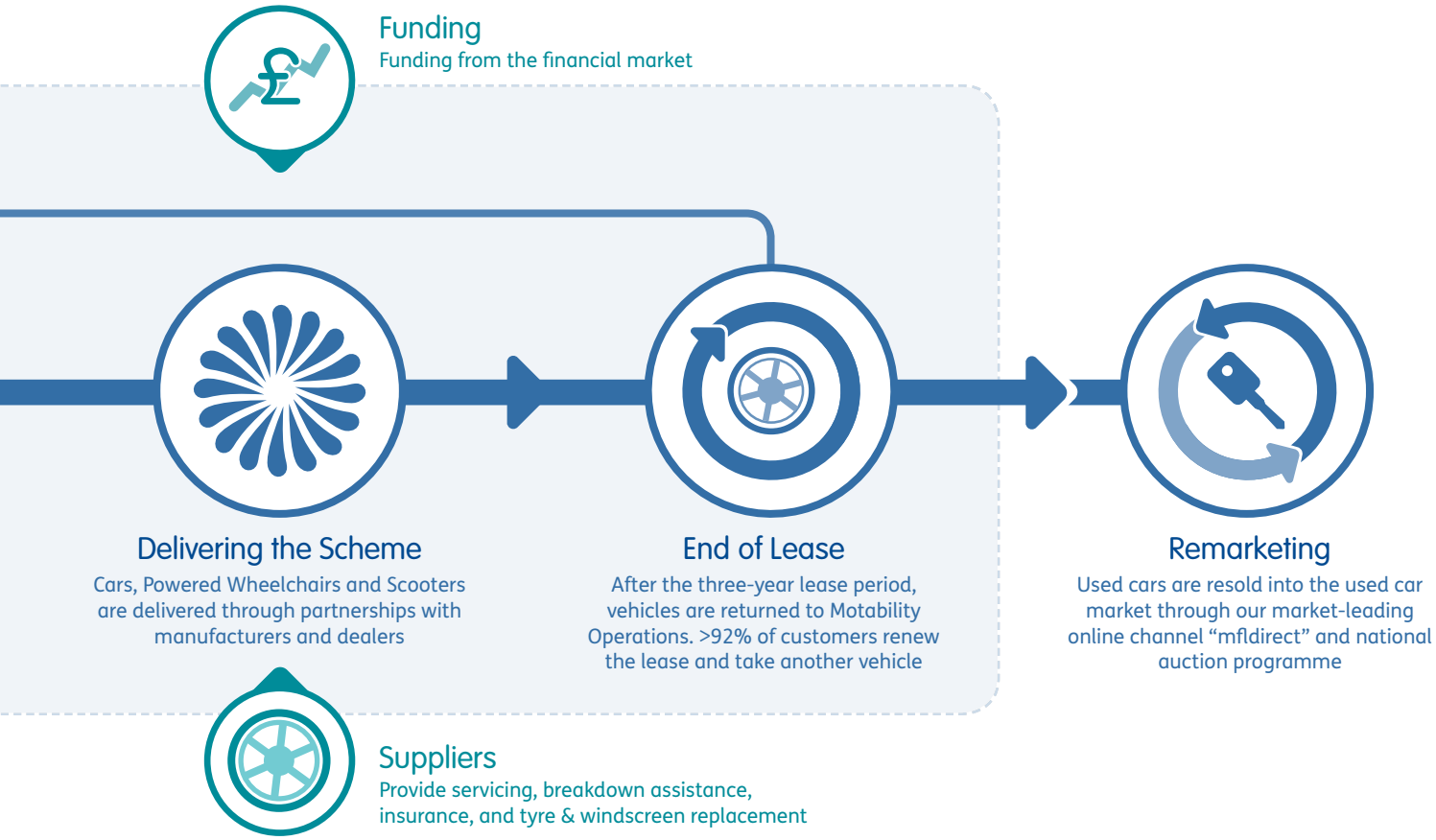
It is our strong financial position that equips us to support both this growth in the Car Scheme and the addition of the PWS Scheme fleet. This strength has been built upon our prudent reserves and risk management methodology; our diversified fleet portfolio; our excellent business culture and best-practice 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 re-invest 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 800 people across our two sites in London and Bristol



One of our prime strategic objectives is to ensure the long-term sustainability of the Scheme.

Amongst other factors, the continued delivery of a stable and solid financial platform – underpinned by both a robust reserves position and excellent structural liquidity – provides us with confidence as we look to the future. Stability and durability are key enablers in providing a consistent and affordable proposition to our customers.

Performance

Overview

The six months to March 2012 were successful across the full spectrum of performance metrics. Financial targets continued to be delivered, as were non-financial measures across the range of customer affordability and choice performance criteria.

Our independently measured customer satisfaction survey provides an important insight into how successfully we are meeting our objectives. The survey assesses customer feedback across a range of criteria including affordability, choice, call-centre performance, and in terms of the service provided by our suppliers in delivering the key components of the "worry-free" package (including vehicle supply and repair, insurance, roadside recovery, and tyre replacement). Overall satisfaction is tracking at an all time high of 98% (up from 97% in the previous survey).

The ultimate validation of our performance is customer renewal rates at the end of lease – these continue to track in excess of 92%. Total Car Scheme volume reached 603,657 at March 2012, with the Powered Wheelchair and Scooter (PWS) Scheme increasing to 10,040 customers.

Financial performance

Revenue in the six months to March 2012 was £1,516m, up 11.9% year on year (2011: £1,355m). Surplus for the period, which is retained in the Scheme for the benefit of our customers, was £124.6m – representing a return on assets of 2.2%. This result takes Restricted Reserves on the Balance Sheet to £1,304m, remaining within the target corridor based on our Economic Capital Requirement.

The March Budget substantively enacted the reduction of the main rate of Corporation tax to 24% from 1 April 2012. This results in a £18.2m deferred tax release during the first half of FY2012, with a further £16m anticipated in the second half of the year.

Assets and residual values

The carrying value of operating lease assets increased 4.2% since September 2011, to £5,184m.

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.

At March 2012, the projected revaluation of the fleet versus the priced position anticipated a gross gain of £103m, with the alternative market valuation forecasting a £276m gain – demonstrating our conservative and prudent positioning. This, combined with the impact of previous fleet revaluations, results in the write-back of depreciation previously charged, with £22.2m credited in the first half of the financial year.

Financing and liquidity

The Group targets a policy to ensure that it has sufficient committed financing facilities to provide for at least twelve months' growth plus 20%. Consistent with this policy, and in order to enhance the diversity, maturity profile and flexibility of available facilities, the Group undertook the following refinancing activities in January and February 2012:

- Renegotiated its bank facility (ahead of the June 2013 maturity) securing an increased £1.5 billion five-year revolving credit facility, and a £500m three-year term loan
- Executed two further bonds under the Group's A+/A2 rated European Medium Term Note (EMTN) programme – a £300m 15-year Sterling issue and a second Euro transaction in the form of a €550m 7-year issue

Following this refinancing activity the Group's aggregate facility stands at £4,935m. At the Balance Sheet date we had drawn £3.3 billion of this available facility, with the balance of £1.6 billion providing more than sufficient headroom to meet Group policy.

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

We continue to monitor the Government's Welfare Reform Bill as it progresses through Parliament. Whilst changes are being made to the Disability Living Allowance (DLA), with working age recipients of the DLA being assessed for eligibility of the replacement Personal Independence Payment (PIP) from 2013, the Government has committed to continue to enable eligible recipients to use their PIP to access a vehicle on the Scheme under the new arrangements.

During the first six months of the financial year we have again delivered an excellent business performance. This places us well to approach the future with confidence.

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 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

Overall customer satisfaction

98%

overall satisfaction – best-ever results

Powered Wheelchair and Scooter customers

10,040

PWS customer numbers

Provide value and choice

National coverage of dealer partners

4,990

approved dealers across the UK

Affordable choice target

>200

cars available at 'nil advance payment' during the year

Improve reach and awareness

Renewal rate

92%+

customers renewed

New customers

>37,000

attracted to the Scheme

Ensure long-term sustainability

Credit rating

A+/A2

(stable outlook) credit rating

Culture survey results

95%

positive score for employee engagement – 17 percentage points above the 'high-performing organisations' benchmark

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 to reward and recognise excellent performance.

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.

"Motability Operations works closely with dealers, adaptation manufacturers and vehicle converter specialists to ensure that the product that we offer our customers meets their specific requirements.

Listening to feedback is critical in enabling us to deliver a truly customer focused proposition. 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 to 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

"We recognise that in order to derive the best value from the Scheme, customers need to be able to choose from a diverse range of vehicles, scooters or powered wheelchairs – this allows them to select the product which is most suitable to their specific needs.

To ensure that an appropriate range of vehicles is within "reach" of our customers, we aim to provide at least 200 cars on the price list at 'nil advance payment'

Over

345

cars available at 'nil advance payment'

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 in vehicle remarketing

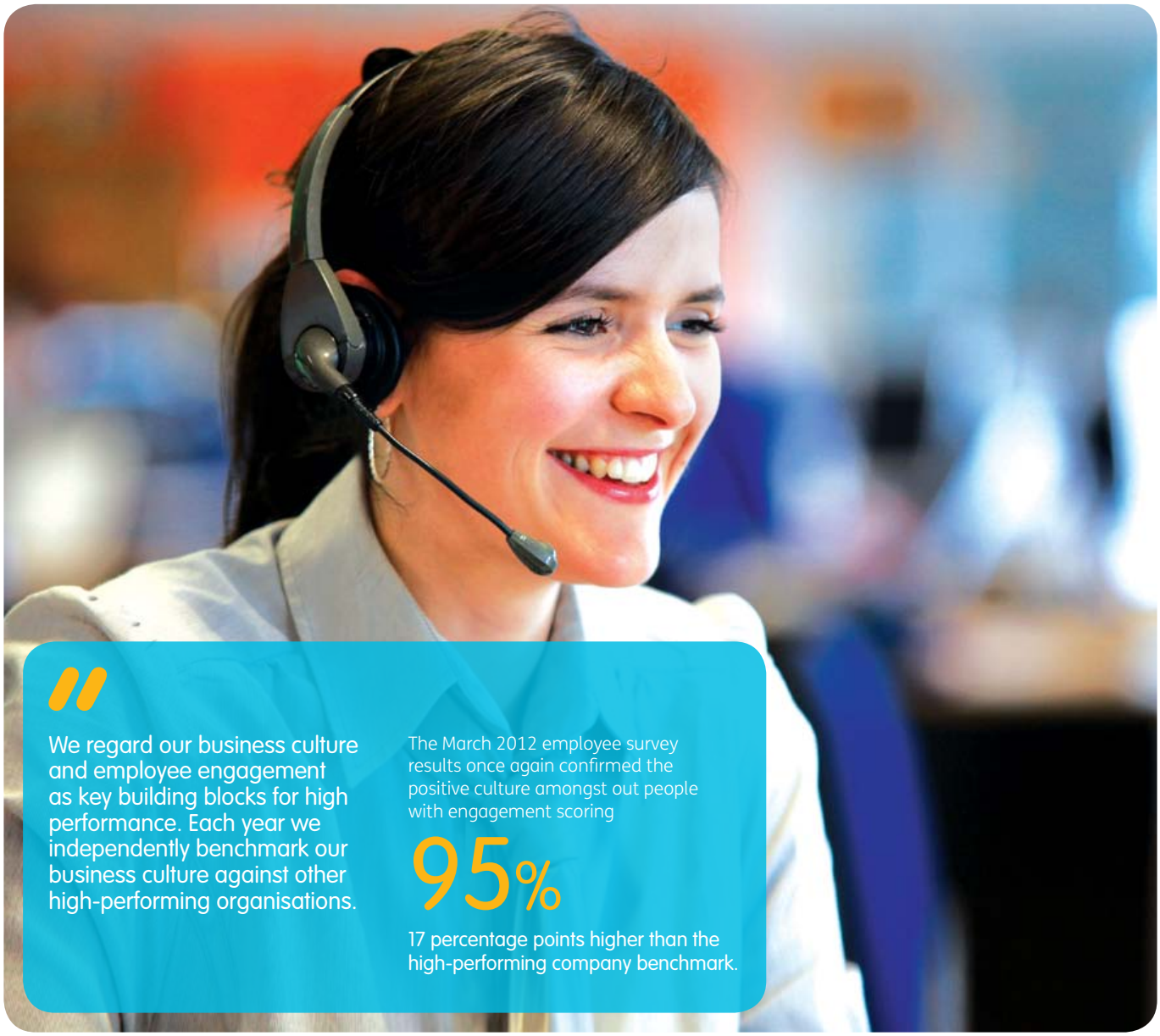
"Hosting "One Big Day" events, bringing all the elements of the Motability Scheme together in one accessible venue, continues to be an effective way in which to increase awareness and understanding of the Scheme offering.

Existing customers are our greatest ambassadors and research shows that over

97%

would recommend the Scheme.

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 benefits. 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



"We regard our business culture and employee engagement as key building blocks for high performance. Each year we independently benchmark our business culture against other high-performing organisations.

The March 2012 employee survey results once again confirmed the positive culture amongst out people with engagement scoring

95%

17 percentage points higher than the high-performing company benchmark.

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 CO_2 considerations with our customers' needs • Ensuring that our premises and information technology infrastructure are robust and future-proof • Attracting and retaining quality people

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 • Maintenance of effective treasury system, controls and governance

Corporate structure

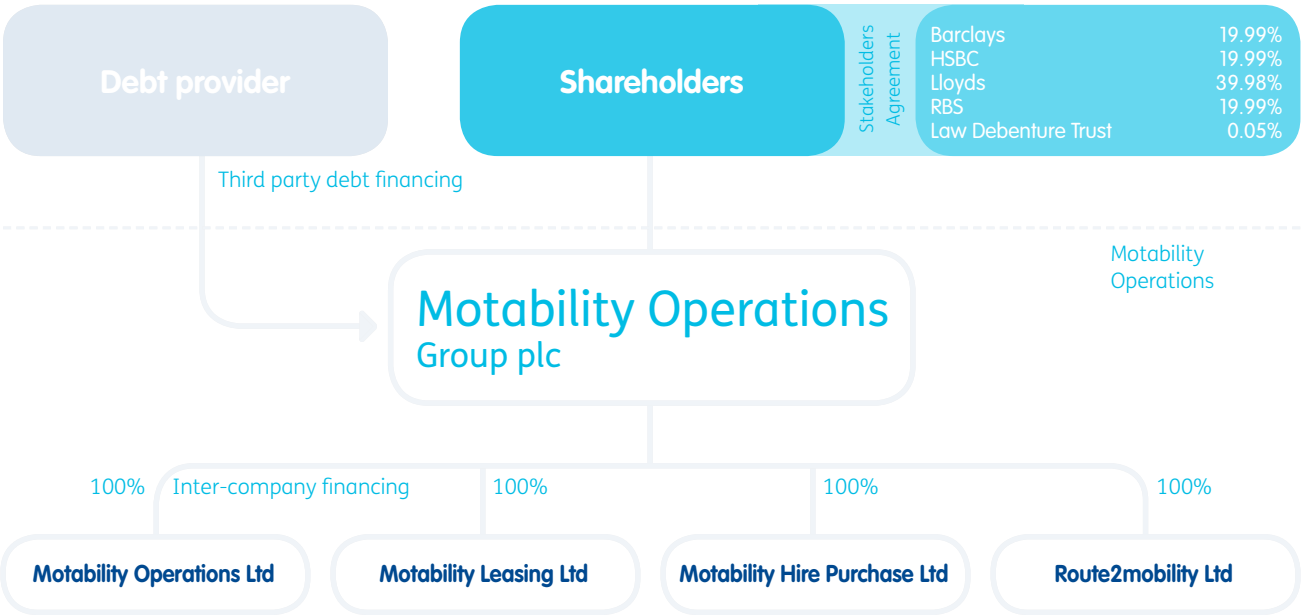
The diagram below sets out the current corporate structure

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.



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
Chief Executive
25 May 2012

David Gilman
Finance Director
25 May 2012

Independent review report to the Directors of Motability Operations Group plc

We have been engaged by Motability Operations Group plc ('the Company') to review the condensed set of financial statements in the Half Year Report for the six months ended 31 March 2012, 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 statement of cash flows, and related notes. We have read the other information contained in the Half Year 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 Year Report is the responsibility of, and has been approved by, the Directors. The Directors have voluntarily elected to be responsible for preparing the Half Year 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 Year 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 Year 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 Year Report for the six months ended 31 March 2012 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
25 May 2012

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 2012

	Note	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Revenue	4	1,516,326	1,354,718
Net operating costs	6	(1,293,520)	(1,142,561)
Total surplus from operations		222,806	212,157
Finance costs	7	(80,870)	(68,640)
Surplus before tax		141,936	143,517
Taxation	8	(17,368)	(22,357)
Surplus for the period		124,568	121,160

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 2012

	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Surplus for the period	124,568	121,160
Other comprehensive income:		
Gains/(losses) on movements in fair value of cash flow hedging derivatives	13,084	(7,444)
Tax relating to components of other comprehensive income	(3,364)	1,953
Other comprehensive income/(deficit) for the period, net of tax	9,720	(5,491)
Total comprehensive income for the period attributable to equity	134,288	115,669

The notes on pages 16 to 24 form part of these interim financial statements

Consolidated balance sheet

As at 31 March 2012

	Note	31 March 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Assets				
Non-current assets				
Intangible assets		6,864	3,406	3,021
Property, plant and equipment		8,556	6,203	2,875
Assets held for use in operating leases	9	5,184,220	4,976,582	4,621,170
Deferred tax asset		3,905	7,270	7,776
Hire purchase receivables		30,524	40,559	50,482
Derivative financial instruments	13	–	–	8,213
		5,234,069	5,034,020	4,693,537
Current assets				
Trade and other receivables		220,846	210,360	196,009
Corporation tax receivable		–	13,961	–
Hire purchase receivables		19,108	22,233	24,535
Inventories	10	70,519	60,751	77,149
Cash and bank balances		65,560	31,899	151,726
		376,033	339,204	449,419
Total assets		5,610,102	5,373,224	5,142,956
Liabilities				
Current liabilities				
Deferred income	11	(153,036)	(146,364)	(151,978)
Trade and other payables		(110,511)	(132,076)	(113,071)
Corporation tax payable		(484)	–	(23,048)
Derivative financial instruments	13	(1,985)	(7,166)	(3,541)
Financial liabilities	12	(64,623)	(78,413)	(79,777)
Provision for other liabilities		(2,078)	(2,078)	–
		(332,717)	(366,097)	(371,415)
Net current assets/(liabilities)		43,316	(26,893)	78,004
Non-current liabilities				
Deferred income	11	(193,193)	(181,279)	(159,387)
Derivative financial instruments	13	(13,572)	(7,213)	(6,886)
Financial liabilities	12	(3,312,120)	(3,193,838)	(3,086,225)
Deferred tax liabilities		(456,633)	(458,711)	(435,616)
Provision for other liabilities		(1,493)	–	(1,970)
		(3,977,011)	(3,841,041)	(3,690,084)
Total liabilities		(4,309,728)	(4,207,138)	(4,061,499)
Net assets		1,300,374	1,166,086	1,081,457
Equity				
Ordinary share capital		50	50	50
Hedging reserve		(4,170)	(13,890)	(13,735)
Restricted reserves (*)		1,304,494	1,179,926	1,095,142
Total equity		1,300,374	1,166,086	1,081,457

(*) 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 25 May 2012.

Mike Betts
Chief Executive

The notes on pages 16 to 24 form part of these interim financial statements

Consolidated statement of changes in equity

For the six months ended 31 March 2012

	Ordinary share capital £'000	Hedging reserve £'000	Restricted reserves £'000	Total £'000
At 1 October 2010	50	(8,244)	973,982	965,788
Comprehensive income				
Surplus for the period	–	–	121,160	121,160
Other comprehensive income				
Gains/(losses) on movements in fair value of cash flow hedging derivatives	–	(7,444)	–	(7,444)
Tax relating to components of other comprehensive income	–	1,953	–	1,953
Total comprehensive income	–	(5,491)	121,160	115,669
At 31 March 2011	50	(13,735)	1,095,142	1,081,457
At 1 October 2011	50	(13,890)	1,179,926	1,166,086
Comprehensive income				
Surplus for the period	–	–	124,568	124,568
Other comprehensive income				
Gains/(losses) on movements in fair value of cash flow hedging derivatives	–	13,084	–	13,084
Tax relating to components of other comprehensive income	–	(3,364)	–	(3,364)
Total comprehensive income	–	9,720	124,568	134,288
At 31 March 2012	50	(4,170)	1,304,494	1,300,374

Consolidated statement of cash flows

For the six months ended 31 March 2012

	Note	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Net cash flows from operating activities	14	(78,585)	(227,779)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		–	(3,829)
Purchase of corporate property, plant and equipment and intangible assets		(8,025)	(479)
Proceeds from sale of corporate property, plant and equipment		334	104
Net cash used in investing activities		(7,691)	(4,204)
Cash flows from financing activities			
New loans raised		751,576	719,163
Bank loans repaid		(622,405)	(379,609)
Net cash generated from financing activities		129,171	339,554
Net increase/(decrease) in cash and cash equivalents		42,895	107,571
Cash and cash equivalents at beginning of period		(7,809)	(2,536)
Cash and cash equivalents at end of period		35,086	105,035

The notes on pages 16 to 24 form part of these interim financial statements

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 set of financial statements does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2011 were approved by the Board of Directors on 14 December 2011 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 set of financial statements has been reviewed, not audited.

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

This condensed set of financial statements for the six months ended 31 March 2012 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 set of financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 September 2011, 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 2011, as described in those annual financial statements.

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.

Taxation

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

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 7	*Financial Instruments: Disclosures*
Amendments to IAS 1	*Presentation of Financial Statements*
IAS 24 (revised)	*Related Party Disclosures*
Amendments to IAS 34	*Interim Financial Reporting*
IFRIC 13	*Customer Loyalty Programmes*

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 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 27 (reissued)	*Consolidated and Separate Financial Statements*
IAS 28 (reissued)	*Investments in Associates*
Amendments to IAS 32	*Financial Instruments: Presentation*
Improvements to IFRS 2012	

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.

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 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 2012, if future net sales 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 £38.1m (2011: £34.1m). This change in depreciation would be charged /released 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 quantified in note 13, 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.

	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Rentals receivable from operating leases	845,573	765,140
Proceeds from disposal of operating lease assets	661,653	584,624
Contingent rentals	250	205
Hire purchase earnings	2,664	4,169
Other income	6,186	580
Total revenue	1,516,326	1,354,718

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 2012 £'000	Six months ended 31 March 2011 £'000
Net book value of disposed operating lease assets	633,136	559,234
Fleet operating costs including insurance, maintenance and roadside assistance costs	227,701	196,052
Other product costs including continuous mobility costs, adaptations support, communications	11,881	11,177
Employee costs	17,858	18,036
Other operating costs	21,280	21,245
Legal and professional fees	4,375	3,585
Bad debt charges and movement in bad debt provisions	1,919	3,465
Management fees	1,250	1,250
Motability levy and rebates	5,323	2,352
Net operating costs before depreciation	924,723	816,396
Depreciation on assets used in operating leases (*)	366,897	323,713
Depreciation and amortisation on property, plant and equipment and intangible assets	1,900	2,452
Net operating costs	1,293,520	1,142,561

(*) The depreciation charge on assets used in operating leasing includes a £16.6m release (six months ended 31 March 2011: £20.5m release) relating to changes in estimates during the period of future residual values.

7. Finance costs

	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Interest and charges on bank loans and overdrafts	20,609	17,554
Interest on debt issued under the Euro Medium Term Note Programme	60,027	51,321
Interest receivable	(115)	(584)
Preference dividends	349	349
Total finance costs	80,870	68,640

8. Taxation

The major components of the consolidated tax expense are:

	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Current tax		
Charge for the period	19,445	26,378
Adjustment in respect of prior period	–	(52)
Total	19,445	26,326
Deferred tax		
Origination and reversal of temporary differences	16,113	12,610
Impact of change in UK tax rate	(18,190)	(16,579)
Total	(2,077)	(3,969)
Tax on surplus from continuing operations	17,368	22,357

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 25.1% (2011: 27.1%). This estimate takes into account the change in the main rate of corporation tax from 26% down to 24%, substantively enacted on 26 March 2012 (with effect from 1 April 2012). In addition, the relevant deferred tax balances have been re-measured incorporating the 2% reduction to the main rates of capital allowances, substantively enacted on 19 July 2011 with effect from 1 April 2012.

The Government has also announced its intention to reduce the main rate of corporation tax to 22% over the next two years (23% with effect from 1 April 2013, and 22% with effect from 1 April 2014). Had these changes been substantively enacted at the balance sheet date a further £29.0m would have been credited to the tax charge.

9. Assets held for use in operating leases

Cost	Motor vehicle assets £'000
At 1 October 2010	5,226,141
Additions	1,249,856
Acquisition of subsidiary	20,025
Transfer to inventory	(858,762)
At 31 March 2011	5,637,260
At 1 October 2011	6,040,750
Additions	1,217,674
Transfer to inventory	(919,231)
At 31 March 2012	6,339,193
Accumulated depreciation	
At 1 October 2010	960,035
Charge for the period	323,713
Acquisition of subsidiary	11,961
Eliminated on transfer to inventory	(279,619)
At 31 March 2011	1,016,090
At 1 October 2011	1,064,168
Charge for the period	366,897
Eliminated on transfer to inventory	(276,092)
At 31 March 2012	1,154,973
Carrying amount	
At 1 October 2010	4,266,106
Additions	1,249,856
Acquisition of subsidiary	8,064
Depreciation	(323,713)
Transfer to inventory (note 10)	(579,143)
At 31 March 2011	4,621,170
At 1 October 2011	4,976,582
Additions	1,217,674
Depreciation	(366,897)
Transfer to inventory (note 10)	(643,139)
At 31 March 2012	5,184,220

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 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Not later than one year	1,002,899	951,583	962,850
Later than one year and not later than two years	1,284,861	1,134,672	964,610
Later than two years and not later than five years	1,521,120	1,531,935	1,484,676
Total exposure	3,808,880	3,618,190	3,412,136

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 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 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Amounts carried at 31 March/30 September	16,813	21,359	10,167
Amounts to be (charged)/released in future years	(27,916)	(34,668)	14,001
Total effect of changes in estimated residual value	(11,103)	(13,309)	24,168

The Group 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 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Not later than one year	1,350,570	1,178,150	1,204,920
Later than one year and not later than two years	804,976	721,589	765,065
Later than two years and not later than five years	287,545	276,619	297,016
	2,443,091	2,176,358	2,267,001

10. Inventories

	31 March 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Ex-operating lease assets held for sale	71,036	61,033	77,327
Provisions	(517)	(282)	(178)
Ex-operating lease assets held for sale (net)	70,519	60,751	77,149

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, £517k has been provided against irrecoverable vehicles (30 September 2011: £282k, 31 March 2011: £178k).

The cost of inventories disposed of and recognised in net operating costs amounted to £633,136k (31 March 2011: £559,234k).

10. Inventories continued

The movements of inventories in the six-month periods ended 31 March 2012 and 2011 are as follows;

	£'000
At 1 October 2010	57,418
Transfer from operating lease assets (note 9)	579,143
Disposals	(559,234)
At 31 March 2011	77,327
At 1 October 2011	61,033
Transfer from operating lease assets (note 9)	643,139
Disposals	(633,136)
At 31 March 2012	71,036

11. Deferred income

	31 March 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Current			
Customers' advance payments (*)	107,676	101,361	103,855
Vehicle maintenance income	13,708	13,747	14,142
Vehicle good condition bonus income	31,652	31,256	33,981
Total current	153,036	146,364	151,978
Non-current			
Customers' advance payments (*)	116,122	109,938	87,954
Vehicle maintenance income	48,159	44,479	41,599
Vehicle good condition bonus income	28,912	26,862	29,834
Total non-current	193,193	181,279	159,387
Total	346,229	327,643	311,365

(*) 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 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Current			
Accrued interest and coupon	32,957	35,238	27,611
Bank overdrafts	30,474	39,708	46,691
Bank loans	1,192	3,467	5,475
Total current	64,623	78,413	79,777
Non-current			
Bank loans	500,000	1,120,130	1,001,192
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	2,802,170	2,063,758	2,075,083
Preference shares	9,950	9,950	9,950
Total non-current	3,312,120	3,193,838	3,086,225
Total	3,376,743	3,272,251	3,166,002
The financial liabilities are repayable as follows:			
On demand or due within one year	64,623	78,413	79,777
Due within one to two years	–	1,120,130	–
Due within two to five years	997,007	496,604	1,001,192
Due in more than five years	2,315,113	1,577,104	2,085,033
Total	3,376,743	3,272,251	3,166,002

All borrowings are denominated in or swapped into sterling.

12. Financial liabilities continued

Bank borrowings

As at 31 March 2012 the Group has the following principal bank loans:

a) A three-year Term Loan of £0.5 billion taken out on 19 January 2012 carrying LIBOR interest rates plus bank margins at a market rate (30 September 2011 and 31 March 2011: £1 billion five-year Term Loan taken out 26 June 2008).

b) A five-year Revolving Credit Facility of £1.5 billion taken out on 19 January 2012 carrying LIBOR interest rates plus bank margins at a market rate (30 September 2011 and 31 March 2011: £0.9 billion five-year Revolving Credit Facility taken out 26 June 2008) of which £nil drawn as at 31 March 2012 (30 September 2011: £120m, 31 March 2011: £nil).

c) Term Loans of £1.2m incur interest at rates between 3.19% and 4.36% (30 September 2011: £3.6m at rates between 3.19% and 7.02%, 31 March 2011: £6.7m at rates between 3.19% and 7.41%) and are repayable in quarterly instalments ending in November 2012.

Debt issued under the Euro Medium Term Note Programme

Bonds issued under the Euro Medium Term Note Programme, net of unamortised discounts and issue costs, are analysed as follows:

	31 March 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
5.250% sterling bond due 2016	497,007	496,673	496,340
3.750% Eurobond due 2017 *	413,744	426,283	438,358
3.250% Eurobond due 2018 **	456,011	–	–
6.625% sterling bond due 2019	447,768	447,623	447,477
5.375% sterling bond due 2022	395,708	395,499	395,288
4.375% sterling bond due 2027	294,191	–	–
5.625% sterling bond due 2030	297,741	297,680	297,620
	2,802,170	2,063,758	2,075,083

* The repayment obligation in respect of the Eurobonds of Euro 500m (£416.6m) 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 repayment obligation in respect of the Eurobonds of Euro 550m (£458.3m) is hedged by cross-currency swap contracts (Note 13) for the purchase of Euro 550m and for the sale of £459.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

The bonds were issued under the £3 billion 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 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. The Euro Medium Term Note Programme of the Company was uprated to £4 billion in April 2012.

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 2012, 30 September 2011 and 31 March 2011 were as follows:

	31 March 2012 %	30 September 2011 %	31 March 2011 %
Current bank loans and overdrafts	4.1	1.4	4.8
Non-current bank loans	2.1	1.5	1.5
Non-current debt issued under the Euro Medium Term Note Programme	5.0	5.4	5.4
Non-current preference shares	7.0	7.0	7.0

At 31 March 2012, 30 September 2011 and 31 March 2011, the Group had the following undrawn committed borrowing facilities:

	31 March 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Working capital facility	100,000	100,000	100,000
Revolving credit facility	1,500,000	780,000	900,000
Total	1,600,000	880,000	1,000,000

Undrawn committed facilities expire as follows:

	31 March 2012 £'000	30 September 2011 £'000	31 March 2011 £'000
Within one year	5,000	5,000	5,000
Within one to two years	–	780,000	–
Within two to five years	1,595,000	95,000	995,000
Total	1,600,000	880,000	1,000,000

13. Derivative financial instruments

	31 March 2012		30 September 2011		31 March 2011	
	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000
Cash flow hedges						
Cross-currency swaps	(13,405)	885,000	(7,213)	425,200	8,213	425,200
Interest rate swaps	(2,152)	850,000	(7,166)	900,000	(10,427)	900,000
Total	(15,557)	1,735,000	(14,379)	1,325,200	(2,214)	1,325,200
Included in non-current assets	–	–	–	–	8,213	425,200
Included in non-current liabilities	(13,572)	1,135,000	(7,213)	425,200	(6,886)	450,000
Included in current liabilities	(1,985)	600,000	(7,166)	900,000	(3,541)	450,000
Derivative financial instruments	(15,557)	1,735,000	(14,379)	1,325,200	(2,214)	1,325,200

Cross-currency swaps

On 29 November 2010, the Company 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%.

On 08 February 2012, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of EUR 550m. The Company entered into cross-currency swap arrangements to hedge its currency and interest rate risks on its Eurobond debts. EUR coupon of 3.25% is fully swapped into the GBP rate of 3.664%.

Interest rate swaps

At 31 March 2012, the fixed interest rates vary from 0.70% to 2.45% (30 September 2011: 1.92% to 2.45%, 31 March 2011: 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 and cross-currency swap contracts as of 31 March 2012 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 statement of cash flows

Reconciliation of surplus to net cash flow from operating activities:

	Six months ended 31 March 2012 £'000	Six months ended 31 March 2011 £'000
Operating surplus from operations	222,806	212,157
Adjustments for:		
Depreciation charge on corporate assets	1,900	2,452
Depreciation charge on operating lease assets	366,897	323,713
(Gains) on disposal of operating lease assets	(28,518)	(25,390)
(Gains) on disposal of corporate assets	(20)	(10)
(Decrease)/increase in provisions	(1,571)	727
Operating cash flows before movements in working capital	561,494	513,649
Purchase of assets held for use in operating leases	(1,217,674)	(1,249,856)
Proceeds from sale of assets held for use in operating leases	661,653	584,622
(Increase) in receivables	(1,430)	(8,171)
Increase in deferred income	18,586	16,815
(Decrease) in payables	(21,565)	(18,165)
Cash generated from operations	1,064	(161,106)
Net interest (paid)	(74,649)	(56,353)
Income taxes (paid)	(5,000)	(10,320)
Net cash flows from operating activities	(78,585)	(227,779)

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.

15. Analysis of changes in net debt

	At 1 October 2011 £'000	Cash flows £'000	Non-cash flows £'000	At 31 March 2012 £'000
Cash and bank balances	31,899	33,661	–	65,560
Borrowings due within one year	(78,413)	11,639	2,151	(64,623)
Borrowings due after one year	(1,120,130)	620,000	130	(500,000)
Debt issued under the Euro Medium Term Note Programme due after one year	(2,063,758)	(751,576)	13,164	(2,802,170)
Preference shares	(9,950)	–	–	(9,950)
	(3,240,352)	(86,276)	15,445	(3,311,183)

	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)

16. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The total charge for the six months ended 31 March 2012 amounted to £1.4m (six months ended 31 March 2011: £1.3m). Net contributions due at the balance sheet date were £1k (31 March 2011: £5k).

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 2012 Motability grants totalling £13.2m (six months ended 31 March 2011: £9.1m) were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf. The Group also paid £3.4m (six months ended 31 March 2011: £1.7m) relating to Motability administration costs.

A further £1.6m (six months ended 31 March 2011: £1.0m) 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, £2.0m was paid as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair accessible vehicles (six months ended 31 March 2011: £0.7m). £14,083 was donated to Motability's charitable funds during the period (six months ended 31 March 2011: £576).

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 of bank loans). Additionally, total fees of £1,250k (six months ended 31 March 2011: £1,250k) were due to the shareholder banks in proportion to their shareholdings for management and advisory services.

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