# Motability Operations | Group plc

## Half Year Report

For the six months ended 31 March 2018

# Our customers are at the heart of everything we do.

Leasing through the Motability Scheme is more than just a mobility solution; worry-free motoring opens new horizons for customers. From helping people to travel to work or school, to keeping up with hobbies and accessing medical care, the Scheme opens doors.

We believe in making life simpler. For 40 years, we've been doing just that, opening up new horizons through affordable and worry-free mobility. And we continually innovate and invest to make sure our customers remain supported.

The journey starts here...

## Contents



## Financial statements



**Visit our website:**
**www.motabilityoperations.co.uk**

## 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
30 May 2018

**Matthew Hamilton-James**
Finance Director
30 May 2018

Motability Operations is contracted by Motability (the Charity) to operate the Motability Car, Powered Wheelchair & Scooter Scheme.

The scheme is a UK-wide proposition with consistent standards and service levels across the UK. Our priority is to meet the specific needs of Motability Scheme customers.

Having operated the Scheme since 1978, we aim to deliver value and an excellent service for customers by providing an affordable, consistent, worry-free leasing proposition which is universally available across the United Kingdom to recipients of qualifying mobility allowances.

# Delivering the Scheme

### Through our network

**16,000**
Motability Dealer Specialists

**4,600**
Approved Motability dealers

### To our customers

**91%**
Customer renewal rate

**99%**
Overall customer satisfaction

### Through our remarketing

**>650**
cars sold per day, seven days a week, into the used car market as vehicles are returned to us at the end of lease

**>220,000**
new cars bought each year

### With our employees

**94%**
Employee engagement score recorded through an independent employee culture survey

## Key customer statistics

**1.7m**
people in receipt of a qualifying allowance can choose to lease one of our products

**625k**
customers currently choose to use the Scheme

**>4.5m**
vehicles supplied since the Motability Scheme was launched

# What we do

## Motability Operations is the operator of the Motability Car, Powered Wheelchair & Scooter Scheme. Under a service contract with Motability, we are responsible for the effective and efficient delivery of the Scheme.

Motability was established in 1977 to enable disabled people to use their mobility allowance to access affordable motoring through a leasing package. The Motability Scheme was formed as a pioneering partnership, bringing together Government; banks; manufacturers; the Charity, Motability, which directs policy and oversees the Scheme; and Motability Operations, the operating company. Motability Operations is owned by the four major UK banks.

Under the service contract with Motability, Motability Operations is required to meet specific performance targets across a range of measures including customer service, choice and affordability, value for money and efficiency. As operators of the Scheme, we seek to leverage economies of scale and tightly manage our cost base. It is by running an efficient operation that we are able to deliver a consistent, highly affordable and competitive proposition for our customers which would not otherwise be available through the retail market.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme a disabled person must receive one of the qualifying mobility allowances (see below). Neither Motability Operations nor Motability plays any role in deciding who is eligible for this allowance. The 1.7 million people who are currently in receipt of this allowance can choose to lease one of these products from Motability Operations. At present, just over one third of allowance recipients choose to use their allowance to participate in the Scheme.

For those who decide to join the Scheme, we provide a unique and universally available mobility proposition, designed to meet the specific needs of our disabled customers. In choosing to take a vehicle, powered wheelchair or scooter on the Scheme, customers assign their mobility allowance to Motability Operations.

In return, we provide worry-free, affordable mobility including full insurance, maintenance and servicing, tyre and windscreen replacement, breakdown cover and a mileage allowance of 60,000 miles over three years.

### Mobility allowance

To access the Scheme, an individual must receive the Higher Rate Mobility Component of the Disability Living Allowance (DLA); the Enhanced Rate of the Mobility Component of the newly introduced Personal Independence Payment (PIP) (both 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 either the War Pensioners' Mobility Supplement or the Armed Forces Independence Payment (AFIP) (both of which are administered by Veterans UK). Receipt of a qualifying allowance is the sole eligibility criterion for people wishing to access the Scheme.

### Motability Operations

Motability Operations is the operator of the Motability Car, Powered Wheelchair & Scooter Scheme.

As the UK's largest car leasing company, we have 40 years' experience in the industry and have supplied over 4.5 million vehicles since the Motability Scheme was launched.

Today over 625,000 customers currently choose to access the Scheme (consisting of 610,400 Car Scheme customers and 14,800 Powered Wheelchair & Scooter Scheme customers). We aim to offer customers a comprehensive and affordable solution. Currently, 34 vehicle manufacturers (representing 94% UK brand availability) and 13 powered wheelchair and scooter manufacturers are represented on the Scheme.

We aim to provide sustained value and choice, combined with first-class customer service. To this end, we continually review and develop our business model to ensure that we optimise the value that we provide to customers. The key elements of this business model are set out on pages 6 and 7.

This business model is underpinned by a robust balance sheet which is designed to ensure that our operation is stable and sustainable in the long term. This enables us to provide Motability Scheme customers with continued affordability throughout the economic cycle. All profit is retained in the Scheme for the benefit of customers.

### Motability

Motability is a national charity, set up in 1977, to assist disabled people with their mobility needs. Motability directs and oversees the Motability Scheme – with its prime purpose being 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.

Motability contracts with Motability Operations to operate the Scheme. Motability and Motability Operations are constitutionally and operationally separate entities.

### The Motability Scheme

The Motability Scheme provides customers with worry-free mobility, with a lease price which includes:

- Use of a leased vehicle
- Comprehensive insurance
- Maintenance and servicing
- Tyre and windscreen replacement
- Breakdown cover
- 60,000 miles' mileage allowance

# How we do it

## Individuals may choose to use their mobility allowance to lease a car, powered wheelchair or scooter on the Motability Scheme. Motability Operations, as operator of the Scheme, aims to provide these customers with a worry-free proposition.

### Mobility allowance

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

### Customers

Our customers are at the heart of what we do. We provide affordable and worry-free mobility through a wide choice of vehicle solutions that meet their specific needs

### Delivering the Scheme

Cars, powered wheelchairs and scooters are delivered through partnerships with manufacturers, dealers and other suppliers

### Suppliers

Provide servicing, breakdown assistance, insurance, and tyre and windscreen replacement

### Funding

Funding from the financial market

### End of lease

At the end of lease (typically three years), vehicles are returned to us. Currently 91% of customers choose to renew their lease

### Remarketing

Used cars are resold into the used car market through our market-leading online channel 'mfldirect' and our national auction programme

# Delivering value for our customers

## The way in which we deliver the Scheme is designed to maximise the value we provide to customers. We are commercial in our approach and ensure that we benchmark well to market best practice.

### Our revenues

Motability Operations' revenue comprises rental income from customers' mobility allowances and proceeds from the resale of vehicles at the end of lease

In choosing to join the Scheme, customers assign their mobility allowance to Motability Operations. Customers can choose from a wide range of models with 'nil advance payment' – where the assignment of their allowance alone is sufficient to cover the cost of leasing the vehicle. However, customers may elect to top this up with an 'advance payment' depending on their choice of vehicle. Our aim is to ensure that we use customers' money – our rental income – to deliver the best possible products and services for them.

We do not receive any grant or funding from Government.

Over half of our revenue is derived from the resale of the vehicles that are returned to Motability Operations at the end of lease each year – we sold over 238,500 vehicles in the year to September 2017, generating almost £2.2 billion in revenue. The effective management and deployment of our vehicle remarketing activities, and the subsequent realisation of asset values, is critical in underpinning ongoing affordability and providing stable lease prices to customers.

### Our financing

We finance the Scheme by issuing bonds in the Sterling and European Debt Capital Markets, through securing term finance and credit facilities from the major UK banks and through the liquidity provided by our capital base

As a standalone company, Motability Operations is financed through commercial market-based funding and by reinvesting profits back into the business.

Our current financing comprises a blend of borrowing from the Sterling and European Debt Capital Markets (bonds), combined with facilities negotiated with the major UK banks to provide liquidity headroom. We currently have £3.8 billion of bonds in issue and a £0.4 billion bank term loan. In order to access these markets on competitive terms it is necessary to maintain an investment-grade credit rating. Our A+/A1 credit rating from Standard & Poor's and Moody's respectively underpins our ability to fund the Scheme in a sustainable and cost-effective manner.

The balance of our financing is provided by our capital base, comprising accumulated reserves, which not only supports the Scheme's liquidity requirements, but also underpins our financial sustainability.

We ensure that we maintain an appropriate diversity of funds and a well-laddered maturity profile to minimise refinancing and liquidity risk. Our existing financing facilities provide sufficient liquidity headroom to meet our financing needs in the medium term.

### Our suppliers

We manage a range of key suppliers to ensure that we provide customers with a consistent UK-wide proposition, representing excellent value for money and delivering first-class customer service

We aim to provide a UK-wide and universally available proposition to a consistently high standard. In order to deliver this, we engage with and manage a range of suppliers. We aim to not only deliver value through every aspect of our supply chain, but also ensure that suppliers deliver the highest standards of customer service.

We source vehicles from 34 vehicle manufacturers and use a variety of adaptation and conversion specialists.

Through our national network of over 4,600 approved Motability Dealers, we oversee delivery of the full 'end-to-end' customer process – from application for and delivery of the vehicle, through servicing, maintenance and repair, to the return of the vehicle at the end of contract. This involves the training of over 16,000 Motability Dealer Specialists and results in over one million transactions with the dealer network each year.

We manage a number of other key suppliers who deliver other elements of the worry-free package, including prioritised roadside assistance, and tyre and windscreen replacement.

We are committed to paying our suppliers promptly with 99% of invoices paid within 30 days, well within the guidelines stipulated by the Prompt Payment Code.

**£4.2 billion**

in revenue generated during 2017

**A+/A1**

credit rating

**>16,000**

trained Motability Dealer Specialists

## Our insurance

Insurance is an essential element of our worry-free proposition. Our insurance arrangements provide an efficient and sustainable structure which ensures we offer value and continued peace of mind for our customers

Through a longstanding partnership with RSA Insurance Group (RSA) we provide fully comprehensive insurance cover to our customers.

In support of ensuring a long-term sustainable proposition that continues to provide value for money Motability Operations retains a proportion of premium exposure through its A+ rated reinsurance captive MO Reinsurance Ltd (MORL).

MORL's net exposure is contained through the placement of a conservatively structured reinsurance programme, which spreads insurance supply amongst a number of highly rated reinsurers and, in so doing, diversifies risk and ensures stability of insurance provision in the future.

RSA continues to provide policy and claims administration activities through its dedicated RSA Motability unit in Liverpool.

The efficient model that underpins the new arrangements brings with it additional financial benefits, all of which are passed on to customers.

**>99%**

**of total car fleet on cover through MORL**

## Our vehicle remarketing

Our ability to optimise the market value of used vehicles as they are returned to us at the end of lease is a core competency for Motability Operations, and fundamental to delivering affordability and stability in lease prices for customers

Unexpected volatility in the used car market may impact our ability to realise the predicted value of our vehicles. This is our single largest risk. During the year to September 2017 we sold 238,500 cars into the used car market (over 650 per day, seven days a week), as these are returned to us at the end of lease. Daily sales volumes in the current financial year are tracking at a similar rate, with over 118,000 sold in the six months to March 2018.

The effective execution of this activity, and therefore the realisation of the optimal value for these assets, is fundamental to protecting the affordability and sustainability of the Scheme. To achieve this we operate a market-leading online trade sales channel 'mfldirect', through which we sell to an actively managed buying base of over 3,600 dealers. During the year ended September 2017 we sold over 186,000 vehicles (78%) through this online channel. Vehicles that are not sold online are routed through our national auction programme, with 540 branded events held across 21 auction centres last year. During the six months to March 2018, we sold 78% of used vehicles through the online channel.

**>650**

**used cars sold every day, seven days a week**

## Our people

Our business culture is customer focused and performance driven. We set challenging targets and we encourage our people to think and act commercially whilst remaining aligned to our values

Our people are our greatest asset and by retaining a motivated and engaged workforce we are able to deliver consistently strong business performance within a business culture aligned to our values and principles.

We challenge our people to be customer focused and to think and act commercially, supporting our dual goals of delivering excellent customer service and value to our customers.

We are committed to paying our people at least the level of the current minimum 'Living Wage', as calculated by the Living Wage Foundation, for their base location.

We are confident that we do not discriminate on the basis of gender or any other factor. However, we are aware that a gender pay gap exists, driven by the make-up of our workforce, and that we need to increase representation of women in certain roles. The Board takes direct responsibility for diversity and inclusion and will oversee steps that will, over time, reduce our gender pay gap.

Each year we participate in an independently measured employee culture survey which assesses employee views across a range of topics such as engagement, customer focus and leadership. The 2017 survey results demonstrate that Motability Operations continues to significantly outperform the UK 'High-Performing Organisations' benchmark across all categories.

**94%**

**employee engagement**

# Support and stability for our customers

## Generating the financial performance to provide quality customer service

### The past six months have seen Motability Operations continue to deliver high levels of performance.

These results reflect a cultural approach that is embedded throughout the business, led by a top-quality management team, focused on delivering an outstanding customer experience.

Our foremost priority remains the achievement of consistent excellence in customer service. I am pleased to record that satisfaction levels reached an exceptional level of 99% in the independent (CSI) survey of customers, carried out in October 2017.

As a result of the Personal Independence Payment (PIP) eligibility criteria, we are helping growing volumes of customers with mental health or neurological issues. Teams are now trained and structured to meet this challenge, and we have initiated research to evaluate changing needs to ensure we offer appropriate support.

We have seen record numbers of customers looking for support when being reassessed for PIP. It looks likely that 2017/18 will exceed last year's 1.1 million calls.

The heightened volume and complexity of calls has put significant pressure on our customer call centre, which when combined with the severe weather conditions in March, resulted in call-answering performance falling below target levels (80% of calls to be answered within 20 seconds). It is testament to the commitment of our employees that overall performance through this period was maintained at 75%, with many employees walking significant distances, through the snow, to ensure that the call centre remained operational.

Our strong and sustainable financial position has enabled us to maintain a range of over 340 cars on the price list that cost no more than the customer's allowance. This means customers can enjoy a broad choice across all vehicle categories, despite current sterling exchange rates and other inflationary pressures.

Our new fully integrated IT leasing system now provides the platform for a range of initiatives to enhance online customer service, starting with tools to further streamline Scheme applications at the dealership.

Market conditions for used car sales have been challenging, with a decline in demand for diesel vehicles affecting prices. We have previously taken steps to revalue diesel vehicles, largely offsetting these effects at disposal. The continued effectiveness of our online channel, mfldirect, in addition to initiatives around vehicle refurbishment, have helped maintain robust sales, and as a result, the last six months have held up strongly.

Our robust financial performance means we are able to maintain appropriate levels of capital reserves to ensure the sustainability of the Scheme. Reserves are not held as cash but used to finance the purchase of vehicles, while continuing to invest in many areas of customer need. These include support for wheelchair accessible vehicles and adaptations. This year has also seen us pilot new initiatives, working with Motability (the Charity), including the opportunity to order a subsidised lightweight manual wheelchair alongside the car.

We also work with Motability to provide transitional support for customers who face losing their Scheme vehicle as a result of assessment for the Personal Independence Payment (PIP). That enables customers who joined the Scheme before 2014 to benefit from a support payment of up to £2,000, or, if they choose, to retain their car for up to six months.

Financial prudence underpins our ability to provide a quality service for disabled customers and their families. Without the financial turnaround achieved and the subsequent focus on cost management and customer service over the last 15 years, we would not have been able to deliver many of the services currently on offer.

"Our strong and sustainable financial position has enabled us to maintain a range of over 340 cars on the price list that cost no more than the customer's allowance."

Both Motability Operations and Motability have been the subject of media and Parliamentary scrutiny in recent months, including a Joint Work and Pensions and Treasury Select Committee evidence hearing on 5 March. The Joint Select Committee subsequently published its report on 21 May. As a result of this, and in the interests of transparency, Motability Operations and Motability have voluntarily agreed for the National Audit Office (NAO) to conduct a value for money review (under S6(3)d of the National Audit Act 1983) into the operations of the Scheme. We look forward to engaging with the NAO as it conducts its review.

One of the areas questioned by the Select Committee was the appropriateness of the level of the business's capital reserves. It remains the job of management to ensure that these are kept at a level sufficient to ensure our continued successful operation. The purpose of these reserves is to provide a "shock absorber" against a substantial fall in used car values or other risks, such as insurance, which could threaten the sustainability of the Scheme. However, these reserves are not kept idle but are put to active use in meeting around a third of our £6.5 billion total funding requirement, effectively saving around £400 on each lease in interest costs.

In previous financial years, following an assessment of our capital reserves, the Board has authorised charitable donations to Motability. Since 2011 Motability Operations Group plc has donated £345 million to Motability and the Motability Tenth Anniversary Trust.

At our half year point, our financial performance looks strong enough for us to expect to make a substantial donation by the end of the year, and dialogue is already underway with Motability as to how this might best be invested to benefit disabled people with their transportation needs. This of course will be subject to confirmation by the Board in the second half of the year, taking account of the risks faced by the Scheme.

Our bedrock is a workforce that engages strongly with our mission and vision and we keep employee engagement in our sights at all times, and act on feedback where we can see that improvement is needed. One such area has been highlighted by the 2018 gender pay gap review. While we pay equally for equal roles, we have identified a mean gender pay gap of 27.2%, and we are committed to addressing this. A range of initiatives already underway will build on our culture of diversity and inclusion, to create supportive environments for all employees.

"Over recent years Motability Operations has transformed the service provided to our disabled customers."

Over recent years Motability Operations has transformed the service provided to our disabled customers. We continue to deliver the highest rated customer service in the UK (Institute of Customer Service, 2017), while at the same time, maintaining a secure financial base to safeguard long-term sustainability.

We have a unique and successful business model, the profits from which are used for the benefit of thousands of disabled people and their families.

This year marks a significant milestone, as we reach the 40th anniversary of the Motability Scheme. In July 1978, a new Mini was handed over to Julie Newport, one of the first customers on the Scheme. Since then, more than four and a half million customers have enjoyed the benefits of the Motability Scheme's worry-free package, supported by Motability Operations employees, dealers, manufacturers and business partners.

The 40th anniversary was marked by a car handover by Her Majesty The Queen at Windsor Castle in 2017, and this year, we will also mark this milestone by bringing together employees, business partners and disability organisations in a celebration to thank them for their support and engagement. Without this, the Scheme would not be the successful operation that it is today.

These half year results set positive expectations of a sustained level of performance to be maintained throughout the remainder of the year.

**Neil Johnson OBE**
Chairman

# Sustainable value for customers

## With customers at the heart of everything we do, it is our overarching aim to provide our customers access to an affordable range of vehicles and worry-free motoring proposition that supports their needs and aspirations.

Our financial stability is the platform to provide a sustainable customer proposition with a consistently affordable product offer which meets their diverse disability needs.

## Performance

### Overview

We continue to track a wide range of measures to assess our performance in delivering our key customer targets. Customer satisfaction is measured independently in a customer survey carried out twice a year. In the latest survey in October 2017, overall customer satisfaction increased to a record high of 99% (April 2017: 98%). This result is further validated in the Institute of Customer Services' UK Customer Satisfaction Index, in which Motability Operations' customer service scored 94.8%.

In terms of affordability and choice, a key measure is the range of affordable vehicles available on the price list. We continue to work with manufacturers in delivering a price list which provides value and choice for our customers, with over 340 vehicle models available at 'nil advance payment' (where the customer's allowance alone is sufficient to fund all lease costs) throughout the period, including a number of automatic models. More than 100 cars could be obtained at less than the full allowance, enabling customers to keep some money back.

The ultimate validation of our performance is customer renewal rate at the end of lease. It is therefore pleasing to report that this remains consistently high at 91%. We also continue to invest in the customer proposition. During the year to September 2017 we invested more than £232m in direct and indirect customer initiatives, with this rate of investment continuing into the current financial year. Customer investments include expenditure to ensure continuous mobility for customers when their vehicle is off the road, providing a good condition bonus for customers who return their vehicle in appropriate condition at the end of lease, and expenditure to support the cost of vehicle adaptations and the affordability of wheelchair accessible vehicles.

### Financial performance

Revenue in the six months to March 2018 was £2,069m, marginally down 2.5% year-on-year (2017: £2,122m). Profit for the period, which is retained in the Scheme for the benefit of our customers, was £190.4m, representing a post-tax return on assets of 4.6% compared to our long term objective of 1.5%. This better than plan result includes a gain of £104.3m from vehicle sales (2017: £57.8m), reflecting a strong performance in a challenging used car market, including the continued success of our online sales route, with 78% of vehicles sold through this channel during the six months to March 2018. The gain on vehicle sales highlights an appropriate degree of caution reflected in our assessment of residual values, with any anticipated erosion in value accounted for through our fleet revaluation processes.

The financial performance for the first half of the year has also benefited from upside in our insurance results with positive development for insurance reserves held in MO Reinsurance Ltd alongside a further rebate from our previous fully comprehensive insurance arrangement.

Given these effects the result for the first six months of trading was above target and takes Restricted Reserves on the Balance Sheet, which we use operationally to purchase vehicles, to £2,621m.

As signalled in previous reports, to the extent that the Group's capital position is deemed to be above the level required to protect the sustainability of the business, the Board may sanction periodic donations to Motability or the Motability Tenth Anniversary Trust (with £345m having been donated since 2011). Given the strength of performance to date, and providing that financial performance continues to progress in line with expectations, it is considered highly likely that a substantial charitable donation will be authorised prior to 30 September 2018.

**99%**

overall customer satisfaction

**>340**

Cars available at 'nil advance payment' throughout the period

"Our financial performance and focus on cost management underpin our continued investment in the customer proposition and broader support to the disabled community through charitable donations."

**Mike Betts**
Chief Executive

## Assets and residual values

The carrying value of operating lease assets has increased 1.5% since September 2017, to £6,510m. The latest fleet revaluation continues to reflect a cautious macroeconomic outlook given market uncertainty regarding the structure and timing of the UK's future trade relationship with the European Union.

The revaluation also continues to reflect negative diesel sentiment and its potential impact on both the remaining Euro 5 diesel technology cars that will defleet this year and a more general effect on consumer demand for diesel vehicles in the used car market in future years.

At March 2018, the revaluation of the fleet versus the priced position reflected a projected gross exposure of £39m which, after adjusting for selling costs, lease extensions and early-terminating leases, results in a net exposure of £306.9m. This projected exposure is charged to the income statement over the remaining term of the respective leases. At the Balance Sheet date £193.6m of this exposure had been recognised through the income statement, including £23.2m in the six months to March 2018, with the balance to be charged across the next three financial years.

## Financing and liquidity

The Group continues to pursue a strategy aimed at diversifying sources of funding, protecting structural liquidity and maintaining a well-laddered debt maturity profile. In determining the timing of refinancing activities, in addition to taking into account the dates of our upcoming debt maturities, careful consideration is given to the economic and political backdrop, to the extent that they may affect the availability of liquidity in the market.

A dual tranche debt capital market issuance last year (March 2017), which secured long-term borrowing at historically low interest rates, supported the repayment of a €500m bond in November 2017 without the need to secure further funding.

Of the Group's £659m Cash and Cash Equivalents balance reported at 31 March 2018, £140m is ring-fenced in respect of insurance liabilities in MO Reinsurance Ltd with a further £326m (swapped GBP equivalent of €390m) assigned to settle the Group's November 2018 bond maturity. After meeting these commitments the Group's net cash balance of £193m is considered to provide appropriate liquidity headroom in the context of current and future financing requirements.

Our corporate credit ratings (A+/A1, both with a stable outlook) remain an important enabler of our access to financing at competitive rates from the debt capital markets.

## Insurance

Through our insurance arrangements with RSA Insurance Group (RSA) Motability Operations participates in a proportion of premium exposure via our A+ rated reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme. This arrangement not only secures the long-term supply of insurance, but also brings greater efficiency and financial benefits, all of which are passed on to customers.

Following an independent review of our actuarial assessment of the reserving position, MORL reported a £22.2m post-tax profit for the six months to March 2018.

This result has been largely driven by better than expected claims in the current period alongside positive development on prior period claim reserves. It is pleasing to note that this has also supported a reduction in the insurance costs priced into new customer leases, in part offsetting other inflationary pressures in vehicle supply and maintenance.

## Welfare reform

In 2013, the Government introduced a new benefit – Personal Independence Payment (PIP) – which is gradually replacing Disability Living Allowance (DLA) for disabled people aged between 16 and 64. From October 2013, the Department for Work and Pensions (DWP) began to reassess some two million disabled people, including around 360,000 who currently lease a Motability car. Recipients who qualify for the enhanced rate of the mobility component of PIP are able to continue leasing a car as they do today. However, because PIP is a new benefit assessed using different criteria, some people are losing their eligibility for the Motability Scheme. Other potential customers will qualify for the first time, including those with cognitive impairments.

As a Scheme, we wish to support those customers losing eligibility. Many people may have been customers for a long time, and could not have expected a change in their eligibility for the Scheme to occur. Some, especially those with lifetime or indefinite awards, may have expected to remain permanently on the Scheme.

We worked closely with Lord Sterling and our colleagues at Motability to implement a package of support which is appropriate to customer needs, affordable and did not compromise the financial strength of the Scheme. In April 2017 this support package was enhanced to provide a greater level of flexibility for our customers as they go through the PIP reassessment process by allowing an optional extension to the hand back of their vehicle following loss of their entitlement to their higher-rate mobility allowance. This was further enhanced recently to allow an extension beyond the 26-week extension period originally available where customer appeals are yet to be determined. To date we have made donations totalling £175m to Motability as part of our commitment to fund this transitional support.

As of March 2018, almost 78,000 Scheme customers have lost their entitlement to the higher-rate allowance following their PIP reassessment, and consequently have also lost their eligibility to continue leasing a product on the Motability Scheme.

## Outlook

Looking ahead we remain focused on providing a first-class service and unparalleled value to our customers, whilst continuing to support those going through the PIP transition process.

As the UK Government continues to negotiate the terms of the UK's exit from the European Union, there remains an uncertain economic backdrop, potentially affecting exchange rates and the price of new cars. We continue to anticipate pressure in the used car market and we will monitor residual values carefully.

Notwithstanding potential challenges ahead, it is reassuring that our business model remains robust and capable of supporting the financial and operational requirements that underpin the long-term sustainability of the Scheme whilst continuing to offer an affordable and consistent proposition to our customers.

We remain focussed on providing a first-class service and unparalleled value to our customers.

**41.1min**

**average roadside assistance response time. Prioritised assistance ensures that our customers are mobile again as soon as possible**

**£2,069m**

**revenue in the six months to March 2018, marginally down year on year (2017: £2,122m)**

# Our strategic framework


## Our strategy

In order to ensure that our activity delivers outstanding value to customers, we have defined four strategic pillars. These set out a clear framework within which we align our business objectives, strategic initiatives, performance targets and business planning. Our people, positioning principles, culture and values form the bedrock to deliver these objectives.

## Our values

Our values 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.

### 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 collaborative business culture aligned to our core values and principles. We seek to develop our people and to reward and recognise excellent performance.

Turn to page 7 for more information on our people

### Performance

We track performance through a range of corporate Key Performance Indicators (KPIs). These KPIs are defined in the context of the four strategic pillars, thereby ensuring that activity across the business is aligned with these strategic objectives. Employee performance is measured with reference to the delivery of both individual and Company targets.

Turn to pages 14-17 for more information on our performance

### Risk management

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

Turn to pages 18-20 for more information on our risk management

# Build our customer and disability expertise

## We aim to 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.

### Goals

Understanding our customers is critical to our success. By listening and responding to their feedback, we are able to adapt our proposition and focus our resources on their needs. Our success is dependent on our ability to deliver a Scheme that meets our customers' requirements and provides excellent service. Development of our disability expertise is fundamental to our success in understanding our customers and the delivery of our customer service aspirations.

### Objectives

- Deliver best-practice customer service through our call centre
- Ensure that the standard of services deployed through our key suppliers is commensurate with our internal targets
- Build 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
- Provide our customers with the information and tools they need to select a suitable car from the wide range available
- Provide information to support decision-making to meet customers' mobility needs
- Work with disability organisations for guidance and support

### Initiatives delivered during the last 12 months

- Increased our investment in adaptations to improve the range available to customers when they choose their vehicle and extended our support to improve Wheelchair Accessible Vehicle (WAV) affordability
- Continued to support PIP stopped allowance cases and provided an option for qualifying customers to retain their vehicle for 26 weeks
- £45m donated to Motability to support the provision of financial grants towards the cost of passenger WAVs
- Worked with mental health charity Mind to improve our understanding of how best to support customers with mental health conditions and to develop resilience training for our customer service teams in handling more difficult or emotionally challenging calls
- Successful implementation of web chat to provide an alternative online channel for customers, which has proved particularly popular with customers who are unable, or prefer not, to use the telephone

### Key performance indicators

**99%**
**Overall customer satisfaction**
Target of >92%

**75%**
**Calls answered within 20 seconds**
Target of >80%

**41.1min**
**Roadside assistance average response time**
Target of <42 min

When I received my first WAV it was unbelievable how much it changed my life.

# Provide value and choice

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

### Goals

We believe that customers should be able to choose from a wide selection of vehicles. Within this offering we are committed to providing a range of affordable models which are suitable for our customers' needs.

To this end we seek to leverage our purchasing power and ensure that we manage our cost base on commercial terms – the aim being to provide value without compromising choice or quality.

### Objectives

- Maintain a range of at least 200 cars at 'nil advance payment'
- Provide a wide selection of vehicle models and brands
- Ensure that our residual value-setting and forecasting is the best in the industry
- Provide stability in pricing and choice throughout the economic cycle
- Retain our market leadership for vehicle remarketing

### Initiatives delivered during the last 12 months

- Worked with car manufacturers to maintain choice and affordability for customers with more than 340 cars available at no more than the allowance, despite cost pressures from exchange rates
- Implemented a number of digital enhancements to our online vehicle remarketing platform (mfldirect)
- Activity commenced on the long-term development of the supporting systems infrastructure for our online remarketing processes

### Key performance indicators

**>340**
**Affordable vehicle choice at 'nil advance payment'**
Target of >200

**>45%**
**cheaper than alternative**

**78%**
**of vehicles sold online at the end of lease**
Target of >70%

It's allowed me to carry on with things I didn't think I could do after my accident.

# 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.

## Goals

Through promoting greater understanding of the Scheme proposition, we seek to develop better-informed potential customers who are well positioned to evaluate its benefits.

Fundamental to this are the loyalty and trust of our existing customers, with renewal rates being closely linked to our success in delivering sustained affordability and excellent customer service.

## Objectives

- Raise understanding of Scheme elements and confidence and trust in the Scheme
- Maximise effectiveness of multimedia channels to increase understanding within the eligible customer base
- Identify and, where appropriate, remove any barriers for potential customers
- Continue to encourage dealers to promote the Scheme in line with our brand

## Initiatives delivered during the last 12 months

- Held a series of dealer business briefings, attended by more than 3,000 dealer managers and specialists across the UK. A major focus was advising dealers on how customer requirements are changing, helping them consider how they might best support those with mental health, cognitive and intellectual conditions
- Continued our series of summer events, known as One Big Days, offering current and potential customers, and their families, the opportunity to find out more about the Motability Scheme at first hand. These events attracted more than 22,000 visitors, and a record 765 adapted test drives. Guests rate the events on average at 92%, with over two thirds saying they would follow up their attendance with a visit to a dealer

## Key performance indicators

**99%**
**Trust in Motability**
Trust in the Scheme

**91%**
**Customer renewal rate at the end of lease**
Target of >85%

**98%**
**Customer advocacy**
Target of 85%

The Motability team are friendly, they're helpful, and you're treated as a person.

# Ensure long-term sustainability

## We strive to ensure that our business model, finances, people, reputation and infrastructure are geared to support the long-term sustainability of the Scheme.

### Goals

Long-term sustainability is fundamental to the delivery of the other three strategic pillars. From a financial perspective we seek to ensure that we maintain a robust balance sheet and reserves base capable of absorbing market volatility, and that we secure longevity of funding on competitive terms capable of supporting our range of fleet expectations. This, in turn, allows stability of pricing through the economic cycle. We endeavour to operate efficiently and responsibly to support our customers and stakeholders. We regard the enhancement of our reputation and the continuation of the support we enjoy across our stakeholder groups as pivotal to our sustained success.

### Objectives

- Maintain a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events
- Create 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
- Continue to nurture effective partnerships with key stakeholders
- Maintain a forward-looking environmental policy, providing a choice of environmentally friendly vehicles on the Scheme, balancing customer need with fuel economy and emissions
- Ensure that our premises and information technology infrastructure are robust and future-proof
- Attract and retain quality people

### Initiatives delivered during the last 12 months

- Implemented robust long-term systems infrastructure with the completion of a major systems replacement project and transfer of our car fleet onto a new leasing system
- Successful refinancing plan; securing appropriate low-cost liquidity to replace maturing bonds and significantly de-risk future refinancing activity

### Key performance indicators

**94%**
**Employee engagement**
Target to exceed HPO benchmark (83%)

**A+/A1**
**Credit rating**

**8.28yrs**
**Weighted average debt maturity profile**

The Scheme provides a service which really makes life easier for you. It means I can be a Dad again.

# Our dynamic and robust approach

## 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 effective mitigants in place to reduce these exposures.

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

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

We have a Board Director with specific responsibility for risk and, through our dedicated Risk team, we continually seek to refine our approach and practices.

We make certain that, through our policy and approach, our activities meet standards of behaviour and fall within boundaries that are consistent with our approved level of appetite for risk.

### Risk identification and monitoring

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

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

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

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

## Risk management framework

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

**1st line of defence**
Primary risk management

- Controls designed into processes and procedures
- Control Risk Self Assessments and control action plans
- Project risk identification and management processes
- Directors' Risk Assessments

**2nd line of defence**
Risk control

- Risk department activities
- Policies and procedures, e.g. Authorities Manual
- Directors and Heads of Function Annual Accountability Statements
- Company Performance Report and KPIs
- Activities of the Board and Committees

**3rd line of defence**
Assurance

- Follow-up of agreed recommendations against implementation deadlines and subsequent reporting
- Internal audit reviews

## Risk Appetite Framework

Over recent years we have enhanced our risk management approach through the implementation of a Risk Appetite Framework (RAF). Developing more formalised risk reporting, the framework builds on our strong risk management culture and aligns our strategic planning and risk management activities. The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels which includes over 140 risk metrics.

The development of this framework drew on best practice and has been independently assessed. The responsibility for monitoring and review of the RAF has been included within our governance framework. Our risk appetite is reviewed and set by Directors on at least an annual basis, utilising information from strategic planning, risk management activity and business objectives.

The implementation of a comprehensive Risk Appetite Framework ensures that there is a clear linkage between our strategic planning, performance monitoring and risk management activities.

**Strategic plan, objectives and risk strategy**

### High level

High-level enterprise-wide risk appetite statement, measures and limits

### Directional

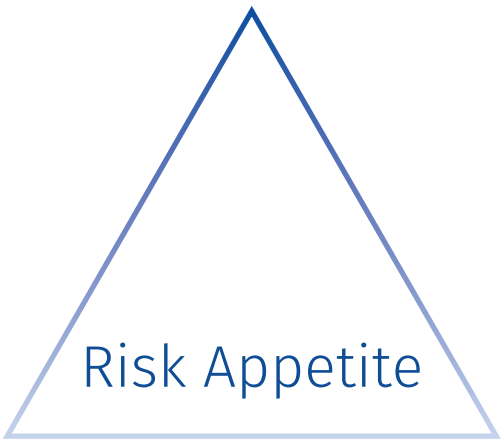
Key Risk Driver and related risk appetite statements, measures and limits

### Specific

Principles and policies to operationalise risk appetite

### Detailed

Detailed risk appetite measures and limits




**Business dimensions**

- ✓ Based upon a top-down hierarchy derived from the strategic plan and objectives and risk strategy
- ✓ Documentation of specific minimum standards; principles and 'dos and don'ts' for inclusion in the business policy and risk assessment documentation
- ✓ Articulation of high-level statements and limits aligned to strategic risk objectives such as earnings volatility; embedded value; financial strength; infrastructure; reputation etc.
- ✓ Mapping of directional limits to detailed business management information so as to tie together the top-down and bottom-up
- ✓ Analysis of high-level limits to identify and set limits against key risk drivers so as to give directional steer to business
- ✓ The framework is then used to inform the key business dimensions including: business model, customer profile, control measures, concentrations, competitive position, and financials

# Summary of our key risks and mitigations

| | 1 Residual values<br>Unexpected movements in used car values, failure to achieve market value on disposal | 2 Insurance<br>Exposure to insurance claims that exceed expectations or supplier failure | 3 Treasury<br>Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk | 4 Supplier failure<br>Failure of key manufacturer or other key Scheme supplier |
|---|---|---|---|---|
| Potential impact | • Volatility in profitability, reserves and pricing. Potential impact on affordability and choice | • Financial impact of claims exceeding priced expectations<br>• Failure of a reinsurer could transfer risk back to Motability Operations<br>• Legislative changes (e.g. Ogden rate changes) | • Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding | • Compromised customer service provision and potential financial impact of securing alternative supplier<br>• In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties |
| Mitigation | • Sophisticated in-house residual value-setting and forecasting process<br>• Risk capital management for asset risk using Economic Capital principles<br>• Market-leading remarketing approach | • Conservatively placed reinsurance programme effectively limits the Group's net risk<br>• Risk capital in place to cover net risk<br>• Access to extensive expertise<br>• Diversification of supply across highly rated reinsurers | • Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps<br>• Balanced portfolio of funding maturities and diversification into bond market<br>• Maintenance of strong credit rating<br>• Robust treasury system, controls and governance | • Active monitoring of credit ratings and market announcements<br>• Strong supplier relationships and communication<br>• Diversification of supply<br>• Diversified portfolio |
| Link to strategy | • The setting of residual values is one of our core competencies. Our strategic approach ensures that we invest appropriately to maintain a market-leading capability (in terms of people, methodology and technology) | • Our revised insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term | • The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk averse | • Through our annual strategic review we assess the performance and stability of all main Scheme suppliers, including contingency planning in the event that a major failure occurs |

| | 5 Operational<br>Risk of failure of key systems, controls or processes | 6 Cyber risk & information security<br>The loss or harm related to unauthorised access to infrastructure or data | 7 Credit<br>Risk of default of key income streams and exposure to bad debt |
|---|---|---|---|
| Potential impact | • Potential financial and reputational risk<br>• Risk of business disruption | • Potential impacts to customer and stakeholder confidence<br>• Potential financial and reputational risk<br>• Risk of business disruption | • Potential impact on cash inflows and consequent write-off to income statement |
| Mitigation | • Robust control environment<br>• Active monitoring and testing of Business Continuity and Disaster Recovery plans<br>• Focus and investment in IT infrastructure providing a stable and resilient operating platform | • Information security framework aligned to best practice and industry standards<br>• Designated data protection officer<br>• Ongoing employee awareness programme<br>• Cyber Insurance and Incident Response plan in place | • Principal income stream received directly from DWP – therefore minimal credit risk<br>• Residual credit risks are managed through credit assessments and an effective credit control function |
| Link to strategy | • We ensure that we make appropriate strategic investments in our infrastructure, systems and processes | • Customer confidence in the Scheme underpins our strategy<br>• The strategic pillar of ensuring long-term sustainability ensuring compliance with key regulation | • The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme |

# Independent review report to Motability Operations Group plc

## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed Motability Operations Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the half year report of Motability Operations Group plc for the six-month period ended 31 March 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 31 March 2018;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Responsibilities for the interim financial statements and the review

### Our responsibilities and those of the Directors

The half year report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

### What a review of interim financial statements involves

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, 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.

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 interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom
30 May 2018

# Consolidated income statement

## For the six months ended 31 March 2018

| | Note | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|---|
| Revenue | 4 | 2,068.8 | 2,122.1 |
| Net operating costs excluding charitable donations | | (1,750.3) | (1,884.2) |
| Charitable donations | | – | (0.2) |
| Net operating costs | 6 | (1,750.3) | (1,884.4) |
| **Profit from operations** | | 318.5 | 237.7 |
| Finance costs | 7 | (83.4) | (121.6) |
| **Profit before tax** | | 235.1 | 116.1 |
| Taxation | 8 | (44.7) | (22.6) |
| **Profit for the period** | | 190.4 | 93.5 |

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

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

# Consolidated statement of comprehensive income

## For the six months ended 31 March 2018

| | Note | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|---|
| **Profit for the period** | | 190.4 | 93.5 |
| **Other comprehensive income items that may be reclassified subsequently to profit or loss** | | | |
| Losses on movements in fair value of cash flow hedging derivatives | 15 | (20.4) | (48.7) |
| Gains on foreign currency translation | 15 | 19.8 | 39.4 |
| Tax relating to components of other comprehensive income | | 0.1 | 1.8 |
| **Other comprehensive losses for the period, net of tax** | | (0.5) | (7.5) |
| **Total comprehensive income for the period attributable to equity** | | 189.9 | 86.0 |

The notes on pages 25 to 48 form part of these financial statements

# Consolidated balance sheet

## As at 31 March 2018

| | Note | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | | 44.6 | 45.7 | 38.6 |
| Property, plant and equipment | | 15.9 | 17.3 | 17.9 |
| Assets held for use in operating leases | 9 | 6,509.6 | 6,413.2 | 6,301.0 |
| Held to maturity investments | | 128.3 | 46.0 | 41.2 |
| Trade and other receivables | | 19.8 | 20.6 | 17.8 |
| Derivative financial instruments | 16 | 86.9 | 110.2 | 74.6 |
| Deferred tax asset | | – | – | 0.3 |
| | | 6,805.1 | 6,653.0 | 6,491.4 |
| **Current assets** | | | | |
| Inventories | 10 | 104.0 | 86.1 | 132.6 |
| Held to maturity investments | | 66.9 | 56.3 | 60.6 |
| Cash and bank balances | | 707.5 | 1,168.3 | 1,029.4 |
| Insurance receivables | 11 | 259.3 | 225.2 | 186.9 |
| Trade and other receivables | | 331.0 | 278.9 | 326.9 |
| Derivative financial instruments | 16 | 18.8 | 16.0 | 2.7 |
| | | 1,487.5 | 1,830.8 | 1,739.1 |
| **Total assets** | | 8,292.6 | 8,483.8 | 8,230.5 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Corporation tax payable | | (65.7) | (15.6) | (30.1) |
| Deferred rental income | 12 | (188.6) | (183.8) | (177.4) |
| Insurance payables | 13 | (76.6) | (65.8) | (54.7) |
| Trade and other payables | | (212.4) | (250.4) | (166.8) |
| General insurance provisions | 14 | (299.1) | (272.1) | (249.0) |
| Financial liabilities | 15 | (432.7) | (502.7) | (530.0) |
| Derivative financial instruments | 16 | – | (0.1) | (0.4) |
| | | (1,275.1) | (1,290.5) | (1,208.4) |
| **Net current assets** | | 212.4 | 540.3 | 530.7 |
| **Non-current liabilities** | | | | |
| Deferred rental income | 12 | (215.0) | (213.8) | (209.7) |
| Financial liabilities | 15 | (3,851.7) | (4,196.5) | (4,148.4) |
| Derivative financial instruments | 16 | – | – | (19.5) |
| Deferred tax liabilities | | (327.7) | (349.8) | (334.1) |
| | | (4,394.4) | (4,760.1) | (4,711.7) |
| **Total liabilities** | | (5,669.5) | (6,050.6) | (5,920.1) |
| **Net assets** | | 2,623.1 | 2,433.2 | 2,310.4 |
| **Equity** | | | | |
| Ordinary share capital | | 0.1 | 0.1 | 0.1 |
| Hedging reserve | 15 | 1.7 | 2.2 | (1.4) |
| Restricted reserves (*) | | 2,621.3 | 2,430.9 | 2,311.7 |
| **Total equity** | | 2,623.1 | 2,433.2 | 2,310.4 |

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

These financial statements on pages 22 to 48 were approved by the Board of Directors on 30 May 2018 and signed on behalf of the Board.

**Mike Betts**
Chief Executive

The notes on pages 25 to 48 form part of these financial statements

# Consolidated statement of changes in equity

## For the six months ended 31 March 2018

| | Ordinary share capital £m | Hedging reserve £m | Restricted reserves £m | Total £m |
|---|---|---|---|---|
| **At 1 October 2016** | 0.1 | 6.1 | 2,218.2 | 2,224.4 |
| **Comprehensive income** | | | | |
| Profit for the period | – | – | 93.5 | 93.5 |
| **Other comprehensive income – items that may be reclassified subsequently to profit or loss** | | | | |
| Losses on movements in fair value of cash flow hedging derivatives | – | (48.7) | – | (48.7) |
| Gains on foreign currency translation | – | 39.4 | – | 39.4 |
| Tax relating to components of other comprehensive income | – | 1.8 | – | 1.8 |
| **Total comprehensive (losses)/income** | – | (7.5) | 93.5 | 86.0 |
| **At 31 March 2017** | 0.1 | (1.4) | 2,311.7 | 2,310.4 |
| | | | | |
| **At 1 October 2017** | 0.1 | 2.2 | 2,430.9 | 2,433.2 |
| **Comprehensive income** | | | | |
| Profit for the period | – | – | 190.4 | 190.4 |
| **Other comprehensive income – items that may be reclassified subsequently to profit or loss** | | | | |
| Losses on movements in fair value of cash flow hedging derivatives | – | (20.4) | – | (20.4) |
| Gains on foreign currency translation | – | 19.8 | – | 19.8 |
| Tax relating to components of other comprehensive income | – | 0.1 | – | 0.1 |
| **Total comprehensive (losses)/income** | – | (0.5) | 190.4 | 189.9 |
| **At 31 March 2018** | **0.1** | **1.7** | **2,621.3** | **2,623.1** |

# Consolidated statement of cash flows

## For the six months ended 31 March 2018

| | Note | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 17 | **126.4** | 203.9 |
| Interest paid | | **(88.2)** | (123.6) |
| Income tax paid | | **(16.5)** | (27.4) |
| **Net cash generated from operating activities** | | **21.7** | 52.9 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | | **(2.4)** | (10.1) |
| Purchase corporate property, plant and equipment | | **(0.5)** | (1.5) |
| Proceeds from sale of corporate property, plant and equipment | | **0.4** | 0.3 |
| Investment in held to maturity financial assets | | **(92.9)** | (0.2) |
| **Net cash used in investing activities** | | **(95.4)** | (11.5) |
| | | | |
| **Cash flows from financing activities** | | | |
| Bonds issued | | **–** | 778.2 |
| Bonds redeemed | | **(425.2)** | (283.8) |
| **Net cash generated from financing activities** | | **(425.2)** | 494.4 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(498.9)** | 535.8 |
| Cash and cash equivalents at beginning of period | | **1,158.3** | 440.7 |
| **Cash and cash equivalents at end of period** | 17 | **659.4** | 976.5 |

The notes on pages 25 to 48 form part of these financial statements

# Notes to the interim financial statements

## 1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB.

Motability Operations Group plc ('the Company') and its subsidiaries are 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 2017 were approved by the Board of Directors on 13 December 2017 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 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct 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 2017, which have been prepared in accordance with IFRSs as adopted by the European Union. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2017, as described in those annual financial statements.

### Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these interim financial statements, and have identified no material uncertainties which could affect the Group's ability to continue to do so over a period of at least 12 months from the date of approval of these 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.

## 2. Significant accounting policies continued

### 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 12 | *Disclosure of Interests in Other Entities* |
| Amendments to IAS 7 | *Statement of Cash Flows* |
| Amendments to IAS 12 | *Income Taxes* |
| Annual improvements to IFRSs | *2014-2016 Cycle* |

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

| | |
|---|---|
| Amendments to IFRS 1 | *First-time Adoption of International Financial Reporting Standards* |
| Amendments to IFRS 2 | *IFRS 2 Share-based Payment* |
| IFRS 4 | *IFRS 4 Insurance Contracts* |
| IFRS 9 | *Financial Instruments* |
| IFRS 15 | *Revenue from Contracts with Customers* |
| IFRS 16 | *Leases* |
| IFRS 17 | *Insurance Contracts* |

### IFRS 9 – Financial Instruments

IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces a new impairment model for financial assets and new rules for hedge accounting. The standard must be applied for financial years commencing on or after 1 January 2018, so for the Group the first period of adoption will be the year ending 30 September 2019.

The Group is assessing the impact of the adoption of IFRS 9 and expectations are that whilst it may require changes to the classification of certain financial assets and liabilities and related disclosures, it should have no material impact on the Group's reported profits. The financial assets of the Group include debt instruments currently classified as held-to-maturity and measured at amortised cost, and these instruments also appear to meet the conditions for classification at amortised cost under IFRS 9. The Group's current hedging relationships also appear to qualify as continuing hedges under IFRS 9, and the Group's financial liabilities should not be impacted.

The standard will not have any material impact on Motability Operations Group plc's individual Company financial statements.

### IFRS 15 – Revenue from Contracts with Customers

IFRS 15 must be implemented for accounting periods commencing on or after 1 January 2018, so for the Group the first period of adoption will be the year ending 30 September 2019 (with comparative figures for the previous year also affected). Although leasing revenue and insurance revenue is out of scope for IFRS 15, the Group will be applying the standard to the bundle of services provided along with the vehicle itself within each of our contracts with customers. The new standard is based on the principle that revenue is recognised when services are delivered to customers in settlement of performance obligations in the contract. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following affected areas:

- the Group's rental receivable from operating leases will be split into three main elements: leasing the vehicle (to be covered under IFRS 16), providing insurance cover (initially under IFRS 4 but eventually covered by IFRS 17) and providing other services relating to keeping the vehicle on the road (under IFRS 15);
- the other services consist of the provision of routine vehicle maintenance (including replacement tyres) and roadside breakdown assistance;
- given the standard nature of our leasing contract and the size of the fleet, the Group will apply the standard to portfolios of contracts based on their start date, as this will best reflect the way performance obligations regarding these services will be met over time (by arranging for insurance cover, vehicle maintenance, tyres and roadside assistance at a portfolio level) and will not differ materially from applying the standard to the individual contracts within the portfolio; and
- the Group will adopt a fully retrospective approach upon transition as the Group's contracts with customers are of relatively short duration and standard in form.

There may be an immaterial reduction in the Group's restricted reserves as margins assigned to the service elements are deferred to future periods on transition to the new standard.

This will not have any material impact on Motability Operations Group plc's individual Company financial statements.

### IFRS 16 – Leases

IFRS 16 must be applied for financial years commencing on or after 1 January 2019, so for the Group the first period of adoption will be the year ending 30 September 2020. The Group has undertaken an initial assessment of the impact of adoption of this standard. The standard does not make any significant changes to accounting for lessors, and the only material impact on the Group as a lessee will arise through the recognition of leased premises on the balance sheet. This will result in an increase in the Group's "property, plant and equipment" assets (representing the right to use the premises) and a similar increase in financial liabilities (representing the commitment to pay rentals).

The standard will not have any material impact on Motability Operations Group plc's individual Company financial statements.

### IFRS 17 – Insurance Contracts

IFRS 17 was issued on 18 May 2017 with an implementation date of accounting periods commencing on or after 1 January 2021, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2022 (with comparative figures for the previous accounting period also affected). The Group is assessing the impact of the changes for the reporting of the fleet reinsurance segment and has no plans to apply the requirements of the standard earlier than the required date.

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, and do not plan to apply any of the new IFRSs in advance of their required dates.

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 13). As at 31 March 2018, if the future value of the net sale proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used car market), the effect would be to increase/decrease the depreciation on these vehicles by £50.1m (2017: £48.3m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases, from the start of the current accounting year, 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.

### Insurance contracts

There are certain factors that cause uncertainty when the Group is estimating its ultimate claims liability. Principally, the complex nature of the claims invariably results in a lengthy legal process where claims quantum can fluctuate, as described in more detail in note 14.

## 4. Revenue

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

| | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|
| Rentals receivable from operating leases | 1,011.3 | 1,006.7 |
| Proceeds from disposal of operating lease assets | 1,039.2 | 1,095.4 |
| Insurance reimbursements from disposal of operating lease assets | 14.7 | 17.4 |
| Finance income | 2.2 | 1.4 |
| Other income | 1.4 | 0.9 |
| Contingent rentals | – | 0.3 |
| Total revenue | 2,068.8 | 2,122.1 |

Contingent rentals relate to variable charges for excess mileage.

Reinsurance premiums earned by the Group's insurance captive of £130.0m (six months ended 31 March 2017: £133.0m) relate to the Group's fleet. Therefore, on consolidation, they are recognised as a reduction of insurance premiums paid as part of the Group's fleet operating costs.

## 5. Segmental analysis

The Group is organised into two main operating segments: Scheme Operations and Fleet Reinsurance.

### Scheme Operations

The main responsibilities of the Scheme Operations segment are:

- buying and selling assets for use in operating leases;
- arranging the funds to purchase the assets;
- leasing the assets to customers along with the associated costs; and
- providing customers the worry-free service package.

The two main sources of income for this segment are proceeds from disposal of operating lease assets and rentals receivable from operating leases.

### Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

- providing motor quota-share reinsurance to the Scheme fronting insurer; and
- arranging reinsurance cover to limit the Group's exposure to the motor quota-share reinsurance.

The main source of income for the operating segment is inter-segment insurance premium income.

### Segmental performance

Information on the segmental performance is reported to and reviewed by the Executive Committee on a monthly basis. Management monitors the operating results of its operating segments separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on profit after tax.

Inter segment revenues comprise insurance premiums from Scheme Operations to Fleet Reinsurance and insurance reimbursements from Fleet Reinsurance to Scheme Operations, and are eliminated on consolidation. Transactions were entered into on an arm's length basis in a manner similar to transactions with third parties.

## 5. Segmental analysis continued

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the six months ended 31 March 2018 and 31 March 2017.

| Six months ended 31 March 2018 | Scheme Operations £m | Fleet Reinsurance £m | Consolidation adjustments £m | Total £m |
|---|---|---|---|---|
| Rentals receivable from operating lease assets | 1,011.3 | – | – | 1,011.3 |
| Proceeds from disposal of operating lease assets (including insurance reimbursements): | | | | |
| Proceeds from external parties | 1,053.9 | – | – | 1,053.9 |
| Inter-segment proceeds | 18.6 | – | (18.6) | – |
| Insurance income | – | 130.0 | (130.0) | – |
| Other revenue | 2.8 | 0.8 | – | 3.6 |
| **Total revenue** | 2,086.6 | 130.8 | (148.6) | 2,068.8 |
| Net book value of disposed operating lease assets | (962.5) | – | – | (962.5) |
| Fleet operating costs | (294.2) | – | 130.0 | (164.2) |
| Insurance claims and commission costs | – | (103.0) | 18.6 | (84.4) |
| Depreciation on assets used in operating leases | (427.3) | – | – | (427.3) |
| Other operating costs | (111.6) | (0.3) | – | (111.9) |
| Charitable donations | – | – | – | – |
| **Net operating costs** | (1,795.6) | (103.3) | 148.6 | (1,750.3) |
| **Profit from operations** | 291.0 | 27.5 | – | 318.5 |
| Finance costs | (83.4) | – | – | (83.4) |
| **Profit before tax** | 207.6 | 27.5 | – | 235.1 |
| Taxation | (39.4) | (5.3) | – | (44.7) |
| **Profit for the period** | 168.2 | 22.2 | – | 190.4 |

| Six months ended 31 March 2017 | Scheme Operations £m | Fleet Reinsurance £m | Consolidation adjustments £m | Total £m |
|---|---|---|---|---|
| Rentals receivable from operating lease assets | 1,006.7 | – | – | 1,006.7 |
| Proceeds from disposal of operating lease assets (including insurance reimbursements): | | | | |
| Proceeds from external parties | 1,112.8 | – | – | 1,112.8 |
| Inter-segment proceeds | 23.1 | – | (23.1) | – |
| Insurance income | – | 133.0 | (133.0) | – |
| Other revenue | 1.9 | 0.7 | – | 2.6 |
| **Total revenue** | 2,144.5 | 133.7 | (156.1) | 2,122.1 |
| Net book value of disposed operating lease assets | (1,072.4) | – | – | (1,072.4) |
| Fleet operating costs | (325.7) | – | 133.0 | (192.7) |
| Insurance claims and commission costs | – | (117.3) | 23.1 | (94.2) |
| Depreciation on assets used in operating leases | (416.8) | – | – | (416.8) |
| Other operating costs | (107.8) | (0.3) | – | (108.1) |
| Charitable donations | (0.2) | – | – | (0.2) |
| **Net operating costs** | (1,922.9) | (117.6) | 156.1 | (1,884.4) |
| **Profit from operations** | 221.6 | 16.1 | – | 237.7 |
| Finance costs | (121.6) | – | – | (121.6) |
| **Profit before tax** | 100.0 | 16.1 | – | 116.1 |
| Taxation | (19.4) | (3.2) | – | (22.6) |
| **Profit for the period** | 80.6 | 12.9 | – | 93.5 |

## 5. Segmental analysis continued

The following tables show certain asset and liability information as at 31 March 2018, 30 September 2017 and 31 March 2017 regarding business operating segments.

| 31 March 2018 | Scheme Operations £m | Fleet Reinsurance £m | Consolidation adjustments £m | Total £m |
|---|---|---|---|---|
| PPE & intangible assets | 60.5 | – | – | 60.5 |
| Assets held for use in operating leases (including inventories) | 6,613.6 | – | – | 6,613.6 |
| Deferred tax asset | – | – | – | – |
| Derivative financial instruments | 105.7 | – | – | 105.7 |
| Insurance receivables | – | 219.8 | 39.5 | 259.3 |
| Trade and other receivables | 350.6 | 0.2 | – | 350.8 |
| Financial assets | 668.4 | 335.6 | (101.3) | 902.7 |
| **Total assets** | 7,798.8 | 555.6 | (61.8) | 8,292.6 |
| Deferred income | (403.6) | – | – | (403.6) |
| Insurance payables | – | (76.6) | – | (76.6) |
| Trade and other payables | (212.3) | (0.1) | – | (212.4) |
| Corporation tax payable | (65.7) | – | – | (65.7) |
| Financial liabilities | (4,284.4) | – | – | (4,284.4) |
| Deferred taxation | (327.7) | – | – | (327.7) |
| General insurance business provisions | – | (259.6) | (39.5) | (299.1) |
| Derivative financial instruments | – | – | – | – |
| Total liabilities | (5,293.7) | (336.3) | (39.5) | (5,669.5) |
| **Net assets** | 2,505.1 | 219.3 | (101.3) | 2,623.1 |
| | | | | |
| Ordinary share capital | 0.1 | 101.3 | (101.3) | 0.1 |
| Hedging reserve | 1.7 | – | – | 1.7 |
| Restricted reserves | 2,503.3 | 118.0 | – | 2,621.3 |
| **Total equity** | 2,505.1 | 219.3 | (101.3) | 2,623.1 |

## 5. Segmental analysis continued

| 30 September 2017 | Scheme Operations £m | Fleet Reinsurance £m | Consolidation adjustments £m | Total £m |
|---|---|---|---|---|
| PPE & intangible assets | 63.0 | – | – | 63.0 |
| Assets held for use in operating leases (including inventories) | 6,499.3 | – | – | 6,499.3 |
| Derivative financial instruments | 126.2 | – | – | 126.2 |
| Insurance receivables | – | 188.4 | 36.8 | 225.2 |
| Trade and other receivables | 299.5 | – | – | 299.5 |
| Financial assets | 1,067.3 | 304.6 | (101.3) | 1,270.6 |
| **Total assets** | 8,055.3 | 493.0 | (64.5) | 8,483.8 |
| Deferred income | (397.6) | – | – | (397.6) |
| Insurance payables | – | (65.8) | – | (65.8) |
| Trade and other payables | (250.2) | (0.2) | – | (250.4) |
| Corporation tax payable | (15.6) | – | – | (15.6) |
| Financial liabilities | (4,699.2) | – | – | (4,699.2) |
| Deferred taxation | (349.8) | – | – | (349.8) |
| General insurance business provisions | – | (235.3) | (36.8) | (272.1) |
| Derivative financial instruments | (0.1) | – | – | (0.1) |
| Total liabilities | (5,712.5) | (301.3) | (36.8) | (6,050.6) |
| **Net assets** | 2,342.8 | 191.7 | (101.3) | 2,433.2 |
| | | | | |
| Ordinary share capital | 0.1 | 101.3 | (101.3) | 0.1 |
| Hedging reserve | 2.2 | – | – | 2.2 |
| Restricted reserves | 2,340.5 | 90.4 | – | 2,430.9 |
| **Total equity** | 2,342.8 | 191.7 | (101.3) | 2,433.2 |

| 31 March 2017 | Scheme Operations £m | Fleet Reinsurance £m | Consolidation adjustments £m | Total £m |
|---|---|---|---|---|
| PPE & intangible assets | 56.5 | – | – | 56.5 |
| Assets held for use in operating leases (including inventories) | 6,433.6 | – | – | 6,433.6 |
| Deferred tax asset | 0.3 | – | – | 0.3 |
| Derivative financial instruments | 77.3 | – | – | 77.3 |
| Insurance receivables | – | 148.8 | 38.1 | 186.9 |
| Trade and other receivables | 344.6 | 0.1 | – | 344.7 |
| Financial assets | 969.7 | 262.8 | (101.3) | 1,131.2 |
| **Total assets** | 7,882.0 | 411.7 | (63.2) | 8,230.5 |
| Deferred income | (387.1) | – | – | (387.1) |
| Insurance payables | – | (54.7) | – | (54.7) |
| Trade and other payables | (166.6) | (0.2) | – | (166.8) |
| Corporation tax payable | (30.1) | – | – | (30.1) |
| Financial liabilities | (4,678.4) | – | – | (4,678.4) |
| Deferred taxation | (334.1) | – | – | (334.1) |
| General insurance business provisions | – | (210.9) | (38.1) | (249.0) |
| Derivative financial instruments | (19.9) | – | – | (19.9) |
| Total liabilities | (5,616.2) | (265.8) | (38.1) | (5,920.1) |
| **Net assets** | 2,265.8 | 145.9 | (101.3) | 2,310.4 |
| | | | | |
| Ordinary share capital | 0.1 | 101.3 | (101.3) | 0.1 |
| Hedging reserve | (1.4) | – | – | (1.4) |
| Restricted reserves | 2,267.1 | 44.6 | – | 2,311.7 |
| **Total equity** | 2,265.8 | 145.9 | (101.3) | 2,310.4 |

## 6. Net operating costs

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

| | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|
| Net book value of disposed operating lease assets | 934.9 | 1,037.6 |
| Net book value of operating lease assets derecognised as insurance write-offs | 27.6 | 34.8 |
| Fleet operating costs including insurance, maintenance and roadside assistance costs* | 164.2 | 192.7 |
| Insurance claims expense | 84.4 | 94.2 |
| Other operating costs | 31.5 | 31.8 |
| Employee costs | 25.6 | 19.9 |
| Other product costs including continuous mobility costs, adaptations support and communications | 23.7 | 31.3 |
| Legal and professional fees | 14.0 | 7.7 |
| Bad debt charges and movement in bad debt provisions | 6.0 | 9.0 |
| Motability levy and rebates | 5.7 | 5.4 |
| Management fees | 0.4 | 0.4 |
| Charitable donations | – | 0.2 |
| **Net operating costs before depreciation** | 1,318.0 | 1,465.0 |
| Depreciation on assets used in operating leases | 427.3 | 416.8 |
| Depreciation and amortisation on property, plant and equipment and intangible assets | 5.0 | 2.6 |
| **Net operating costs** | 1,750.3 | 1,884.4 |

(*) These costs are presented net of insurance premium rebates.

The depreciation charge on assets used in operating leases includes a £23.2m charge (six months ended 31 March 2017: £24.4m charge) relating to changes in estimates during the period of future residual values.

## 7. Finance costs

| | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|
| Interest and charges on bank loans and overdrafts | 5.5 | 3.8 |
| Interest on debt issued under the Euro Medium Term Note Programme | 77.6 | 83.6 |
| Cost of early redemption of debt issued under the Euro Medium Term Note Programme | – | 33.9 |
| Preference dividends | 0.3 | 0.3 |
| **Total finance costs** | 83.4 | 121.6 |

## 8. Taxation

The major components of the consolidated tax expense are:

| | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|
| **Current tax** | | |
| Charge for the period | 66.7 | 31.1 |
| Adjustment in respect of prior period | – | – |
| **Total** | 66.7 | 31.1 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (22.0) | (8.5) |
| Impact of change in UK tax rate | – | – |
| **Total** | (22.0) | (8.5) |
| **Tax on profit** | 44.7 | 22.6 |

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 standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, profits are taxable at 19% for this accounting year (2017: 19.5%).

### Tax paid

Under HMRC's quarterly instalments regime for corporation tax, two of the four instalments for last year are payable in the first half of this year. The Group paid £16.5m relating to prior years during the six months to 31 March 2018 (2017: £27.4m).

## 9. Assets held for use in operating leases

| Cost | Motor vehicle assets £m |
|---|---|
| At 1 October 2016 | 7,873.3 |
| Additions | 1,484.5 |
| Transfer to inventory | (1,512.1) |
| At 31 March 2017 | 7,845.7 |
| | |
| At 1 October 2017 | 7,932.3 |
| Additions | 1,504.1 |
| Transfer to inventory | (1,421.8) |
| **At 31 March 2018** | **8,014.6** |
| | |
| **Accumulated depreciation** | |
| At 1 October 2016 | 1,549.9 |
| Charge for the period | 416.8 |
| Eliminated on transfer to inventory | (422.0) |
| At 31 March 2017 | 1,544.7 |
| | |
| At 1 October 2017 | 1,519.1 |
| Charge for the period | 427.3 |
| Eliminated on transfer to inventory | (441.4) |
| **At 31 March 2018** | **1,505.0** |
| | |
| **Carrying amount** | |
| At 1 October 2016 | 6,323.4 |
| Additions | 1,484.5 |
| Depreciation | (416.8) |
| Transfer to inventory (note 10) | (1,090.1) |
| **At 31 March 2017** | 6,301.0 |
| | |
| At 1 October 2017 | 6,413.2 |
| Additions | 1,504.1 |
| Depreciation | (427.3) |
| Transfer to inventory (note 10) | (980.4) |
| **At 31 March 2018** | **6,509.6** |

## 9. Assets held for use in operating leases continued

### Residual values

Residual values represent the estimated net sale proceeds expected from the sale of assets 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 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| No later than one year | 1,450.1 | 1,441.1 | 1,454.9 |
| Later than one year and not later than two years | 1,672.7 | 1,524.6 | 1,433.4 |
| Later than two years and not later than three years | 1,817.4 | 1,792.7 | 1,877.8 |
| Later than three years and not later than four years | 32.2 | 29.6 | 29.2 |
| Later than four years and not later than five years | 41.5 | 39.6 | 35.2 |
| **Total exposure** | 5,013.9 | 4,827.6 | 4,830.5 |

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 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Amounts carried at 31 March/30 September | (193.6) | (220.7) | (251.8) |
| Amounts to be charged in future years | (113.3) | (230.7) | (188.1) |
| **Total effect of changes in estimated residual value** | (306.9) | (451.4) | (439.9) |

### The Group as lessor

The future rentals receivable under non-cancellable operating leases with customers, calculated with reference to the relevant Disability Allowances, for each of the following three periods after the balance sheet date are:

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| No later than one year | 1,539.7 | 1,510.7 | 1,441.7 |
| Later than one year and not later than two years | 891.7 | 868.3 | 806.3 |
| Later than two years and not later than three years | 320.8 | 305.3 | 267.1 |
| Later than three years and not later than four years | 20.3 | 19.0 | 16.1 |
| Later than four years and not later than five years | 6.9 | 6.4 | 5.1 |
| **Total** | 2,779.4 | 2,709.7 | 2,536.3 |

## 10. Inventories

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Ex-operating lease assets held for sale | 104.0 | 86.1 | 132.6 |

Inventories represent the operating lease assets previously held for rental to customers and which cease to be rented and become held for sale as of the balance sheet date.

The cost of inventories recognised as expense and included in net operating costs amounted to £962.5m (31 March 2017: £1,072.4m).

The movements of inventories in the six-month periods ended 31 March 2018 and 2017 are as follows:

| | £m |
|---|---|
| At 1 October 2016 | 114.9 |
| Transfer from operating lease assets (note 9) | 1,090.1 |
| Disposals (including insurance write-offs) | (1,072.4) |
| **At 31 March 2017** | 132.6 |
| | |
| At 1 October 2017 | 86.1 |
| Transfer from operating lease assets (note 9) | 980.4 |
| Disposals (including insurance write-offs) | (962.5) |
| **At 31 March 2018** | 104.0 |

## 11. Insurance receivables

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Insurance premium debtor | 35.4 | 36.0 | 27.1 |
| Claims recoveries and rebates | 48.7 | 44.9 | 47.8 |
| Reinsurance claims recoveries and commissions receivable | 175.2 | 144.3 | 112.0 |
| **Total insurance receivables** | 259.3 | 225.2 | 186.9 |

The carrying value of insurance receivables approximates to fair value.

## 12. Deferred rental income

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| **Current** | | | |
| Customers' advance payments (*) | 132.9 | 126.3 | 117.8 |
| Vehicle maintenance income | 14.1 | 15.1 | 12.8 |
| Vehicle insurance income | – | – | 3.8 |
| Customers' end of contract bonuses | 41.6 | 42.4 | 43.0 |
| **Total current** | 188.6 | 183.8 | 177.4 |
| **Non-current** | | | |
| Customers' advance payments (*) | 139.8 | 131.6 | 122.0 |
| Vehicle maintenance income | 42.9 | 41.5 | 45.3 |
| Vehicle insurance income | 1.5 | 11.2 | 13.3 |
| Customers' end of contract bonuses | 30.8 | 29.5 | 29.1 |
| **Total non-current** | 215.0 | 213.8 | 209.7 |
| **Total** | 403.6 | 397.6 | 387.1 |

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

## 13. Insurance payables

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Reinsurance premiums payable | 15.6 | 15.0 | 7.6 |
| Commissions and administration fee payable | 28.7 | 24.7 | 17.3 |
| Claims reimbursements payable | 32.3 | 26.1 | 29.8 |
| **Total insurance payables** | **76.6** | 65.8 | 54.7 |

The carrying value of insurance payables approximates to fair value.

## 14. General insurance provisions and risk management

### Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is defined although occurrence is random and therefore unpredictable. The principal risks of insurance relate to underwriting and insurance provisions risk. Underwriting risks arise out of day-to-day activities in underwriting contracts of insurance as well as risks associated with outward reinsurance. Insurance provision risk is the possibility that actual claims payments differ from the carrying amount of the insurance reserves. This could occur because the frequency or severity of claims is greater or less than estimated.

The Group manages this risk through a proactive approach, including:

- regular Board and insurance steering committee meetings, at which the claims information is analysed together with any material changes to the risk;
- Board responsibility for the assessment of the total cost of risk and setting of premiums which are commensurate with the exposure, revisable on a six-monthly basis based upon actuarially forecast information;
- the purchase of reinsurance to protect against losses exceeding individual or cumulative risk tolerances;
- insurance managers' receipt of claims data on a monthly basis, the content of which is reviewed and any unexpected movements queried;
- significant individual losses being notified separately and the development of claims monitored; and
- appointment of independent third-party claims handlers, selected on the basis of their ability to manage significant claims volumes whilst negotiating efficient and equitable claims settlements.

The Directors of the Group are responsible for ensuring that the premiums charged under the insurance contracts are commensurate with the estimated value of claims, operational costs and any remaining exposure presented to the Group. For all risks, the quantum of individual claims is managed by a prescribed system of proactive claims handling by the appointed claims handler. A system of review is in place whereby all claims in excess of £250,000 are reported separately to the Group.

### Motor insurance risks

The Group provides 80% motor quota-share reinsurance in respect of the fleet block insurance policy. Comprehensive cover is provided including motor own damage, motor third-party damage and motor third-party liability. Due to the nature of this class of business, the frequency and severity of insured losses is difficult to predict. The Group mitigates its exposure through the purchase of appropriate reinsurance.

### Sources of uncertainty in the estimation of future claim payments

Claims in respect of the motor quota-share reinsurance are payable on a loss occurring basis. The Group is liable for all insured events that occur during the term of the contract. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the timing of claims settlements. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

The estimation of the incurred but not reported ('IBNR') reserve will be determined by utilising an actuarial assessment and based on historical claims experience. In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and legal advisers and information on the cost of settling claims with similar characteristics in previous periods.

## 14. General insurance provisions and risk management continued

### Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £30,000 (2017: £25,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5.0m (2017: £5.0m) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 118.3% (2017: 119.3%) of the Group's net earned premium income or £309.3m (2017: £302.5m) in the aggregate whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 129.47% (2017: 129.17%) of net premium earned or £29.3m (2017: £25.0m) in aggregate, whichever is the lesser. The Group's exposure above these limits is unlimited.

Claims which have not been recovered from reinsurers at the balance sheet date are included in insurance receivables in the balance sheet and are deemed to be fully recoverable. The Group manages its reinsurance risk through:

- regular Board and insurance steering committee meetings, at which the reinsurance markets are considered;
- the Group's policy to only select those reinsurers that have a minimum credit rating of A- or better;
- significant individual losses being notified separately and the development of the claim being monitored; and
- independent third-party reinsurance brokers being appointed on the basis of their ability to negotiate, recommend and place reinsurance with appropriate markets.

### General insurance provisions

General insurance provisions are specific claims reserves including adjustments for insurance claims incurred but not reported ('IBNR').

### Claims reserves including IBNR

Claims reserves are stated gross of losses recoverable from reinsurers. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent claims handler, and are intended to provide a best estimate of the most likely or expected outcome. The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in subsequent financial statements.

| Motor quota share reinsurance | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Specific claims reserves including IBNR | 299.1 | 272.1 | 249.0 |
| Third-party recoveries reserve | (39.5) | (36.8) | (38.1) |
| Reinsurance recoveries reserve | (167.3) | (140.7) | (109.9) |
| **Total net retained** | **92.3** | **94.6** | **101.0** |

The Board utilises the Group actuary to undertake an actuarial study of the Motor Quota Share reinsurance claims reserves. The Group actuary has used a combination of methods to determine the estimate. The methods adopted are summarised below:

### Chain Ladder method

The chain ladder method uses the development profile of paid or incurred claims on historical accident years to project the more recent accident years to their ultimate position.

### Expected Burning Cost method

This method takes an assumed initial expected burning cost and estimates the ultimate cost directly based on this initial expectation. The initial expected burning cost has been derived based on the historical ultimate cost (from the chain ladder method on either paid or incurred claims as deemed appropriate) adjusted for frequency and average severity inflation as appropriate.

### Bornhuetter-Fergusson method

This method takes as a starting point an assumed initial expected burning cost and blends in the burning cost implied by the experience to date (based on the historical claim development pattern).

### Average Cost per Claim method

This method uses an ultimate average cost multiplied by a selected ultimate number of claims. The ultimate number of claims has been derived using the chain ladder method for each claims type and band. The ultimate average cost has been derived by creating an average cost development triangle and then applying the chain ladder method.

The Directors have considered the report of the Group actuary, the report of the independently appointed actuary and the pattern of development is believed to be sufficiently consistent period on period to provide an appropriate basis to establish additional reserves.

## 14. General insurance provisions and risk management continued

### Motor quota share reinsurance

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each underwriting period has changed at successive period-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An underwriting-period basis is considered to be most appropriate for the business written by the Group.

| Estimate of ultimate claims cost | Underwriting period ended 31 March 2018 £m | Underwriting year ended 30 September 2017 £m | Underwriting year ended 30 September 2016 £m | Underwriting year ended 30 September 2015 £m | Underwriting year ended 30 September 2014 £m | Total £m |
|---|---|---|---|---|---|---|
| At end of reporting period | 131.3 | 251.3 | 220.5 | 157.2 | 52.0 | |
| One year later | – | 234.5 | 221.3 | 153.6 | 51.7 | |
| Two years later | – | – | 212.4 | 154.1 | 49.3 | |
| Three years later | – | – | – | 149.1 | 53.4 | |
| Four years later | – | – | – | – | 50.7 | |
| Current estimate of cumulative claims | 131.3 | 234.5 | 212.4 | 149.1 | 50.7 | 778.0 |
| Cumulative payments to date | (62.6) | (168.6) | (164.3) | (130.1) | (48.2) | (573.8) |
| Rebates in year | 14.2 | 25.0 | 20.5 | 12.9 | 4.1 | 76.7 |
| **Total liability included in balance sheet** | 82.9 | 90.9 | 68.6 | 31.9 | 6.6 | 280.9 |

| Estimate of ultimate claims cost net of reinsurance | Underwriting period ended 31 March 2018 £m | Underwriting year ended 30 September 2017 £m | Underwriting year ended 30 September 2016 £m | Underwriting year ended 30 September 2015 £m | Underwriting year ended 30 September 2014 £m | Total £m |
|---|---|---|---|---|---|---|
| At end of reporting period | 91.8 | 167.8 | 163.9 | 122.9 | 40.3 | |
| One year later | – | 161.4 | 162.4 | 118.2 | 40.2 | |
| Two years later | – | – | 162.0 | 115.7 | 39.1 | |
| Three years later | – | – | – | 114.7 | 39.4 | |
| Four years later | – | – | – | – | 38.7 | |
| Current estimate of cumulative claims | 91.8 | 161.4 | 162.0 | 114.7 | 38.7 | 568.6 |
| Cumulative payments to date | (62.5) | (166.4) | (159.1) | (122.7) | (42.3) | (553.0) |
| Rebates in year | 14.2 | 25.0 | 20.5 | 12.9 | 4.1 | 76.7 |
| **Total liability net of reinsurance included in balance sheet** | 43.5 | 20.0 | 23.4 | 4.9 | 0.5 | 92.3 |
| **Comprises:** | | | | | | |
| Specific claims reserves including IBNR | | | | | | 299.1 |
| Third-party recoveries reserve | | | | | | (39.5) |
| Reinsurance recoveries reserve | | | | | | (167.3) |
| **Total** | | | | | | 92.3 |

Included within cumulative payments to date are amounts received relating to volume, referral and wholesale discounts from trade partners, which have reduced the cost of claims to the Group.

## 14. General insurance provisions and risk management continued

### Movements in insurance liabilities

| | Period ended 31 March 2018 | | | Year ended 30 September 2017 | | |
|---|---|---|---|---|---|---|
| | Gross £m | Recoveries £m | Net £m | Gross £m | Recoveries £m | Net £m |
| **Claims** | | | | | | |
| Notified claims including IBNR | 314.5 | (183.1) | 131.4 | 216.9 | (98.2) | 118.7 |
| Notified claims recoveries | (36.8) | – | (36.8) | (34.1) | – | (34.1) |
| **Total at beginning of period** | 277.7 | (183.1) | 94.6 | 182.8 | (98.2) | 84.6 |
| **Cash paid for claims settled** | | | | | | |
| In the period | (94.6) | 9.1 | (85.5) | (161.8) | 7.6 | (154.2) |
| **Movement in liabilities** | | | | | | |
| Current period claims including IBNR | 131.3 | (30.4) | 100.9 | 251.3 | (75.1) | 176.2 |
| Prior period claims including IBNR | (33.5) | 15.8 | (17.7) | 5.4 | (17.4) | (12.0) |
| **Total at end of period** | 280.9 | (188.6) | 92.3 | 277.7 | (183.1) | 94.6 |
| Notified claims including IBNR | 320.4 | (188.6) | 131.8 | 314.5 | (183.1) | 131.4 |
| Notified claims recoveries | (39.5) | – | (39.5) | (36.8) | – | (36.8) |
| **Total at end of period** | 280.9 | (188.6) | 92.3 | 277.7 | (183.1) | 94.6 |

## 15. Financial liabilities

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| **Current** | | | |
| Accrued interest and coupon | 42.0 | 51.9 | 53.1 |
| Cash in the course of transmission | 48.1 | 10.0 | 52.9 |
| Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs) | 342.6 | 440.8 | 424.0 |
| **Total current** | 432.7 | 502.7 | 530.0 |
| **Non-current** | | | |
| Bank loans | 398.8 | 398.7 | 398.9 |
| Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs) | 3,442.9 | 3,787.8 | 3,739.5 |
| Preference shares | 10.0 | 10.0 | 10.0 |
| **Total non-current** | 3,851.7 | 4,196.5 | 4,148.4 |
| **Total** | 4,284.4 | 4,699.2 | 4,678.4 |

| | | | |
|---|---|---|---|
| The financial liabilities are repayable as follows: | | | |
| On demand and no later than one year | 432.7 | 502.7 | 530.0 |
| Later than one year and no later than two years | 299.7 | 343.5 | 330.5 |
| Later than two years and no later than five years | 797.0 | 1,096.3 | 698.4 |
| Later than five years | 2,755.0 | 2,756.7 | 3,119.5 |
| **Total** | 4,284.4 | 4,699.2 | 4,678.4 |

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

## 15. Financial liabilities continued

### Bank borrowings

All bank borrowings as at 31 March 2018, 30 September 2017 and 31 March 2017 are at floating rates.

As at 31 March 2018 the Group has the following principal bank loans:

a) A five-year term loan of £0.4 billion taken out on 28 September 2016, extended for one year effective 28 September 2017 (2017: five-year term loan of £0.4 billion taken out on 28 September 2016). The loan repayment date is 28 September 2022 (2017: 28 September 2021).

b) A five-year revolving credit facility of £1.5 billion taken out on 28 September 2016 carrying LIBOR interest rates plus bank margins at a market rate (30 September 2017: five-year revolving credit facility of £1.5 billion taken out on 28 September 2016; and 31 March 2016: five-year revolving credit facility of £1.5 billion taken out on 30 December 2013) of which £nil was drawn as at 31 March 2018 (30 September 2017: £nil, 31 March 2017: £nil).

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

### 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 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| 3.750% Eurobond due 2017 (I) | – | 440.8 | 424.0 |
| 3.250% Eurobond due 2018 (II) (V) | 342.6 | 343.5 | 330.5 |
| 6.625% Sterling bond due 2019 (VI) | 299.7 | 299.5 | 299.5 |
| 5.375% Sterling bond due 2022 | 398.2 | 398.0 | 397.8 |
| 1.625% Eurobond due 2023 (III) | 479.9 | 481.0 | 462.5 |
| 0.875% Eurobond due 2025 (IV) | 439.1 | 440.4 | 424.4 |
| 3.750% Sterling bond due 2026 | 297.6 | 297.5 | 297.3 |
| 4.375% Sterling bond due 2027 | 296.5 | 296.4 | 296.2 |
| 5.625% Sterling bond due 2030 | 298.5 | 298.5 | 298.4 |
| 2.375% Sterling bond due 2032 | 344.2 | 344.1 | 344.4 |
| 3.625% Sterling bond due 2036 | 589.2 | 588.9 | 588.5 |
| | 3,785.5 | 4,228.6 | 4,163.5 |

(I) The repayment obligation in respect of the Eurobonds of €500m was settled on the 30th November 2017
(II) The repayment obligation in respect of the Eurobonds of €389.9m (£342.8m) is hedged by cross-currency swap contracts (note 16) for the purchase of €389.9m and for the sale of £325.9m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(III) The repayment obligation in respect of the Eurobonds of €550m (£483.5m) is hedged by cross-currency swap contracts (note 16) for the purchase of €550m and for the sale of £402.5m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(IV) The repayment obligation in respect of the Eurobonds of €500m (£439.5m) is hedged by cross-currency swap contracts (note 16) for the purchase of €500m and for the sale of £433.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(V) On 14 March 2017 the Company redeemed €160.1m (£133.8m) of the 3.250% €550m Eurobond bond due 2018.
(VI) On 14 March 2017 the Company redeemed £150m of the 6.625% £450m Eurobond bond due 2019.

The Company has a £5 billion Euro Medium Term Note Programme with denominations of EUR 100,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £5 billion Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited.

During the period to 31 March 2018 and the previous two financial years the Group has issued the following bonds:

- a £350m Sterling bond with a rate of 2.375% issued on 14 March 2017 and expiring on 14 March 2032;
- a €500m Eurobond with a rate of 0.875% issued on 14 March 2017 and expiring on 14 March 2025; and
- a £600m Sterling bond with a rate of 3.625% issued on 10 March 2016 and expiring on 10 March 2036.

## 15. Financial liabilities continued

### Other comprehensive income and the hedging reserve

Repayment obligations under Eurobonds and floating rate term loans are hedged to maturity against both currency and interest rate risk. Eurobonds are revalued at every balance sheet date using the closing exchange rate (i.e. the spot rate at the balance sheet date) in accordance with IAS 21. Hedging derivatives are shown at fair value at the balance sheet date. The fair value is determined by discounting the future Sterling and Euro cash flows arising from the swaps to their present values and then translating the Euro denominated elements into Sterling using the closing exchange rate.

Under the hedge accounting rules outlined in IAS 39, to the extent the hedge remains effective, any resulting net valuation difference is shown (after tax) as a hedging reserve on the balance sheet, and any movements in the hedging reserve are recognised as other comprehensive income rather than through the income statement.

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 31 March 2018, the Eurobond debt liability was increased by £103.6m (30 Sep 2017: was increased by £123.4m). This movement of £19.8m is a result of Sterling strengthening against the Euro. The associated asset relating to derivatives at 31 March 2018 was £105.7m (30 Sep 2017: asset of £126.1m) – a decrease of £20.4m (see note 16). The net valuation difference at 31 March 2018 is therefore an asset of £2.1m which, after tax at 19%, leads to a hedging reserve of £1.7m.

### 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 2018, 30 September 2017 and 31 March 2017 were as follows:

| | 31 March 2018 % | 30 September 2017 % | 31 March 2017 % |
|---|---|---|---|
| Current bank loans and overdrafts | 1.4 | 1.2 | 1.2 |
| Non-current bank loans | 1.3 | 1.0 | 1.0 |
| Non-current debt issued under the Euro Medium Term Note Programme | 3.9 | 4.0 | 4.0 |
| Non-current preference shares | 7.0 | 7.0 | 7.0 |

At 31 March 2018, 30 September 2017 and 31 March 2017, the Group had the following undrawn committed borrowing facilities:

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Working capital facility | 100.0 | 100.0 | 100.0 |
| Revolving credit facility | 1,500.0 | 1,500.0 | 1,500.0 |
| **Total** | 1,600.0 | 1,600.0 | 1,600.0 |

Undrawn committed facilities expire as follows:

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Within one year | 5.0 | 5.0 | 5.0 |
| Within one to two years | – | – | – |
| Within two to five years | 1,595.0 | 1,595.0 | 1,595.0 |
| **Total** | 1,600.0 | 1,600.0 | 1,600.0 |

## 16. Derivative financial instruments

| | 31 March 2018 | | 30 September 2017 | | 31 March 2017 | |
|---|---|---|---|---|---|---|
| | Fair value £m | Notional amounts £m | Fair value £m | Notional amounts £m | Fair value £m | Notional amounts £m |
| **Cash flow hedges** | | | | | | |
| Cross-currency swaps | 104.4 | 1,162.2 | 125.7 | 1,587.4 | 57.9 | 1,587.4 |
| Interest rate swaps | 1.3 | 400.0 | 0.4 | 300.0 | (0.5) | 300.0 |
| **Total** | 105.7 | 1,562.2 | 126.1 | 1,887.4 | 57.4 | 1,887.4 |
| Included in non-current liabilities | – | – | – | | (19.5) | 633.8 |
| Included in current liabilities | – | – | (0.1) | 100.0 | (0.4) | 100.0 |
| **Derivative financial instrument liabilities** | – | – | (0.1) | 100.0 | (19.9) | 733.8 |
| Included in non-current assets | 86.9 | 1,036.2 | 110.2 | 1,362.2 | 74.6 | 728.4 |
| Included in current assets | 18.8 | 526.0 | 16.0 | 425.2 | 2.7 | 425.2 |
| **Derivative financial instrument assets** | 105.7 | 1,562.2 | 126.2 | 1,787.4 | 77.3 | 1,153.6 |

### Cross-currency swaps

On 8 February 2012, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €550m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 3.25% is fully swapped into the GBP rate of 3.664%. On 14 March 2017 the Company part-redeemed its 3.25% Eurobonds and unwound the cross-currency swap arrangements to a nominal value of €389.9m.

On 9 June 2015, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €550m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 1.625% is fully swapped into the GBP rate of 2.998%.

On 14 March 2017, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 0.875% is fully swapped into the GBP rate of 2.061%.

### Interest rate swaps

At 31 March 2018, the fixed interest rates varied from 0.409% to 0.7463% (2016: the fixed interest rates varied from 0.8195% to 0.845%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 31st March 2018 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

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

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| No later than one year | (11.2) | (5.0) | (28.3) |
| Later than one year and no later than three years | (20.8) | (16.5) | (22.9) |
| Later than three years and no later than five years | (21.3) | (21.4) | (21.4) |
| Later than five years | (5.3) | (16.5) | (21.1) |
| **Total** | (58.6) | (59.4) | (93.7) |

Further details of derivative financial instruments are provided in note 21.

## 17. Cash generated from operations

Reconciliation of profit to net cash flow from operating activities:

| | Six months ended 31 March 2018 £m | Six months ended 31 March 2017 £m |
|---|---|---|
| Profit before tax | 235.1 | 116.1 |
| Adjustments for: | | |
| Depreciation and amortisation charge on corporate assets | 5.0 | 2.6 |
| Depreciation charge on operating lease assets | 427.3 | 416.8 |
| Finance costs | 83.4 | 121.6 |
| Gains on disposal of operating lease assets | (104.3) | (57.8) |
| Losses on operating lease assets written off through insurance | 12.9 | 17.4 |
| Gains on disposal of corporate assets | (0.1) | (0.1) |
| Increase /(decrease) in provisions | 1.6 | (0.9) |
| **Operating cash flows before movements in working capital** | 660.9 | 615.7 |
| Purchase of assets held for use in operating leases | (1,504.1) | (1,484.5) |
| Proceeds from sale of assets held for use in operating leases | 1,039.2 | 1,095.4 |
| Proceeds from insurance reimbursements of operating lease assets written off | 14.7 | 17.4 |
| Increase in insurance receivables | (34.1) | (49.8) |
| Increase in other receivables | (56.0) | (34.7) |
| Increase in deferred rental income | 6.0 | 4.2 |
| Increase in general insurance provisions | 27.0 | 62.5 |
| Increase in insurance payables | 10.8 | 10.9 |
| Decrease in other payables | (38.0) | (33.2) |
| **Cash generated from operations** | 126.4 | 203.9 |

### Cash and cash equivalents

Cash and cash equivalents are presented in the consolidated statement of cash flows as the net of cash and bank balances (which comprise cash held by the Group, short-term bank deposits with an original maturity of three months or less and cash in the course of collection) and cash in the course of transmission. Cash in the course of transmission is included within financial liabilities.

## 18. Analysis of changes in net debt

| | At 1 October 2017 £m | Cash flows £m | Foreign exchange £m | Amortisation of premiums and discounts £m | At 31 March 2018 £m |
|---|---|---|---|---|---|
| Cash and bank balances | 1,168.3 | (460.8) | – | – | 707.5 |
| Cash in the course of transmission | (10.0) | (38.1) | – | – | (48.1) |
| **Cash and cash equivalents** | 1,158.3 | (498.9) | – | – | 659.4 |
| Bank loans | (398.7) | – | – | (0.1) | (398.8) |
| Debt issued under the Euro Medium Term Note Programme | (4,228.6) | 425.2 | 19.8 | (1.9) | (3,785.5) |
| Preference shares | (10.0) | – | – | – | (10.0) |
| **Financing activities** | (4,637.3) | 425.2 | 19.8 | (2.0) | (4,194.3) |
| **Total net debt** | (3,479.0) | (73.7) | 19.8 | (2.0) | (3,534.9) |

| | At 1 October 2016 £m | Cash flows £m | Foreign exchange £m | Amortisation of premiums and discounts £m | At 31 March 2017 £m |
|---|---|---|---|---|---|
| Cash and bank balances | 493.3 | 536.1 | – | – | 1,029.4 |
| Cash in the course of transmission | (52.6) | (0.3) | – | – | (52.9) |
| **Cash and cash equivalents** | 440.7 | 535.8 | – | – | 976.5 |
| Bank loans | (398.8) | – | – | (0.1) | (398.9) |
| Debt issued under the Euro Medium Term Note Programme | (3,706.3) | (494.4) | 39.4 | (2.2) | (4,163.5) |
| Preference shares | (10.0) | – | – | – | (10.0) |
| **Financing activities** | (4,115.1) | (494.4) | 39.4 | (2.3) | (4,572.4) |
| **Total net debt** | (3,674.4) | 41.4 | 39.4 | (2.3) | (3,595.9) |

| | 31 March 2018 £m | 30 September 2017 £m | 31 March 2017 £m |
|---|---|---|---|
| Cash and bank balances | 707.5 | 1,168.3 | 1,029.4 |
| Current financial liabilities | (432.7) | (502.7) | (530.0) |
| Non-current financial liabilities | (3,851.7) | (4,196.5) | (4,148.4) |
| **Total** | (3,576.9) | (3,530.9) | (3,649.0) |
| Less interest accruals included in financial liabilities | 42.0 | 51.9 | 53.1 |
| **Total net debt** | (3,534.9) | (3,479.0) | (3,595.9) |

## 19. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the six months ended 31 March 2018 amounted to £2,546,029 (six months ended 31 March 2017: £1,680,904). Net contributions due at the balance sheet date were £32,995 (31 March 2017: £396,550).

## 20. 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 its related charity, the Motability Tenth Anniversary Trust) 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 2-3.

### Transactions

During the six months ended 31 March 2018 the Group paid £4.5m (six months ended 31 March 2017: £4.5m) relating to Motability administration costs (the 'Motability levy').

In addition, £1.2m was paid by the Group 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 2017: £0.9m).

The funding of the Group through bank loans is provided by the shareholder banks on commercial terms (see note 7 for details of financing costs of bank loans); £0.3m of bank charges were also paid in the period (six months ended 31 March 2017: £0.1m). Additionally, total fees of £0.8m (six months ended 31 March 2017: £0.8m) were due to the shareholder banks in proportion to their shareholdings for management services.

During the period, the Group made preference share dividends payments of £0.7m to the Shareholder banks (Six months ended 31 March 2017: £0.7m).

At 31 March 2018 £142.6m of cash and bank balances were held with shareholder banks (30 September 2017: £115.8m, 31 March 2017 £126.0m). During the six months ended 31 March 2018 the Group received interest payments on these cash deposits totalling £0.2m (six months ended 31 March 2017: £0.1m).

The Group's bond issuances, under the Euro Medium Note Term Programme (see note 15), are arranged by the shareholder banks. During the six months ended 31 March 2018 the Group has paid fees of £nil (six months ended 31 March 2017: £2.9m) in relation to bond issuances.

The Group enters into cross-currency and interest rate swap contracts (see note 16) with the shareholder banks to mitigate its exposure in interest rate risk and foreign exchange risk. During the six months ended 31 March 2018 the Group made a net payment of £0.2m (six months ended 31 March 2017: made a net payment of £0.6m) in respect of interest rate swaps, and received a net payment of £4.7m (six months ended 31 March 2017: received a net payment of £14.4m) in respect of cross-currency swaps.

## 21. Fair value of financial instruments

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

- the carrying value of cash and cash equivalents approximates to the carrying amount due to its short-term nature;
- the carrying values less impairment provisions of trade and other receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables;
- the fair value of preference shares for disclosure purposes is estimated by discounting the cash flows using market data at the balance sheet date;
- the fair value of debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date; and
- the fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date.

### Summary of financial instruments

| | | 31 March 2018 carrying value £m | 31 March 2018 fair value £m | 30 September 2017 carrying value £m | 30 September 2017 fair value £m | 31 March 2017 carrying value £m | 31 March 2017 fair value £m |
|---|---|---|---|---|---|---|---|
| Cash and bank balances | I | 707.5 | 707.5 | 1,168.3 | 1,168.3 | 1,029.4 | 1,029.4 |
| Trade and other receivables | II | 159.1 | 159.1 | 116.6 | 116.6 | 146.2 | 146.2 |
| Held to maturity investments | III | 195.2 | 194.2 | 102.3 | 102.2 | 101.8 | 102.1 |
| Trade and other payables | II | (210.8) | (210.8) | (248.9) | (248.9) | (165.3) | (165.3) |
| Cash in the course of transmission and accrued interest and coupon | II | (90.1) | (90.1) | (61.9) | (61.9) | (52.9) | (52.9) |
| Bank loans – non-current | IV | (398.8) | (398.8) | (398.7) | (398.7) | (398.9) | (398.9) |
| Debt issued under the Euro Medium Term Note Programme (*) | III | (3,785.5) | (4,188.8) | (4,228.6) | (4,692.5) | (4,163.5) | (4,672.4) |
| Redeemable preference share liabilities | III | (10.0) | (13.5) | (10.0) | (13.8) | (10.0) | (14.3) |
| **Net non-derivative financial instruments** | | (3,433.4) | (3,841.2) | (3,560.9) | (4,028.7) | (3,513.2) | (4,026.1) |
| Interest rate swap – cash flow hedge | | 1.3 | 1.3 | 0.4 | 0.4 | (0.5) | (0.5) |
| Cross-currency swap – cash flow hedge | | 104.4 | 104.4 | 125.7 | 125.7 | 57.9 | 57.9 |
| **Total** | | (3,327.7) | (3,735.5) | (3,434.8) | (3,902.6) | (3,455.8) | (3,968.7) |

(*) Amounts are shown net of unamortised discount, fee and transaction costs.
I Interest bearing portion of the cash and cash equivalents consists of overnight deposits
II Non-interest bearing
III Bearing interest at fixed rate
IV Bearing interest at floating rate

### Fair value measurements

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

## 21. Fair value of financial instruments continued

### Fair value measurements continued

| | 31 March 2018 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Non-derivative financial assets** | | | | |
| Held to maturity investments | 194.2 | – | – | 194.2 |
| | 194.2 | – | – | 194.2 |
| **Non-derivative financial liabilities** | | | | |
| Financial liabilities | – | (4,202.3) | – | (4,202.3) |
| | – | (4,202.3) | – | (4,202.3) |
| **Derivative financial instruments** | | | | |
| Interest rate swaps | – | 1.3 | – | 1.3 |
| Cross-currency swaps | – | 104.4 | – | 104.4 |
| | – | 105.7 | – | 105.7 |
| **Total** | 194.2 | (4,096.6) | – | (3,902.4) |

| | 30 September 2017 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Non-derivative financial assets** | | | | |
| Held to maturity investments | 102.2 | – | – | 102.2 |
| | 102.2 | – | – | 102.2 |
| **Non-derivative financial liabilities** | | | | |
| Financial liabilities | – | (4,706.3) | – | (4,706.3) |
| | – | (4,706.3) | – | (4,706.3) |
| **Derivative financial instruments** | | | | |
| Interest rate swaps | – | 0.4 | – | 0.4 |
| Cross-currency swaps | – | 125.7 | – | 125.7 |
| | – | 126.1 | – | 126.1 |
| **Total** | 102.2 | (4,580.2) | – | (4,478.0) |

| | 31 March 2017 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Non-derivative financial assets** | | | | |
| Held to maturity investments | 102.1 | – | – | 102.1 |
| | 102.1 | – | – | 102.1 |
| **Non-derivative financial liabilities** | | | | |
| Financial liabilities | – | (5,085.6) | – | (5,085.6) |
| | – | (5,085.6) | – | (5,085.6) |
| **Derivative financial instruments** | | | | |
| Interest rate swaps | – | (0.5) | – | (0.5) |
| Cross-currency swaps | – | 57.9 | – | 57.9 |
| | – | 57.4 | – | 57.4 |
| **Total** | 102.1 | (5,028.2) | – | (4,926.1) |

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