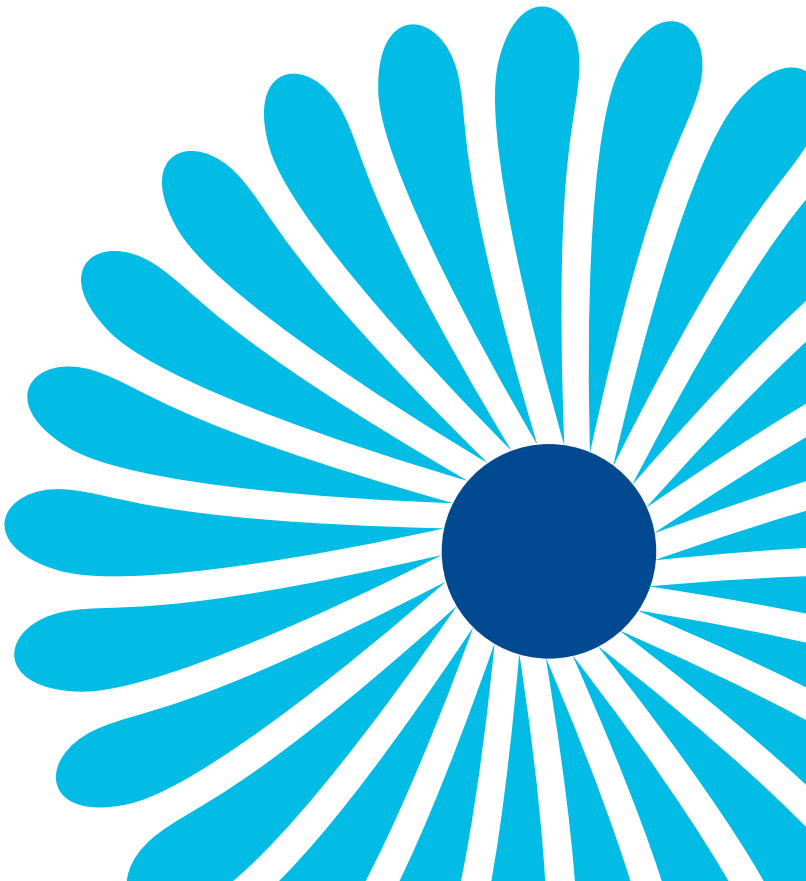
Motability Operations

Motability Operations Group plc Annual Report and Accounts 2008

2008



Chairman's statement

Thirty years ago, when the Motability Car Scheme was first conceived by Lord Sterling and the late Lord Goodman, with the UK banks helping to support its creation, nobody would have forecast its success in meeting the needs of disabled people. At that time, even the most optimistic forecasts were that the Scheme might grow to 25,000 vehicles. We now have over half a million customers, giving us the largest fleet of vehicles in any one country in Europe.

The incorporation of Motability Operations Group plc, and its associated refinancing, (as described in the Finance Director's review starting on page 6) recognises these major changes in scale and provides us with a structure capable of taking us through the next 30 years. We are now a public company, owned by the major UK banks. Our focus is on providing worry-free motoring, choice, affordability and a first-class customer experience to our large and expanding customer base. This is truly a public and private partnership at its best – a term probably not even thought of when the Scheme was created.

Not only do we operate the biggest single car fleet in Europe, we are also the largest supplier of used vehicles into the UK marketplace and a highly respected commercial operation. In this context, we must also recognise that we are an integral and important part of the entire UK extended motor industry. This applies to our relationships with manufacturers, dealers and the after-market.

It is pleasing to report that our activities have attracted acclaim beyond our immediate business partners. An ever-increasing number of nationally recognised awards and commendations testify to the Company's reputation in the wider world.

Notwithstanding this success, we are not complacent, and we aim to maintain the high standards of performance we have consistently delivered in recent years – a task that we do not underestimate given the unparalleled changes experienced within our industry and the wider economy during 2008.

Motability Operations is not immune from the problems in the financial markets, but our prudent financial management, including tight cost control, has enabled us not only to continue to offer outstanding value to our customers, but to ensure we have sufficient reserves to withstand the market turbulence that is taking place around us.

2009 will not be easy, however we will remain very focused on the major issues as they unfold, and are confident of the enduring benefits we will continue to deliver to our disabled customers.

Motability Operations is, and always will be, more than 'just' a vehicle leasing fleet – we are focused on providing freedom and mobility to our disabled customers. We believe that our commitment to customer service and disability expertise is fundamental to our success. Over recent years we have made tremendous progress in this area, and I know that everyone within the business will continue to pursue this goal.

Finally, I should like on behalf of the Board and other stakeholders to thank our executive team and everyone in the business for all their hard work and effort, which have helped to ensure that the Motability Car Scheme remains secure and stable.

Neil Johnson OBE Chairman

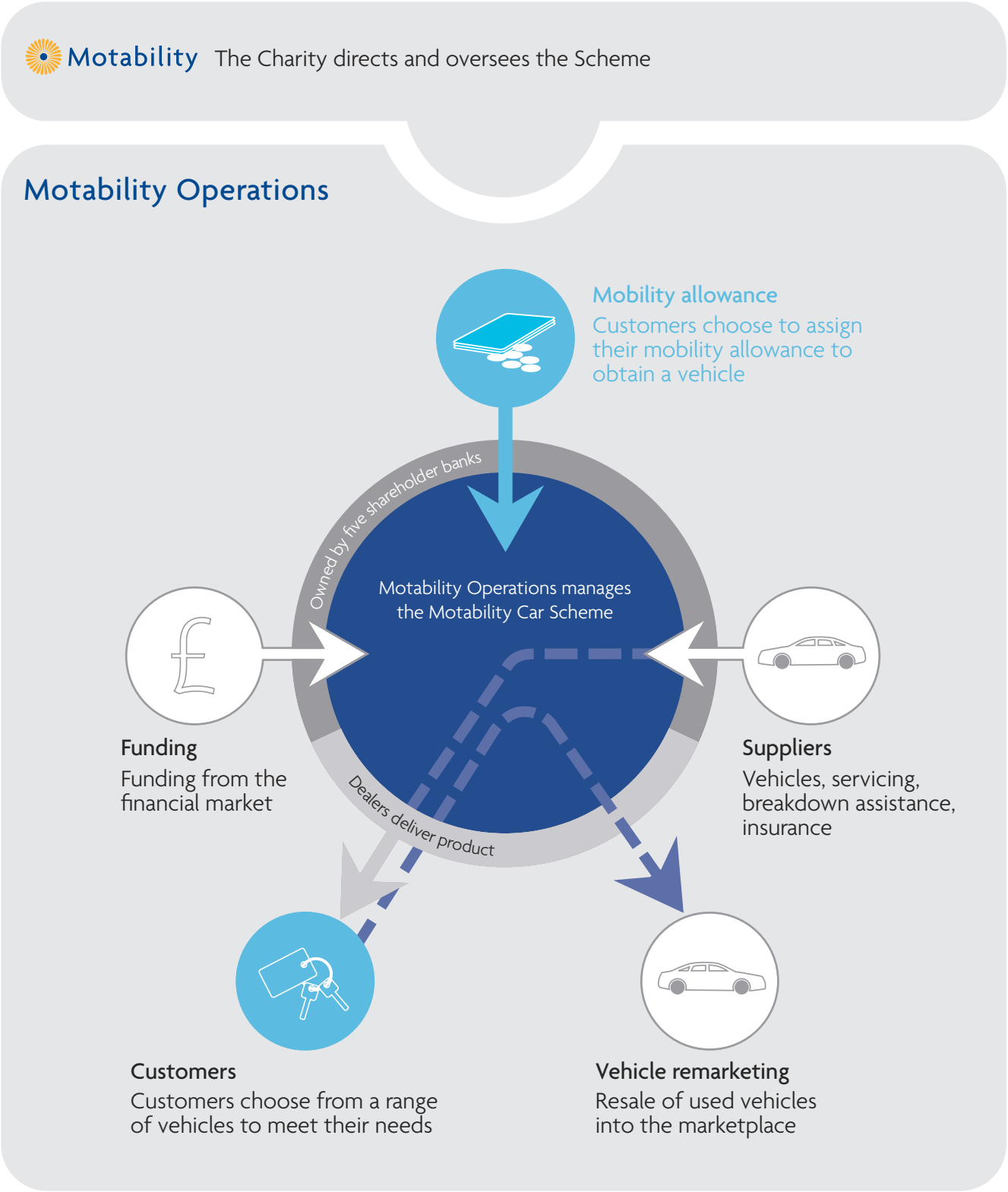
Contents

Annual Report

Financial Statements

Business overview
How we operate

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



Motability (the Charity)

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

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

Motability and Motability Operations are constitutionally and operationally separate entities.

Mobility allowance

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

Motability Operations

The UK's largest car leasing company, we have over 30 years' experience in the industry and have supplied over two million vehicles since the Motability Scheme was launched.

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

Our customer numbers have increased rapidly in recent years, and our fleet currently stands at over 500,000 vehicles. We bought 205,000 new cars and re-sold 165,000 into the used car marketplace during the financial year ended September 2008.

Underpinning this growth is our strong financial position. This reflects our robust reserves and risk management methodology, our diversified fleet portfolio, the flexibility of our lease pricing model, our excellent business culture and best-practice governance. It is through these strengths that we are able to provide our customers with sustained affordability throughout the economic cycle. As a 'not-for-profit' plc, we re-invest any surpluses back into the business for the benefit of our customers.

At Motability Operations, we provide:

- Worry-free motoring through a Contract Hire product including insurance, maintenance and servicing, tyre and windscreen replacement, breakdown assistance and a 60,000 mileage allowance over three years
- Excellent brand choice with 40 manufacturers represented on the Scheme
- Over 200 vehicle models on the price list that are available by using the mobility allowance alone ('nil advance payment')
- A full range of adaptations and wheelchair accessible vehicles

To achieve this we:

- Manage and develop relationships with key manufacturers
- Work in partnership with over 4,800 dealers to provide excellent customer service
- Proactively manage suppliers to ensure an excellent and sustained customer experience on very affordable terms
- Provide telephony support to our customers through our best-practice call-centre, supported by a fully interactive web-based query tool
- Employ an engaged workforce of over 700 permanent and temporary people across our two sites in London and Bristol

Chief Executive's review

We are proud of the results that were achieved in 2008. We managed to maintain a good balance between offering affordable and attractive services to customers, and remaining financially secure. At the same time, our employees continued to be engaged and committed, and we are delighted at their enthusiastic support for the company and its values.

Performance

Through the year, we achieved the majority of our Key Performance Indicators (KPIs), with 85% of them tracking at 'excellent' levels. We won awards for Human Resources, for our dealer partnership programme, and for clear and inclusive customer communication. We also gained a Diamond Award for Vision and Commitment on Disability at the Employers' Forum for Disability.

In terms of customers, I believe renewal levels represent a key test of success. These are running at an all-time high and this, combined with record levels of new customers joining the Scheme, has driven the growth of our fleet at an unparalleled rate. Customers also rated our services with record levels of satisfaction.

Among other highlights, we celebrated the 30th anniversary of the Motability Scheme, with car handovers by HM The Queen during a special ceremony at the Royal Hospital Chelsea.

We passed the 500,000 car milestone in September, marking this with a vehicle handover by the Prime Minister in Downing Street. The year also included a handover by the Leader of the Opposition, underlining the cross-party support that Motability consistently enjoys.

We strongly believe that it is through our people that we are able to deliver and sustain performance, so we were delighted to see another year of improvement in the results from our employee engagement survey. Conducted by external specialists, this showed that our levels of employee engagement compare favourably against a benchmark of over 20 of the UK's highest-performing companies.

During the year we also successfully completed a significant financial restructuring. This gives us access to wider markets for funding, and provides us with a robust and sustainable platform for the future.

We have good internal controls, and we regularly benchmark key aspects of our governance. We are ever vigilant, paying particular attention to data security and the potential vulnerability of systems.

The year has certainly not been without challenges. We are the largest supplier of used cars to the trade in the UK. Consequently the effects of the recent downturn in the used car market have been unavoidable, with values falling and market confidence eroded, while buyers have also seen access to credit reduced.

It is a testament to the work of our vehicle remarketing team that we have continued to keep stock at levels lower than we might normally expect. We have achieved this through increasing volumes sold online and through an increase in the number of our trade and auction sales. Faced with the challenge of lower receipts, we have been able to compensate in other areas and so maintain our reserves and affordability for customers.

Culture and keys to success

Success for us is built on ensuring clarity about what we want to achieve, and in articulating the objectives to deliver it. We have defined a strategy and applied a set of principles to the way in which we work, which serves us well in good times and bad.

The approach and values shared by our people are key to our success. They have demonstrated innovation and flexibility in response to challenges, are passionate about what they do and aspire to excellence.

Our suppliers are also a cornerstone of our success, with many providing essential front line services and handling vital contact points with our customers. We engage third parties who share our passion for strong customer service, and we work hard to build good and productive relationships with them.

We firmly believe that a good business culture drives success, which is why we are committed to regular independent monitoring of employee engagement, and to acting clearly and decisively on the results. Our 48th place in the Sunday Times Top 100 Companies to Work For, at our first attempt in 2007, was an excellent benchmark for us.

Strategy

Our strategy has been developed through a process of listening intently to customers and other stakeholders. We set out to understand any areas of dissatisfaction, and focus on removing them. The central requirement identified by our customers is a desire to deal with people who understand their needs, and to have access to affordable and worry-free motoring.

We have configured our strategy into four strategic 'pillars' under which we have clear medium-term objectives. These commit us to building customer and disability expertise, providing value and choice, improving reach and awareness, and ensuring long-term sustainability. These pillars provide a clear framework for measuring our progress and delivering our annual operating plan.

This year saw us reach a range of strategic milestones. In respect of customer and disability expertise, we saw a 43% growth in vehicle adaptations and a greater volume of wheelchair accessible vehicles. We also worked with our partners to make key models affordable on the Scheme. We saw a peak of 392 models available with the mobility allowance alone (nil advance payment), including a wide choice of automatic transmission and wheelchair accessible cars. Having 40 manufacturers on the Scheme means that customers can choose from just about any of the major marques available in the retail market.

We know that better customer understanding leads to more applications, and research indicates that there was significant progress towards improving customers' and prospects' knowledge of the key features of the Scheme. Record numbers of dealerships joined our partnership programme too, which now stands at close to 5,000 throughout the UK. Customers can easily search for their local showroom online through our web-based dealer locator.

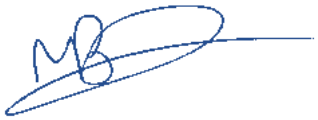
Our sustainability 'pillar' provides us with pathways for ensuring that we have robustness in the fundamentals that underpin our business, including sustainable funding, excellent people and a reliable technology platform.

Outlook

We enter this new era with confidence and our outlook remains positive, despite the difficulties we expect to face as a result of the current economic climate. We are committed to ensuring continued affordability supported by first-class service and a wide ranging choice of cars.

The next few years will certainly throw us many challenges, especially in the used car market. While we cannot predict exactly what the future will bring, we are in a strong position to cope with testing times. As a company, we have major strengths in our levels of capital, the quality of our assets, our excellent culture, our knowledge and breadth of experience, the strength of our supplier partnerships and the robust widespread stakeholder support we enjoy.

We recognise that the climate will continue to be tough, but are confident that we are well placed to steer our way successfully through the downturn.



Mike Betts Chief Executive

Our strategy

The four strategic 'pillars'

We have developed a clear strategic agenda designed to satisfy our prime purpose of providing our customers with independence and mobility by offering a wide choice of vehicles at affordable prices. We aim to deliver first-class customer service, and believe that understanding disability and how this affects our customers' needs is critical in meeting this objective. Ensuring the long-term sustainability of our business is essential for the delivery of these objectives.

For more information on our strategy and performance see pages 11-15.

Build our customer and disability expertise

We maintain consistently excellent levels of customer service throughout the leasing proposition, and demonstrate disability expertise in our approach to our customers and in our role as an employer

Provide value and choice

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

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

Ensure long-term sustainability

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

Finance Director's review

The year ended September 2008 was successful, with all key financial targets being met or exceeded. This was particularly pleasing given the difficult economic environment, especially in the context of a marked reduction in used vehicle values.

Financial performance

Targets met

Transfer to reserves, which is retained in the business for the benefit of our customers, was £52.8 million, and closing Balance sheet reserves, at £568 million, were in line with our Economic Capital Requirement (as described in the Risk Management section of this report, pages 17-19). Excellent customer satisfaction and affordability have driven unparalleled growth in customer numbers and revenues (our renewal rates were greater than 92%, new customer numbers were up by 26% and turnover up by 13% at £1,214 million).

Cost management

Although our operating cost base (excluding residual value effects) has increased in absolute terms on the previous year (up 3%), this is a relative reduction given the growth in fleet volume (up 8%) and turnover (up 13%). We have achieved this through applying effective cost management disciplines and operating a robust supplier management and procurement process.

Assets and residual values

The net book value of our leased vehicle assets increased by £293 million to £3,445 million, reflecting the fleet volume growth that we achieved during the year.

We carry out a quarterly re-assessment of the residual value of our leased assets. At the financial year end, this revaluation can result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the year and over the remaining life of the lease. Our in-house model, which has been externally validated by Oxford Economic Forecasting, has consistently outperformed alternative external benchmarks, and remains more conservative in outlook than other market views. Despite this prudent positioning, the exceptional downward pressure on residual values felt across the industry during the financial year exceeded expectations, with our used car values dropping by around 15%. This affected both the current used car market and the assessment of future residual values, driving additional depreciation and disposal losses above our planned levels.

These effects were, however, offset during the year through, among other things, the proactive management of our cost base, which enabled the delivery of a result in line with expectations.

Restructure and refinancing

Corporate restructure

The year also saw the successful financial restructure, culminating on 30 June 2008. The key objectives of this being to:

- Enable access to a wider range of market based funding
- Deliver a flexible and enduring structure enabling Scheme sustainability and longevity
- Retain reserves for the benefit of our customers
- Minimise the impact on customers, suppliers and employees, upon implementation.

The restructure involved changes to our ownership and funding arrangements, and precipitated the creation of Motability Operations Group plc. Through this process, we secured A+/A2 credit ratings and an increased £2.9 billion funding facility which provides us significant headroom to support projected growth. The restructure transaction involved repayment of all extant funding, and the transfer of assets and all accumulated reserves to the new Group companies. We used our newly negotiated banking facilities to achieve simultaneous refinancing.

Background and reasons for restructure

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

The percentage interests of the participating banks varied, but were originally established to mirror each bank's share of the UK retail market. Over the 30 years of the Scheme's existence, the partner banks have made funding available under bilateral, non-transferable and open-ended facilities in proportion to their respective shareholding and partner interests. They lent money to us at competitive market rates and additionally received a fee for management services.

Under the revised financing structure, we have broken the link between ownership and funding. This gives us the ability to access both long and short term facilities from a diverse range of sources, including the banks, and, it is anticipated, the debt capital markets as well in due course. It was necessary for the new Group to secure a credit rating to be able to access these markets.

Another critical feature of the new structure is that the Group continues to be 'not-for-profit'. Any surpluses that arise are reinvested back into the Scheme for the benefit of our disabled customers. Banks as owners cannot access accumulated reserves.

Execution and new corporate structure

The restructure was successfully implemented on 30 June 2008. The Group raised debt through a competitive tender process in accordance with market-based terms and documentation. Aggregating £2.9 billion, these new debt facilities have been used in part to repay existing borrowings, but are projected to provide sufficient scope for up to three years' growth. The chart on page 7 sets out the new structural arrangements.

Basis of accounting

Following the restructure, this is the first consolidated Annual Report for the newly formed Motability Operations Group plc. Before the formation of the new Group, Motability Operations was a conglomerate of partnerships and a trading company, Motability Finance Ltd.

The new organisation's operational arrangements are largely unaltered, enabling us to adopt 'predecessor' accounting. This means that we are able to report a full 12 months' financial performance for the various combined entities, and to restate the prior year's results on a fully consolidated basis.

Financing

Reserves management

Within the Business review (on pages 17-19 of this Annual Report) we set out our approach to risk management. This also describes how we use an Economic Capital model to determine the level of reserves appropriate to protect the business from economic shocks. We have adopted a conservative approach, with a core underlying assumption that we need sufficient reserves (Economic Capital) to cover the loss that may arise from all but the most extreme risk events.

During the course of the financial year, this model has been seen to be robust. Despite the problems in the used car market, we have maintained our reserves through proactive financial management. We have simultaneously been able to maintain affordable leased cars for customers. At the Balance sheet date reserves stood at a level just above the Economic Capital Requirement.

Cash and funding

The new debt facilities of £2.9 billion we secured as part of our restructuring and refinancing programme comprised £2 billion of term loans (£1 billion three year and £1 billion five year) and a £900 million revolving credit facility. At 30 September 2008, we had drawn £2,323 million of this available facility. The Group targets a ratio of Total Group Assets: Total Net Debt of not less than 1.25:1. At the Balance sheet date this ratio was 1.55:1.

We are now positioned to diversify our funding sources, and are already planning to be in a position to approach the debt capital markets. However, we will only do so once market conditions are sufficiently attractive.

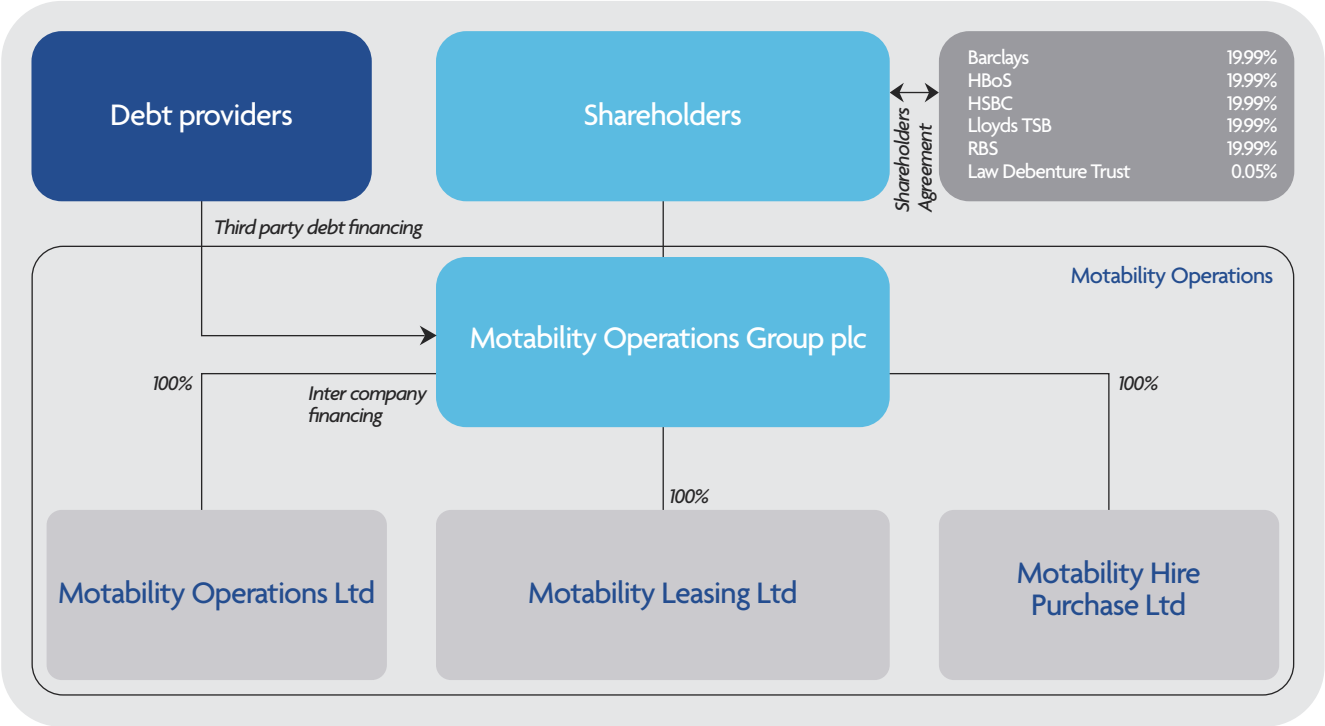
Treasury policy

As for other aspects of our business, we have adopted a risk-averse approach to treasury management, and will avoid exotic treasury products. We do use derivative financial instruments (specifically interest rate swaps), but only to reduce our exposure to interest rate movements that affect the funding of existing leased assets and related, mainly fixed, rental income.

We have established hedge accounting, and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value is shown on the face of the Balance sheet. The fair value of derivatives at 30 September 2008 was an asset of £3.1 million.

David Gilman Finance Director

Corporate structure



Directors' report

Business review: Our business model

A successful leasing company of long standing, we provide a wide range of affordable cars to disabled customers through lease and hire purchase schemes. The largest fleet operator in the UK, owned by Barclays, HBoS, HSBC, Lloyds TSB and RBS, Motability Operations developed 30 years ago as part of a pioneering public private partnership, including Government, Motability, and private sector financing and expertise.

As operators of the 'Motability Car Scheme', secured through a contract with Motability, we receive customers' mobility allowances assigned directly from the Department for Work and Pensions (DWP). This revenue-stream is effectively index-linked, and, given that it is sourced directly from Government, without credit risk. As operators of the Scheme, we also benefit from certain tax concessions which, in addition to the economies of scale we leverage, help us deliver a highly affordable and competitive proposition for our customers.

All that is required to access a vehicle on the Motability Car Scheme is to receive the qualifying Government allowance. This means that 1.9 million people currently in receipt of this allowance could use this option to obtain a new car. At present, around 28% of this potential customer base participates in the Scheme. The number of people eligible has been growing at circa 3% a year since 2000, and is expected to grow further.

In choosing to take a vehicle on the Scheme, customers assign their mobility allowance to Motability Operations. In return, we provide worry-free motoring in the form of a fully insured, maintained and serviced car, including tax, tyre and windscreen replacement, breakdown assistance and 60,000 miles mileage allowance over three years. We aim to provide our customers with access to a comprehensive range of affordable cars. Currently, 40 manufacturers participate in the Scheme, representing 99% brand availability.

Business review: Operational overview

Motability Operations delivered a year of excellent performance in 2008, against the backdrop of a challenging economic environment. Our fleet grew by 8% year on year, with renewal rates tracking in excess of 92% and overall customer satisfaction reaching an all time high at 97%. Furthermore, we exceeded our affordability targets in terms of the number of vehicles available, without the need for customers to contribute any more than their mobility allowance. We also enjoyed the continued support of all our stakeholders, including Motability, disability groups, manufacturers, dealers and other key suppliers. Our vehicle remarketing department performed well in a difficult marketplace.

Customer awareness and advocacy of the Scheme

Better awareness and understanding of the key components of the Motability car 'package' are central to helping customers to make informed decisions on whether to take a vehicle on the Scheme.

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

One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and 97% would recommend the Scheme. Through the success of our 'Recommend a Friend' referral programme over 15,000 new customers have joined the Scheme. In addition, a number of promotional activities have enhanced customers' awareness, including our successful 'One Big Day' regional open days, various dealer events, and the engagement of disability organisations.

A measure of our success in conveying this understanding is our growth in new customers. During the year, over 73,000 new customers chose to take a vehicle on the Scheme. This, combined with exceptional renewal rates of 92% among existing customers (a product of high customer satisfaction (97%) and sustained affordability), has precipitated significant growth during the financial year. Our total fleet increased by 8% (36,000 vehicles) year-on-year to pass the half million milestone, and closing at 501,347 vehicles. In 2008 we registered 205,000 vehicles – this represented over 9% of all UK new car registrations.

This business is well equipped to grow. In addition to our fully scalable business model, our robust financial and operational platform has enabled us to respond positively to recent expansion. Funding changes introduced this year position us well for further increases in customer numbers.

Product offering

During the year, we consistently exceeded our targets on affordability and the choice of vehicles we offer our customers on the Scheme.

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

Our prices are 44% cheaper than our external benchmark, which references the cost of commercial contract hire quotations. We set out to ensure that at least 200 models are available at nil advance payment, including a wide choice of automatics and wheelchair accessible cars. Our performance in this area has been consistently excellent, averaging in excess of 335 models throughout the year and peaking at 392.

Range and choice are key both to our renewing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail marketplace. During the financial year, we offered vehicles from 40 manufacturers and over 4,100 vehicle derivatives on the price list.

We are not immune from the challenging market conditions we face. However, our robust financial position, combined with a business model that largely insulates us from customer default and a flexible pricing engine, enables us to absorb market fluctuations with no major adverse impact on prices for our customers.

Customer experience

We focus on providing customers with a first-class experience. Vehicle choice and affordability are significant elements of our product offering, but meeting our customers' needs is about much more. We therefore aim not only to provide excellent customer service, but also to ensure that we meet our customers' disability-related requirements. In doing so, we are able to deliver an enhanced customer experience.

We have used an independent research agency to conduct bi-annual customer surveys since 2003. The latest survey showed an overall customer satisfaction level of 97%, suggesting first-class levels of customer service. The survey continues to provide valuable feedback on our customer proposition. Our goal now is to maintain these excellent overall levels of satisfaction while continuing to investigate and address any pockets where residual issues remain.

Initiatives undertaken include:

- Investing in improved call answering consistency (now at record levels) and simplified Interactive Voice Recognition (IVR)
- Installing an innovative new online 'Lingubot' called 'Ask Mo', which provides an additional method for customers to resolve their questions. Enabling customers to 'chat' through their queries in ordinary language, this service has proved very popular and answered 247,000 questions during the year
- Commissioning a new web-based 'Dealer Locator' tool that enables customers to find their local showroom, and search under a range of criteria including accessibility features such as ramps, lifts and hearing loops
- Running business seminars attended by over 3,500 customer-facing staff from our partner dealerships, which provides an opportunity to brief dealers on up-to-date Scheme news as well as provide a forum for feedback and discussion
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

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

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

- Displaying vehicle accessibility information on our website
- Producing award-winning publications such as The Rough Guide To Accessible Britain, which achieved an IVCA Clarion Award for clear and inclusive communication
- The launch of targeted specialist publications including the new Wheelchair Accessible Vehicle Guide, Adaptations Guide and Guide to Choosing Your Car
- Receiving a Diamond Award for vision and commitment on disability from the Employers' Forum on Disability
- Achieving second place (of 116 companies) in the Employers' Forum on Disability's 'Standard Benchmark Survey'.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we grew the number of participating manufacturers to 40 during the year, representing 99% brand availability based on market share. This now provides our customers with access to over 4,100 different vehicle derivatives, delivered through a network of over 4,800 car dealerships. Accounting for over 9% of UK car registrations in the financial year ended September 2008, we represent an increasingly important route to market for the manufacturers. We regard our partnership with them as extremely valuable to the Scheme.

While we take responsibility for the overall customer experience, Motability specialists employed by the car dealerships conduct the primary face-to-face relationship with the customer. We introduced the Motability Dealer Partnership (MDP) programme in 2004 to ensure that customers receive a consistently high level of service in the dealership. This is designed to influence dealer behaviour and performance in every key element of the leasing process (supply, service and after sales) with a particular emphasis on customer service. The MDP programme has, through targeted investment, delivered improvements that have led to a better customer experience at dealerships. This year the programme was independently recognised with an 'Industry Excellence Award' at the Motor Trader Industry Awards, for its contribution towards raising professionalism within the motor trade.

During the year, the difficult economic climate caused a number of dealership closures. Any closure can cause some short-term disruption to our customers; however, we have a well-tested means of minimising this through moving affected parts of the fleet to an alternative dealership.

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

Directors' report
Business review: Operational overview *continued*

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

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

Remarketing
As the largest purchaser of new cars in the UK, it follows that we are also the largest vendor of used vehicles. During the financial year ended September 2008, we sold 165,000 cars into the used trade. We have developed a ground-breaking multi-channel disposal strategy to manage these volumes. The core is a market-leading online application, and this is augmented by a proactive auction programme. Our web-based tool, 'mfldirect,' is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week.

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

Cars that do not sell online are usually routed to auction and sold in one of our branded events. Our online sales channel, 'mfldirect', provides a competitive purchasing environment and ensures that we both maximise our sales return and minimise disposal costs. Campaigns to increase the number of purchasing dealers delivered 6% growth during the year, with the 2,400 dealers who purchased from the site during the year accounting for 44% of all disposals.

Notwithstanding these initiatives, challenging market conditions during the year put our resale activities under pressure. We faced falling used car values, significantly reduced availability of competitively priced point-of-sale finance, and erosion of buyer confidence, combined with, for us, a 10.5% increase in year-on-year disposal volumes. Despite these challenges, our vehicle remarketing team successfully contained stock levels and managed the throughput of vehicles. Our net proceeds were inevitably affected, but this did not compromise any of our key financial targets.

Environment
Environmental issues continue to feature prominently on the political and economic agenda. The European Commission published its proposal for a regulation on mandatory CO_2 emissions in December 2007. This confirmed that by 2012 every manufacturer must achieve average CO_2 emissions equivalent to 130g/km for all passenger vehicles registered in the European Union.

Our customers have extremely limited mobility, therefore for this group public transport is rarely a viable option. However, we know that customers are keen to look for greener choices, and we continued to take a proactive approach to managing our CO_2 emissions agenda during the year, introducing a number of initiatives that provide information and choice for our customers. These included:

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

Corporate Social Responsibility
Motability Operations has formulated a Corporate Social Responsibility policy. The business demonstrates its support of this policy in a number of ways, including:

- Through the Scheme's core objectives we help customers to gain independence and lead fuller lives through affordable, worry-free motoring
- We offer our facilities to various disability organisations and local associations
- We have an environmental policy which is reviewed through the Health and Safety Committee and Risk Management Committee. Motability Operations is also registered with the Carbon Trust
- Our HR policies allow for flexible working, including staggered and reduced working hours
- We provide summer placement opportunities for disabled students.

Charitable and political donations
During the year the Company made charitable donations of £20,961 (2007: £8,184) to support and sponsor local initiatives through our 'mycommunity' programme.

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

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

Directors' indemnity
Pursuant to the provisions of the Companies Act 2006, the Company is required to disclose that under article 163 of the Company's articles of association the directors have the benefit of an indemnity, to the extent permitted by the Companies Act 1985 and Companies Act 2006, against liabilities incurred by them in the execution of their duties and the exercise of their powers.

Business review: Strategy and performance

We have developed a clear strategic agenda designed to satisfy our prime purpose of providing our customers with independence and mobility by offering a wide choice of vehicles at affordable prices. We aim to deliver first-class customer service, and believe that understanding disability and how this affects our customers' needs is critical in meeting this objective. Ensuring the long-term sustainability of our business is essential for the delivery of these objectives.

To deliver these ambitions, we have defined four strategic 'pillars'. These set out a clear framework within which we align our business objectives, performance targets and business planning. The pillars are: building our customer and disability expertise, providing value and choice, improving our market reach and awareness, and ensuring long-term sustainability.

Directors' report
Business review: Strategy and performance *continued*

Strategy

Build our customer and disability expertise

We maintain consistently excellent levels of customer service throughout the leasing proposition, and demonstrate disability expertise in our approach to our customers and in our role as an employer

Our goals and objectives

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 what they want and need. 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.

- Aligning customer experience to an equivalent retail market proposition
- Delivering best practice customer service through our call centre
- Ensuring that the services deployed through our key suppliers are at a standard commensurate with our internal targets
- Building our adaptations and conversion expertise to ensure that customers have a seamless experience and that we are recognised for the excellence of our 'one-stop-shop' for motoring
- Providing our customers with the information and tools they need to select a suitable car from the wide range available
- Providing information to support informed decision-making to meet their mobility needs
- Working with disability organisations for guidance and support

Key Performance Indicators

Overall customer satisfaction

97%

overall satisfaction

We deliver by listening to our customers and ensuring that what we provide meets their requirements.

Growth in adapted fleet

43%

growth in applications for adaptations year on year

We have worked to ensure that customers have access to a wide range of adaptations which meet their specific needs at affordable prices.

Call answering

84%

of calls answered inside

20

seconds

We have simplified our call-answering process to ensure calls are answered effectively and efficiently while minimising waiting time.

Continuous mobility

Average response time for roadside assistance below

42

minutes all year

Our customers need to know that in the event of a breakdown they will receive priority assistance. During the year, our service provider (RAC) attended over 141,000 incidents.

Strategy

Provide value and choice

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

Our goals and objectives

We believe that customers should be able to choose from a wide selection of vehicles consistent with the equivalent market proposition. We are therefore committed to providing a wide range of affordable models. To this end, we seek to leverage our purchasing power and ensure that we manage our cost-base on commercial terms to provide value without compromising choice or quality.

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

Key Performance Indicators

Relative affordability

44%

cheaper than equivalent commercial contract hire quotes

We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale and operational efficiencies deliver the majority of this differential.

Affordable choice

Between

335 and 392

cars available at 'nil advance payment' for the entire year

We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance.

Effectiveness of vehicle re-sale activities

69%

conversion rate of vehicles published online – total

72,600

sales online

Our online sales channel, 'mfldirect', provides an effective, low-cost, route to market which facilitates the management of our high volumes of disposals. This provides a competitive sales environment through which we seek to maximise our net return.

National coverage of dealer partners

4,856

approved dealers across the UK

The extensive dealership network of the 40 manufacturers available on the Scheme provides national coverage. We have given our customers the ability to search easily for their local showroom online by introducing the 'Dealer Locator' tool on our website.

Directors' report
Business review: Strategy and performance *continued*

Strategy

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

Our goals and objectives

We expect to continue the growth of the fleet by achieving greater penetration into our potential customer base. Through promoting greater awareness and understanding of the Scheme, we attract people receiving the mobility allowance who until now were either unaware of the product offering or did not fully appreciate its key components. The loyalty of our existing customers is fundamental to this growth, with renewal rates being closely linked to our success in delivering sustained affordability and excellent customer service.

- Raising understanding of the Scheme and its elements
- Exploring new promotional channels within the eligible customer base
- Providing relevant tools and resources to allow potential and current customers to make informed choices
- Seeking to identify and remove barriers for potential customers
- Encouraging dealers and customers to promote the Scheme proactively

Key Performance Indicators

Growth in customers

8%

growth in customer numbers year on year

We reached the milestone of 500,000 vehicles in September, driven by record new business and sustained levels of customer renewals.

Renewal rate

Renewal rate above

92%

Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year this reached unparalleled levels.

Volume of new customers

73,000

brand new customers joined the Scheme during the year

We experienced record levels of new business through mailshots, in conjunction with Motability and the DWP, as well as the excellent publicity we received from our award-winning publications such as 'The Rough Guide To Accessible Britain' and our investment in joint dealer marketing campaigns.

Understanding of the Scheme

10%

increase in understanding of the main components of the Scheme

Research shows that once potential customers fully understand the Scheme proposition, they are much more likely to apply for a vehicle. We have targeted an increase in understanding through our literature, marketing material and informative website.

Strategy

Ensure long-term sustainability

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

Our goals and objectives

Long-term sustainability is fundamental for our business and our customers. From a financial perspective, we seek to ensure that we maintain a robust Balance sheet and secure longevity of funding capable of supporting our growth expectations. This in turn supports stability of pricing through the economic cycle. We regard the enhancement of our reputation and the continued support we enjoy from our stakeholder groups as pivotal to our sustained success.

- Maintaining a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events
- Creating opportunities to access wider sources of competitive funding, enabled by our financial restructure. We aim to maintain our credit rating, enabling us to secure the most appropriate funding at competitive rates
- Continuing to nurture effective partnerships with key stakeholders, including a commitment to our employees to provide a working environment and culture that enables them to deliver all of our tactical and strategic goals
- Maintaining a forward-looking environmental policy, to ensure the availability of a range of low-emission vehicles, balancing our customers' needs with CO_2 considerations
- Ensuring that our premises and Information Technology infrastructure are robust and future-proof
- Attracting and retaining quality people

Key Performance Indicators

Revenue

13%

growth in revenue year on year

Customer growth is the primary driver of the increase, supplemented by index-linked lease payments.

Reserves sufficiency ratio

104%

of risk capital requirement

Our Economic Capital model determines our reserves sufficiency requirement in the context of our risk profile. We aim to keep this ratio above 100% to protect the longevity of the Scheme.

Credit rating

A+/A2

credit rating

Our corporate restructure has given us the capability to access a wider variety of funding at competitive market rates. We seek to preserve our relative credit rating with our robust approach to financial and risk management and through the flexibility of our pricing engine.

Culture survey results

Employee engagement

8%

above high-performing organisation benchmark

We participate in an independent annual review of business culture, where we have significantly outperformed the 'high-performing organisations' benchmark.

Directors' report
Business review: People and principles

People
Our people are fundamental to our success. We are committed to recruiting and retaining an engaged and motivated workforce. We have created an excellent working environment, and we promote a positive business culture aligned to our core values and principles. We seek to develop our people, and consistently reward and recognise excellent performance. We provide a competitive remuneration package, which seeks to align individual performance with Company objectives.

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

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

While attrition levels are low, we manage the risk of losing key individuals through detailed succession planning. Our Remuneration and Nominations Committee is responsible for reviewing the plans for Directors and divisional senior managers.

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

- Compete on value and disability expertise
- Provide specialist support to remove barriers where appropriate
- Deliver excellent plc governance
- Work closely with Motability
- Have excellent relations with stakeholders
- Are recognised as an outstanding and responsible employer
- Operate in a non-political and transparent manner
- Are financially capable of sustaining the Scheme into the future
- Deliver value for stakeholders
- Are recognised and respected in the community
- Operate in a manner consistent with the vision of improving the life choices of disabled people
- Maintain a forward-looking environmental policy that balances customer needs with CO_2 emissions.

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

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

Business review: Risk management

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

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

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

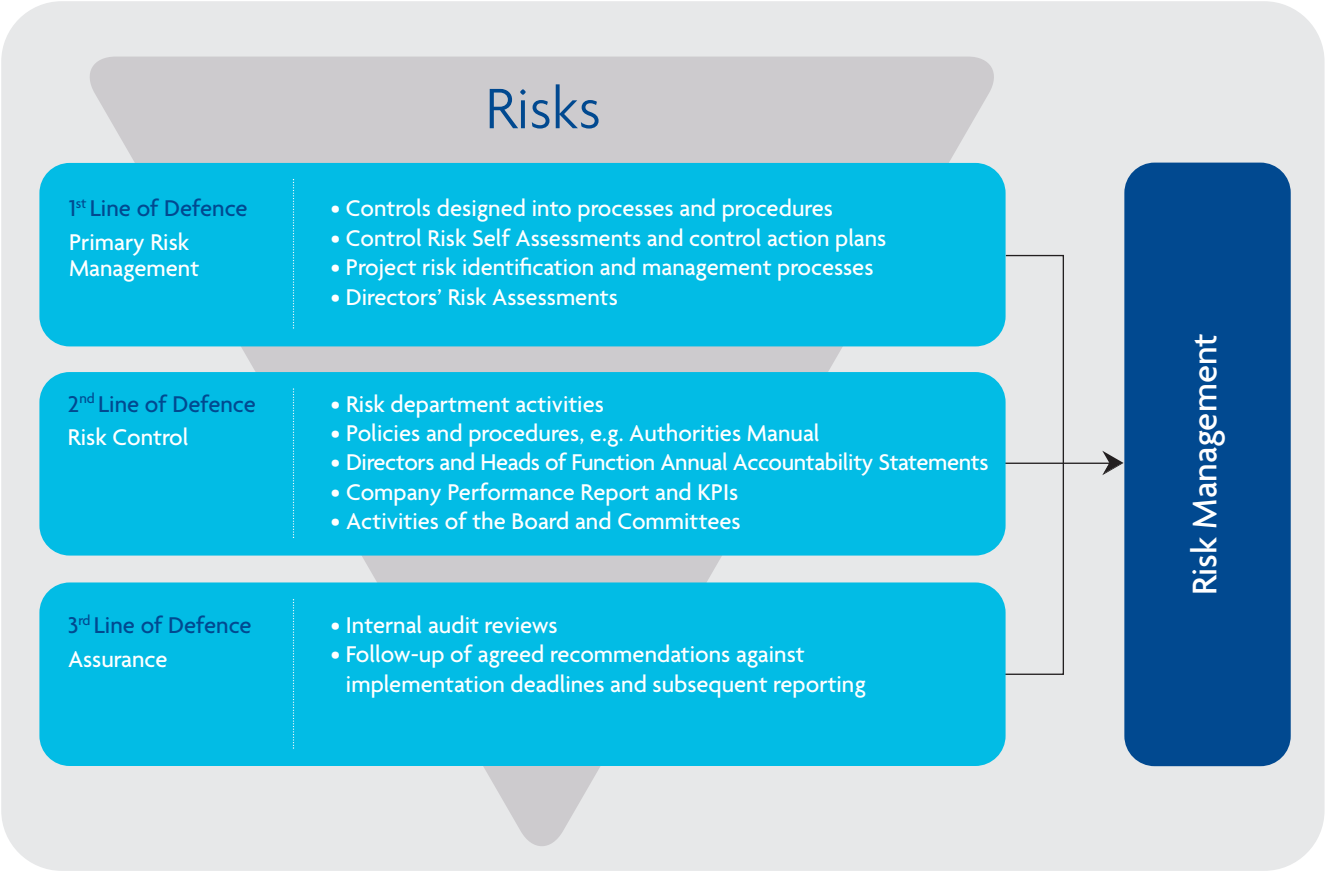
We use Economic Capital principles to determine and manage our reserves position.

Risk identification and monitoring

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

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

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



Directors' report
Business review: Risk management *continued*

Key risks and mitigations

Residual values

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

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

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

We manage this vehicle remarketing performance risk primarily by ensuring we optimise asset value by exploiting multiple simultaneous routes to market, through our streamlined logistics operation and our commercial sales force. Our proactive portfolio management has actively mitigated concentration risk in recent years, with a broader spread of models and manufacturers now represented in our diversified fleet than in any previous period.

Supplier failure

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

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

Credit risk

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

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

Treasury risk

The availability of sustainable funding and liquidity is critical to our ongoing operation. This has been brought into sharpened focus during the 'credit crunch' with scarcity of competitive funding affecting many businesses. Risks include those associated with exposure to interest movements, liquidity, funding, counterparty and operational risk. We manage these risks through a properly defined Treasury Policy, the operation of which is overseen by the Asset and Liability Management Committee – a sub-committee of the Executive Committee. We maintain a risk-averse stance and continue to develop a diversified portfolio of funding maturities, seeking to lock the majority of funding onto fixed rates. Our policy is also to avoid exotic treasury products. Through our robust financial management and governance we seek to maintain a credit rating that allows us access to a range of debt markets on competitive terms.

Economic Capital

In line with our Economic Capital (EC) principles and in the context of the risks and mitigations outlined in the table on page 19, we have undertaken a comprehensive assessment at various confidence levels of the material risks and evaluated potential impacts we face.

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

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

Our policy is to seek to manage reserves above 100% of the ECR to protect the longevity of the Scheme.

Summary of our key risks and management

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

Directors' report
Board of Directors

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

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

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

John Bishop
Independent Non-Executive Director
John has been a Non-Executive Director of Motability Operations since 2000. He was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 30 June 2008.

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

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

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

Frank Gardner OBE
Independent Non-Executive Director
Frank was appointed to the Motability Operations Group plc Board on 10 December 2008.

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

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

George Grant
Non-Executive Director
George has been a Non-Executive Director of Motability Operations since 2002. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Simon Cotton, appointed 10 December 2008).

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

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

Jeff Smyth
Business Systems Director
Jeff joined Motability Operations in 1999 and was appointed to the Board in 2004 as Business Systems Director. He was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

Nigel Stead
Non-Executive Director
Nigel has been a Non-Executive Director of Motability Operations since 2006. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008.

Ian Stuart
Non-Executive Director
Ian has been a Non-Executive Director of Motability Operations since 2007. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Duncan Rowberry, appointed 17 September 2008).

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

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

Other statutory information

Statement of Directors' responsibilities

In preparing these financial statements the Directors are required to:

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

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

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

Going concern

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

Auditors

The auditors, Pricewaterhouse Coopers LLP, have indicated their willingness to continue in office and a resolution that they will be re-appointed will be proposed at the Annual General Meeting.

Directors' interests

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

Signed by order of the Board

Jo Pentland Company Secretary
3 February 2009

Governance
Corporate governance

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

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

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

The Board's responsibilities

Matters reserved for the Board include:

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

Roles of the Chairman and Chief Executive

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

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

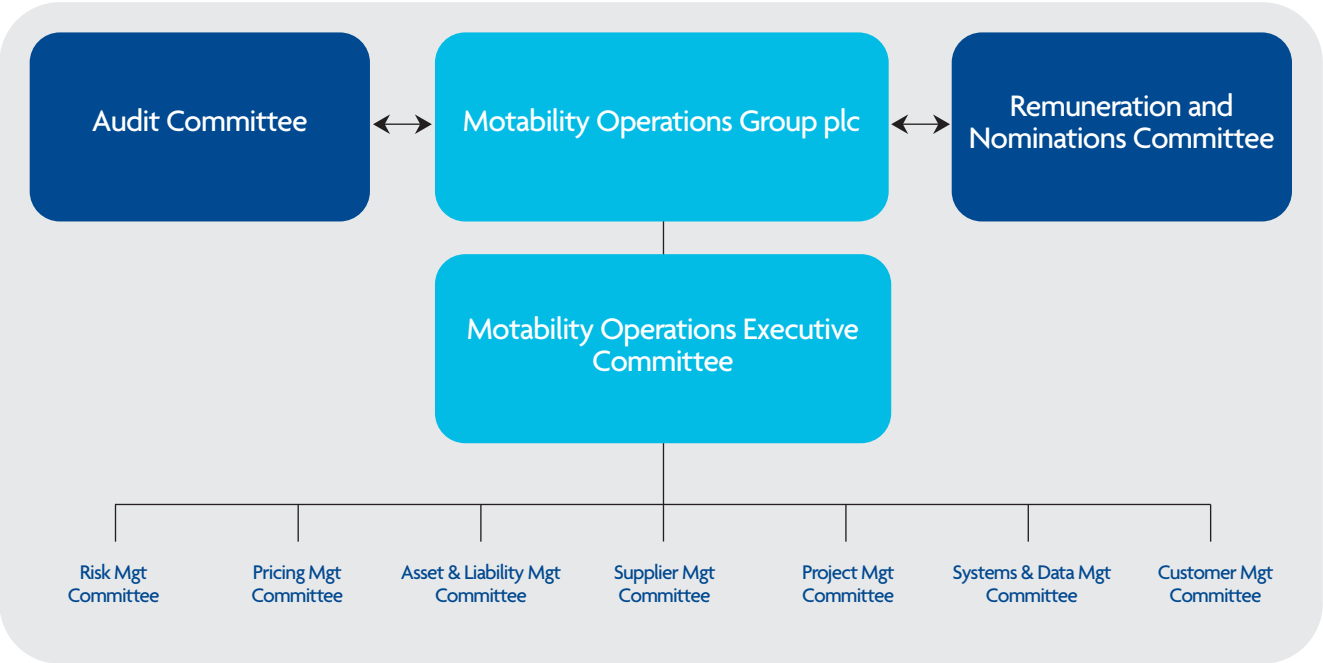
Non-Executive Directors

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

Executive Committee

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

Governance structure



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

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

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

Audit Committee

The Audit Committee comprises two Independent Non-Executive Directors and five Non-Executive Directors. It is chaired by John Bishop and the other members include John Callender, Nigel Clibbens, George Grant, Mike Russell-Brown, Nigel Stead and Ian Stuart.

The Committee meets quarterly prior to the Board meetings and has the delegated authority from the Board to:

- Review and recommend the annual assurance plan to the Board and receive reports from the audit function on progress against plan
- Oversee all assurance activity and monitor the adequacy and effectiveness of activity
- Review audit reports and monitor management's progress against agreed actions
- Consider any substantive control issues arising, including major control failures or incidents
- Oversee the risk management framework
- Oversee financial reporting
- Report quarterly to the main Board

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises three Non-Executive Directors and the Non-Executive Chairman. It is chaired by John Callender and the other members are John Bishop, George Grant and Neil Johnson.

The committee meets bi-annually and has the delegated authority from the Board to:

- Review the terms, conditions and remuneration for the Directors
- Review the succession plans
- Review plans for the appointment of new Directors
- Review the terms of any termination or compensation
- Review the terms and eligibility of any long-term incentive programme.

The Committee reports bi-annually to the main Board. The Remuneration report is set out below.

Remuneration report

Directors' remuneration seeks to strike an appropriate balance between fixed and variable pay. Elements of remuneration include a base salary, an annual bonus and a long-term incentive. Both potential annual bonuses and any payments into the Long Term Incentive Plan are not guaranteed and are overtly linked to clear and sustainable measures of business performance.

Other elements of Directors' remuneration comprise benefits and pension contributions. Details of the Directors' remuneration are set out in note 31 on page 45 of the Financial statements.

All remuneration is controlled by the Remuneration and Nominations Committee. Annual bonuses are linked to both business and personal performance. They are discretionary and cannot exceed 50% of base salary.

The incentive plan is linked to the Company's long-term objectives, and aims to encourage the performance and retention of Directors. Due to the ownership structure of the business, this Long Term Incentive Plan (LTIP) precludes the use of shares or share options. However, the plan overtly links any future payout with clear and unambiguous measures of sustained performance which in turn have 'line of sight' with the Company's overarching strategic framework (see Directors' report pages 11-15). The LTIP takes into account external factors such as the credit rating of the business and is consistent with FSA guidelines on long-term incentives.

The main features of the LTIP are as follows:

- The Remuneration and Nominations Committee determines annually, on a discretionary basis, whether LTIP 'units' should be allocated to any Director. The value of these units will then vary (up or down) in subsequent years
- Potential payouts are deferred for three years
- The value of any payout is affected by an annual assessment against specific performance requirements in respect of customer service, reserves adequacy and business culture
- Potential payouts are also affected by movements in the Company's credit rating.

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

We have audited the Group and Parent Company financial statements (the 'financial statements') of Motability Operations Group plc for the year ended 30 September 2008 which comprise the Group Income statement, the Group and Parent Company Balance sheets, the Group and Parent Company Cash Flow statements, the Group and Parent Company Statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Parent Company's Members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Parent Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Parent Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2008 and of the Group's surplus and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Parent Company's affairs as at 30 September 2008 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors London, United Kingdom
3 February 2009

Income statement

For the year ended 30 September 2008

	Note	2008 Group £'000	2007 Group £'000
Revenue	4	1,214,427	1,074,269
Net operating costs	6	(1,033,944)	(849,490)
Total surplus from operations		180,483	224,779
Finance costs	9	(147,529)	(122,981)
Surplus before tax		32,954	101,798
Taxation	10	19,851	(30,728)
Surplus for the year		52,805	71,070

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

Under section 230 of the Company's Act 1985 the Group has elected to take the exemption with regard to disclosing the Company Income statement. The Company's net surplus for the year was £2.7m (2007: £0.0m).

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

Statements of recognised income and expense

For the year ended 30 September 2008

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Recognised income and expense in the year				
Gains on cash flow hedges	3,094	–	3,094	–
Tax on items taken directly to equity	(866)	–	(866)	–
Net surplus recognised directly in equity	2,228	–	2,228	–
Surplus for the year	52,805	71,070	2,655	–
Total recognised income and expense for the year attributable to equity	55,033	71,070	4,883	–

Balance sheets

As at 30 September 2008

	Note	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Assets					
Non-current assets					
Intangible assets	11	4,477	–	–	–
Property, plant and equipment	12	4,288	3,534	–	–
Assets held for use in operating leases	13	3,444,537	3,151,291	–	–
Deferred tax asset	23	–	2,499	–	–
Investment in subsidiaries	14	–	–	10,000	–
Loan to other Group companies	14	–	–	2,324,573	–
Hire purchase receivables	16	44,958	49,538	–	–
Derivative financial instruments	21	3,094	–	3,094	–
		3,501,354	3,206,862	2,337,667	–
Current assets					
Trade and other receivables	17	429,962	149,471	54,721	–
Hire purchase receivables	16	21,640	26,241	–	–
Cash and bank balances	15	7,525	5,138	–	–
		459,127	180,850	54,721	–
Total assets		3,960,481	3,387,712	2,392,388	–
Current liabilities					
Deferred income	18	(96,101)	(95,747)	–	–
Trade and other payables	19	(415,478)	(92,068)	(580)	–
Corporation tax payable		(231)	(1,116)	–	–
Financial liabilities	20	(23,377)	(108,446)	(1,059)	–
		(535,187)	(297,377)	(1,639)	–
Net current liabilities		(76,060)	(116,527)	53,082	–
Non-current liabilities					
Deferred income	18	(133,041)	(108,407)	–	–
Financial liabilities	20	(2,384,950)	(2,016,352)	(2,384,950)	–
Deferred taxation	23	(335,408)	(449,373)	(866)	–
Long-term provisions	22	(1,430)	(820)	–	–
		(2,854,829)	(2,574,952)	(2,385,816)	–
Total liabilities		(3,390,016)	(2,872,329)	(2,387,455)	–
Net assets		570,465	515,383	4,933	–
Equity					
Share capital	24	50	1	50	–
Fair value reserve	25	2,228	–	2,228	–
Retained reserves*		568,187	515,382	2,655	–
Total shareholders' funds and equity		570,465	515,383	4,933	–

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

These financial statements were approved by the Board of Directors on 3 February 2009

Mike Betts, Chief Executive

The notes on pages 28 to 53 form part of these financial statements.

Cash flow statements

For the year ended 30 September 2008

	Note	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Net cash generated from operating activities	26	605,117	591,617	(2,385,000)	–
Investing activities					
Purchase of property, plant and equipment		(6,451)	(1,332)	–	–
Proceeds from sale of property, plant and equipment		403	419	–	–
Purchase of assets held for use in operating leases		(1,818,012)	(1,459,933)	–	–
Proceeds from sale of assets held for use in operating leases		873,731	765,925	–	–
Net cash used in investing activities		(950,329)	(694,921)	–	–
Financing activities					
Issue of preference shares		9,950	–	9,950	–
Issue of ordinary shares		49	–	50	
New bank loans raised		2,375,000	100,701	2,375,000	–
Bank loans repaid		(2,016,352)	(9,015)	–	–
Net cash generated from financing activities		368,647	91,686	2,385,000	–
Net increase in cash and cash equivalents		23,435	(11,618)	–	–
Cash and cash equivalents at beginning of year		(38,227)	(26,609)	–	–
Cash and cash equivalents at end of year	15	(14,792)	(38,227)	–	–

Notes to the financial statements

1. General information

Motability Operations Group plc is a limited company incorporated in the United Kingdom under the Companies Act 1985, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company operations and its principal activities are set out in the Directors' report on page 8.

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

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

Accounting convention

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

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The policies set out below have been consistently applied to the years 2008 and 2007.

Note 32 details the corporate restructure of the Motability Scheme which took place in June 2008. It explains the basis of preparation of the accounts using predecessor accounting.

Adoption of new and revised standards

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 33).

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but yet to come into effect:

Amendments to IAS 1

IFRS 8 *"Operating segments"*

IAS 23 (Revised) *"Borrowing costs"*

IFRS 1 and IAS 27 (Amendment) *"Cost of an investment in a subsidiary, jointly controlled entity or associate"*

IFRIC 14 IAS 19 "*The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction"*

IAS 32 and IAS 1 (Amendment) *"Puttable financial instruments and obligations arising on liquidation"*

IAS 27 (Revised) *"Consolidated and separate financial statements"*

IFRS 3 (Revised) *"Business combinations"*

IAS 39 (Amendment) *"Eligible hedged items"*

The Directors anticipate that the adoption of these Standards, Interpretations and Amendments (and the other outcomes from IASB's 2008 and 2009 Annual Improvements projects) in future periods will have no material impact on the financial statements of the Group.

2. Significant accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Intangible assets

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

Property, plant and equipment

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

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

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

Assets held for use in operating leases

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

Revenue recognition

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

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

Deferred income – maintenance

Rental income in respect of maintenance costs is deferred to the extent that it relates to future maintenance expenditure. See note 18.

Deferred income – vehicle condition

Rental income is deferred to the extent that it is expected to be repaid to lessees for returning leased assets in good condition, having made no insurance claims for which an insurance excess applied. See note 18.

Leasing obligations

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

Net operating costs

Net operating costs comprise depreciation, insurance, maintenance, dealer supply and service payments, roadside assistance and other Scheme related costs including overheads. An analysis is provided in note 6.

Finance costs

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

Retirement benefit costs

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

Notes to the financial statements continued

2. Significant accounting policies continued

Taxation

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

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

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

Dilapidation provision

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

Share capital

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

Financial instruments

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

Financial assets

Trade and other receivables

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

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

Hire purchase debtors

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

Assets purchased by customers under hire purchase contracts are included in 'hire purchase debtors' at gross amount receivable, less unearned finance charges. Finance income is recognised over the lease term using a net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the contract.

Cash and bank balances

Cash and bank balances comprise bank account balances held by the Group and money market deposits. The carrying value of these assets approximates to their fair value.

Financial liabilities

Trade and other payables

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

Trade payables do not carry any interest and are stated at their nominal value.

Borrowings and preference shares

Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period.

2. Significant accounting policies continued

Derecognition of financial liabilities

The Group derecognises financial liabilities, when and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into derivative financial instruments, mainly interest rate swaps, to manage its exposures to interest rate risk. Further details of derivative financial instruments are disclosed in note 21 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

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

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

Note 21 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve equity (net of tax effects) are also detailed in the reconciliation of changes in equity in note 25.

Cash flow hedge

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. The Group's cash flow hedges are 100% effective as of the balance sheet date and therefore all such changes have been recognised directly in equity.

Amounts deferred in equity are recycled to profit or loss in the period when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

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 fair value of the Group's residual values of the operating lease assets is described in note 13. Because of the inherent uncertainty associated with such fair 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).

Derivatives

As described in note 21, the Directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on the quoted market rates adjusted for the specific features of the instruments.

Notes to the financial statements continued

4. Revenue

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

	2008 £'000	2007 £'000
Rentals receivable	1,204,403	1,062,399
Contingent rentals	(749)	1,063
Hire purchase earnings	8,548	8,951
Other income	2,225	1,856
Total revenue	1,214,427	1,074,269

Contingent rentals relate to variable charges and refunds for excess mileage.

5. Segmental analysis

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

6. Net operating costs

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

	2008 £'000	2007 £'000
Fleet operating costs including insurance, maintenance and roadside assistance costs	300,924	319,077
Losses/(gains) on disposal of assets held for use in operating leases	51,233	(10,025)
Other product costs including continuous mobility costs, adaptations support, communications	18,029	15,023
Employee costs	30,996	28,932
Other operating costs	26,498	25,484
Legal and professional fees	4,480	5,170
Net movement in bad debt provisions	(3,846)	18,660
Management fees	1,150	750
Motability levy	4,262	3,441
Net operating costs before depreciation	433,726	406,512
Depreciation on assets used in operating leases*	599,399	441,704
Depreciation on property, plant and equipment	819	1,274
Net operating costs	1,033,944	849,490

* The depreciation charge on assets used in operating leasing includes £118.5m (2007: £18.6m) relating to the change in estimate during the year of future residual value (see note 13).

7. Surplus from operations

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

		2008 £'000	2007 £'000
Depreciation		600,218	442,978
Bank charges		264	243
Employee costs		30,996	28,932
Auditors' remuneration:	Audit fees	110	77
	Audit fees paid on behalf of subsidiaries	60	80
Total audit fees		170	157
	Taxation advice, predominantly regarding the restructure	344	15
	Other	4	121
Total non-audit fees payable to auditor		348	136

8. Employee costs

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

	2008	2007
Administrative staff	631	590

	2008 £'000	2007 £'000
The breakdown of staff costs is as follows:		
Wages and salaries	25,225	23,941
Pensions and healthcare benefits	2,661	2,543
Social security costs	3,110	2,448
	30,996	28,932

9. Finance costs

	2008 £'000	2007 £'000
Interest and charges on bank loans and overdrafts	146,125	122,981
Amortisation of fees relating to financing	1,229	–
Preference dividends	175	–
Total finance costs	147,529	122,981

Notes to the financial statements continued

10. Tax

The major components of the Group tax expense are:

	2008 £'000	2007 £'000
Current tax		
Charge/(credit) for the year	92,481	(4,665)
Total	92,481	(4,665)
Deferred tax		
Origination and reversal of temporary differences	(82,098)	35,393
Impact of change in UK tax rate	(30,234)	–
Total	(112,332)	35,393
Tax on surplus from continuing operations	(19,851)	30,728

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

	2008 £'000	2007 £'000
Surplus before taxation from continuing operations	32,953	101,798
Tax calculated at appropriate tax rates applicable to surplus	9,790	30,539
Expenses not deductible for tax purposes	59	10
Utilisation of previously unrecognised tax losses	(996)	–
Tax losses for which no deferred tax asset was recognised	1,530	–
Remeasurement of deferred tax due to change in the UK corporation tax rate	(30,234)	179
Total tax on surplus from continuing operations	(19,851)	30,728

The weighted average applicable tax rate was 28.67% (2007: 30%). The decrease was caused by the reduction in the UK corporation tax rate from 30% to 28% with effect from 1 April 2008, and the resulting effects on the partnerships (active until 30 June 2008) and the new limited companies.

11. Intangible assets

Cost	£'000
At 30 September 2007	–
Additions	4,477
At 30 September 2008	4,477

Amortisation	
At 30 September 2007	–
Charge for the year	–
At 30 September 2008	–

Carrying amount	
At 30 September 2008	4,477
At 30 September 2007	–

The intangible assets above are held by the Company's wholly owned subsidiary Motability Operations Limited.

The assets relate to an IT software project, the first phase of which will be put into business use during Spring 2009. Amortisation of the implementation costs incurred since development was formally approved will commence once the software is brought into use.

12. Property, plant and equipment

	Motor vehicles £'000	Leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost				
At 1 October 2006	1,640	5,177	11,463	18,280
Additions	867	–	465	1,332
Disposals	(662)	–	–	(662)
At 1 October 2007	1,845	5,177	11,928	18,950
Additions	901	109	964	1,974
Disposals	(920)	(1)	(7,561)	(8,482)
At 30 September 2008	**1,826**	**5,285**	**5,331**	**12,442**
Accumulated depreciation and impairment				
At 1 October 2006	700	2,754	11,049	14,503
Charge for the year	458	380	436	1,274
Eliminated on disposals	(361)	–	–	(361)
At 1 October 2007	797	3,134	11,485	15,416
Charge for the year	334	184	301	819
Eliminated on disposals	(521)	(1)	(7,559)	(8,081)
At 30 September 2008	**610**	**3,317**	**4,227**	**8,154**
Carrying amount				
At 30 September 2008	**1,216**	**1,968**	**1,104**	**4,288**
At 30 September 2007	1,048	2,043	443	3,534

13. Assets held for use in operating leases

	Motor vehicle assets £'000
Cost	
At 1 October 2006	3,471,185
Additions	1,459,933
Disposals	(1,078,380)
At 1 October 2007	3,852,738
Additions	1,818,012
Disposals	(1,321,308)
At 30 September 2008	**4,349,442**
Accumulated depreciation	
At 1 October 2006	582,223
Charge for the year	441,704
Eliminated on disposals	(322,480)
At 1 October 2007	701,447
Charge for the year	599,399
Eliminated on disposals	(395,941)
At 30 September 2008	**904,905**
Carrying amount	
At 30 September 2008	**3,444,537**
At 30 September 2007	3,151,291

Residual values

Residual values represent the estimated net future value of the asset at the end of the leasing period. A review is undertaken at the balance sheet date using market data to identify net residual values which differ to 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.

Notes to the financial statements continued

13. Assets held for use in operating leases continued

The following residual values are included in fixed assets held for use in operating leases:

Years in which unguaranteed residual values are recovered

	2008 £'000	2007 £'000
Within 1 year	647,884	760,118
Between 1-2 years	741,733	730,359
Between 2-5 years	1,135,811	899,862
Total exposure	2,525,428	2,390,339

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

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

	2008 £'000	2007 £'000
Prior years	(15,133)	(39,860)
Current year	(118,523)	(18,564)
Future years	(54,586)	(8,414)
Total effect of changes in estimated residual value	(188,242)	(66,838)

The Group and Company as lessor

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

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Within one year	988,642	870,361	–	–
In the second to fifth years inclusive	873,872	731,225	–	–
After five years	–	–	–	–
	1,862,514	1,601,586	–	–

14. Investment in subsidiaries

	At cost £'000
Investments in subsidiaries at 30 September 2008	10,000

The Company's subsidiaries are set out below:

Directly owned	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Operations Limited	100%	Operation of the Motability Car Scheme
Motability Leasing Limited	100%	Financing of Motability contract hire agreements
Motability Hire Purchase Limited	100%	Financing of Motability hire purchase agreements

All of the above subsidiaries are incorporated in Great Britain.

Loans to other Group companies

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Motability Leasing Limited	–	–	2,273,928	–
Motability Hire Purchase Limited	–	–	50,645	–
	–	–	2,324,573	–

The loans to other Group companies do not have a defined maturity. Interest is charged on an arm's length basis.

15. Cash and bank balances

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Cash and bank balances	7,525	5,138	–	–

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

For the purposes of the cash flow statement, cash and cash equivalents are as follows:

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Cash and bank balances	7,525	5,138	–	–
Bank overdrafts (see note 20)	(22,317)	(43,365)	–	–
Total	(14,792)	(38,227)	–	–

16. Hire purchase receivables

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Gross repayments receivable				
Within one year	27,448	32,502	–	–
In the second to fifth years inclusive	51,629	56,308	–	–
Total	79,077	88,810	–	–
Unearned income receivable				
Within one year	(5,808)	(6,261)	–	–
In the second to fifth years inclusive	(6,671)	(6,770)	–	–
Total	(12,479)	(13,031)	–	–
Net total within one year	21,640	26,241	–	–
Net total due in the second to fifth years inclusive	44,958	49,538	–	–
Present value of minimum hire purchase receivables	66,598	75,779	–	–

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

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

The interest rate inherent in hire purchase agreements is fixed at the contract date. The effective interest rate ranges between 10% and 16% per annum, and reflects provision for early termination losses and other costs (2007: 10%-15%).

Hire purchase receivable balances include an allowance for estimated irrecoverable amounts of £1.5m (2007: £1.5m). This allowance has been made by reference to past default experience. There are no hire purchase receivables which are past due at the reporting date.

The fair value of the hire purchase receivables as at 30 September 2008 is estimated to be £67.0m (2007: £76.6m) using discount rates based on the market rate for similar consumer credit transactions.

17. Trade and other receivables

The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Trade debtors	72,855	58,425	–	–
Other debtors	43,412	38,449	44,211	–
Consortium relief debtors	242,021	–	–	–
Prepayments and accrued income	71,674	52,597	10,510	–
Total	429,962	149,471	54,721	–

Trade debtors include an allowance for estimated irrecoverable amounts of £8.2m (2007: £18.5m). This allowance has been made by reference to past default experience. The average debtor days period is six days (2007: 20 days).

The consortium relief debtor represents amounts from the shareholders as a result of the corporate restructure described in note 32.

Notes to the financial statements continued

17. Trade and other receivables continued

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

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

Included in the Group's trade receivable balance are debtors with a carrying value of £6.3m (2007: £0.0m) which are past due at the reporting date. The Group has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances. The average past due period of these receivables is nine days (2007: 10).

Ageing of past due but not impaired receivables:

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Past due by 1-30 days	6,135	–	–	–
Past due by 31-60 days	–	–	–	–
Past due by 61-90 days	44	–	–	–
Past due by 91-120 days	–	–	–	–
Past due by more than 120 days	129	–	–	–
Total	6,308	–	–	–

18. Deferred income

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Customers' advance payments*	82,661	75,279	–	–
Vehicle maintenance income	(350)	7,164	–	–
Vehicle good condition bonus income	9,223	13,304	–	–
Deferred funding break costs benefits	4,567	–	–	–
Total current	96,101	95,747	–	–
Customers' advance payments	80,838	61,162	–	–
Vehicle maintenance income	42,958	35,285	–	–
Vehicle good condition bonus income	9,245	11,960	–	–
Total non-current	133,041	108,407	–	–
Total	229,142	204,154	–	–

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

19. Trade and other payables

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Trade and other payables				
Trade payables and accruals	80,050	86,311	–	–
Other payables	18,487	5,757	580	–
Deferred consideration for partnership assets	316,941	–	–	–
Total	415,478	92,068	580	–

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

The deferred consideration balance represents amounts due to the former partners as a result of the restructure described in note 32.

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2007: 30 days).

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

20. Financial liabilities

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Current bank loans and overdrafts	22,317	43,365	–	–
Accrued interest	1,060	65,081	1,059	–
Total current	23,377	108,446	1,059	–
Non-current bank loans	2,375,000	2,016,352	2,375,000	–
Non-current preference shares	9,950	–	9,950	–
Total non-current	2,384,950	2,016,352	2,384,950	–
Total	2,408,327	2,124,798	2,386,009	–
The financial liabilities are repayable as follows:				
On demand or due within one year	23,377	108,446	1,059	–
Due within two years	–	–	–	–
Due within two to five years	2,375,000	–	2,375,000	–
Due in more than five years	9,950	2,016,352	9,950	–
	2,408,327	2,124,798	2,386,009	–

All borrowings are denominated in sterling.

All borrowings as at 30 September 2008 are at floating rates (2007: predominantly all borrowings (93%) are carried at fixed rates with up to two years duration).

As at 30 September 2008 the Group has three principal bank loans:

a) A 5 year Term Loan of £1bn taken out 26 June 2008. Loan repayment date is 26 June 2013.

b) A 3 year Term Loan of £1bn taken out 26 June 2008. Loan repayment date is 24 June 2011.

c) A 5 year Revolving Credit Facility of £900m taken out 26 June 2008 of which £375m drawn as at 30 September 2008. Facility repayment date is 24 June 2013.

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

As at 30 September 2007 the funding was provided by way of partnership capital (see note 32 for the details of the restructuring in 2008) in the proportions below. The partnership capital funding interest rates were periodically re-fixed for terms up to and including two years in duration.

	Partnership share %	MCL £'000	MHP £'000	Total £'000
Barclays	22.8	443,981	15,748	459,729
Lloyds TSB	19.2	373,879	13,261	387,140
HSBC	24.0	467,348	16,576	483,924
RBS	30.0	584,185	20,720	604,905
HBoS	4.0	77,891	2,763	80,654
Total	100.0	1,947,284	69,068	2,016,352

The weighted average interest rates on borrowings as at 30 September 2008 and 30 September 2007 were as follows:

	2008 Group %	2007 Group %	2008 Company %	2007 Company %
Current bank loans and overdrafts	5.5	5.8	–	–
Non-current bank loans	6.3	5.7	6.3	–
Non-current preference shares	7.0	–	7.0	–

Notes to the financial statements continued

20. Financial liabilities continued

At 30 September 2008 and 30 September 2007, the Group had the following undrawn committed borrowing facilities:

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Working capital facility	68,500	52,841	–	–
Revolving credit facility	525,000	–	525,000	–
Long-term loan facility	–	–	–	–
Total	593,500	52,841	525,000	–

Undrawn committed facilities expire as follows:

	2008 £'000	2007 £'000
Within 1 year	68,500	52,841
Within 1-2 years	–	–
Within 2-5 years	525,000	–
Total	593,500	52,841

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

	2008 Group carrying amount £'000	2008 Group fair value £'000	2008 Company carrying amount £'000	2008 Company fair value £'000
Current financial liabilities	23,377	23,377	1,059	1,059
Non-current bank loans	2,375,000	2,375,000	2,375,000	2,375,000
Non-current preference shares	9,950	9,950	9,950	9,950
Total	2,408,327	2,408,327	2,386,009	2,386,009

	2007 Group carrying amount £'000	2007 Group fair value £'000	2007 Company carrying amount £'000	2007 Company fair value £'000
Current financial liabilities	108,446	108,446	–	–
Non-current bank loans	2,016,352	2,030,067	–	–
Non-current preference shares	–	–	–	–
Total	2,124,798	2,138,513	–	–

As at 30 September 2008, the fair value of current and non-current borrowings approximates to their carrying values, because all the borrowings carry floating interest rates. The fair value of the preference shares approximates to the carrying value as the discount factor used in determining the fair value is the same as the interest rate payable on the shares. The discount rate is derived from the market rate for long-term A rated corporate debt at the balance sheet date which approximates to 7%. (2007: the fair value of the borrowings is based on market interest rates and the present value of discounted cash flows.)

21. Derivative financial instruments

	Group 2008		Company 2008	
	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000
Cash flow hedges				
Interest rate swaps	3,094	2,350,000	3,094	2,350,000
Included in non-current assets	3,094	2,350,000	3,094	2,350,000
Included in current assets	–	–	–	–
Derivative financial instrument assets	3,094	2,350,000	3,094	2,350,000

The full fair value of the hedging derivatives is classified as non-current assets since the remaining maturity of the hedged items is more than 12 months.

At 30 September 2008, the fixed interest rates vary from 6.0% to 4.8% (2007: none) and the main floating rates are LIBOR. Gains and losses recognised in the hedging reserve in equity (note 25) on interest rate swap contracts as of 30 September 2008 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 swap liabilities. The undiscounted cash flows are settled on a net basis.

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Within 1 year	10,919	–	10,919	–
Due within 3 years	(7,630)	–	(7,630)	–
Due within 3 to 5 years	–	–	–	–
Due in more than 5 years	–	–	–	–
	3,289	–	3,289	–

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

22. Provisions

	Group £'000
At 1 October 2006	650
Additional provision in the year	170
Utilisation/release of provision	–
At 1 October 2007	820
Additional provision in the year	610
Utilisation/release of provision	–
At 30 September 2008	1,430
Included in current liabilities	–
Included in non-current liabilities	1,430
Total	1,430

The long-term provision has been set up in respect of obligations arising due to dilapidations payable at the end of operating leases on the properties occupied by the Group.

Notes to the financial statements continued

23. Deferred tax

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

Group	Accelerated tax depreciation £'000	Short-term timing differences £'000	Derivatives £'000	Tax losses £'000	Total £'000
Net at 1 October 2006	412,494	(1,013)	–	–	411,481
Charge/(credit) to income	35,519	(126)	–	–	35,393
Charge/(credit) to equity	–	–	–	–	–
Net at 1 October 2007*	448,013	(1,139)	–	–	446,874
Charge/(credit) to income	(48,041)	(197)	–	(64,094)	(112,332)
Charge/(credit) to equity	–	–	866	–	866
Net at 30 September 2008	399,972	(1,336)	866	(64,094)	335,408

* Comprising a deferred tax asset of £2,499k and deferred tax liabilities within the partnerships of £449,373k.

Company	Accelerated tax depreciation £'000	Short-term timing differences £'000	Derivatives £'000	Tax losses £'000	Total £'000
At 1 October 2006	–	–	–	–	–
Charge/(credit) to income	–	–	–	–	–
Charge/(credit) to equity	–	–	–	–	–
At 1 October 2007	–	–	–	–	–
Charge/(credit) to income	–	–	866	–	866
Charge/(credit) to equity	–	–	–	–	–
At 30 September 2008	–	–	866	–	866

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (as the deferred taxes relate to the same fiscal authority).

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

24. Share capital

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

	2008 Group	2007 Group
Authorised:		
100,000 Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 Ordinary shares of £1 each (2007: 1,000 Ordinary shares of £1 each)	£50,000	£1,000

The balance sheet comparative for 2007 relates to the £1,000 issued share capital of Motability Operations Limited (formerly Motability Finance Limited) which in 2008 is a subsidiary of the Group following the Group restructure (see note 32).

£50,000 was received during the year in respect of the issue of 50,000 £1 shares at par.

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

The Company has £10,900,000 authorised 7% redeemable cumulative preference shares of £1 each (classified as a liability) of which £9,950,000 were issued and fully paid during the year. These shares do not carry voting rights. Further details are provided in note 20.

25. Reconciliation of changes in equity

Group	Share capital £'000	Hedging reserve £'000	Retained reserves £'000	Total £'000
At 1 October 2006	1	–	444,312	444,313
Transfer to reserves for the year	–	–	71,070	71,070
At 30 September 2007	1	–	515,382	515,383
Issue of share capital	49	–	–	49
Increase in fair value of hedging derivatives (net of tax)	–	2,228	–	2,228
Transfer to reserves for the year	–	–	52,805	52,805
At 30 September 2008	50	2,228	568,187	570,465

Company	Share capital £'000	Hedging reserve £'000	Retained reserves £'000	Total £'000
At 1 October 2006	–	–	–	–
Transfer to reserves for the year	–	–	–	–
At 30 September 2007	–	–	–	–
Issue of share capital	50	–	–	50
Increase in fair value of hedging derivatives (net of tax)	–	2,228	–	2,228
Transfer to reserves for the year	–	–	2,655	2,655
At 30 September 2008	50	2,228	2,655	4,933

26. Notes to the cash flow statement

Reconciliation of surplus to net cash flow from operating activities:

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Operating surplus from operations	180,483	224,779	–	–
Adjustments for:				
Depreciation charge	600,218	442,978	–	–
(Gains)/loss on disposal of corporate and operating lease assets	51,626	(10,143)	–	–
Increase in provisions	610	170	–	–
Operating cash flows before movements in working capital	832,937	657,784	–	–
(Increase) in receivables	(29,289)	(13,782)	(54,721)	–
(Increase) in loans to and investment in subsidiaries	–	–	(2,334,573)	–
Increase in deferred income	24,988	–	–	–
Increase in creditors	6,469	33,967	580	–
Cash generated from operations	835,105	677,969	(2,388,714)	–
Net interest (paid)/received	(211,550)	(89,803)	3,714	–
Income taxes (paid)/received	(18,438)	3,451	–	–
Net cash generated from operating activities	605,117	591,617	(2,385,000)	–

Notes to the financial statements continued

27. Analysis of changes in net debt

	At 1 October 2006 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2007 £'000
Cash and bank balances	8,463	(3,325)	–	5,138
Borrowings due within one year	(44,088)	723	(65,081)	(108,446)
Borrowings due after one year	(1,915,651)	(100,701)	–	(2,016,352)
	(1,951,276)	(103,303)	(65,081)	(2,119,660)

	At 1 October 2007 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2008 £'000
Cash and bank balances	5,138	2,387	–	7,525
Borrowings due within one year	(108,446)	86,129	(1,060)	(23,377)
Borrowings due after one year	(2,016,352)	(358,648)	–	(2,375,000)
Preference shares	–	(9,950)	–	(9,950)
	(2,119,660)	(280,082)	(1,060)	(2,400,802)

28. Operating lease arrangements

The Group and Company as lessee

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Minimum lease payments under operating leases recognised in the income statement in the year	2,773	2,694	–	–

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

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Within one year	2,505	2,752	–	–
In the second to fifth year inclusive	8,589	10,269	–	–
After five years	–	3,438	–	–
	11,094	16,459	–	–

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

29. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the year to 30 September 2008 amounted to £2,240,719 (2007: £2,192,765). Net contributions due at the balance sheet date were £203,448 (2007: £848,750).

30. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. (See note 14 for the transactions between the Company and its subsidiaries.)

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

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

Transactions

During the year Motability charitable grants totaling £14.1 million were awarded to customers and paid to the Company to enable vehicles to be purchased on their behalf (2007: £7.9 million). The Company also paid £3,595,575 relating to Motability administration costs (2007: £3,441,060). £1,912 was donated to Motability's charitable funds during the year (2007: £2,023).

The funding of the Group is provided by the shareholder banks on commercial terms as detailed in note 20 (see note 9 for details of financing costs). Additionally, total fees of £1.15m (2007: £0.75m) were due to the shareholder banks in equal proportions for management and advisory services.

Remuneration of key management personnel

The remuneration of the key management personnel of the Company is set out below in aggregate for each of the categories specified in IAS24, 'Related Party Disclosures'.

	2008 £'000	2007 £'000
Short-term employee benefits	2,580	2,500
Post-employment benefits	391	437
Other long-term benefits	1,287	1,560
Termination benefits	345	–
	4,603	4,497

31. Directors' remuneration

During the year there were seven Directors (2007: seven) accruing benefits under money purchase pension schemes. The Chairman makes separate provision for pension from his aggregate emoluments.

	2008	2007
Chairman		
Salary	£157,000	£183,250
Benefits	£26,516	£25,977
Aggregate emoluments in respect of qualifying services	£183,516	£209,227
Pension contributions under money purchase pension schemes	£nil	£nil
Highest-paid Director		
Salary	£355,956	£314,060
Bonuses	£195,000	£120,000
Benefits	£21,935	£20,212
Aggregate emoluments in respect of qualifying services	£572,891	£454,272
Pension contributions under money purchase pension schemes	£61,233	£112,933
All Directors		
Salary	£1,675,666	£1,728,315
Bonuses	£733,400	£492,875
Benefits	£149,654	£192,344
Aggregate emoluments in respect of qualifying services	£2,558,720	£2,413,534
Pension contributions under money purchase pension schemes	£798,002	£653,814
Compensation for loss of office	£345,000	£nil

Notes to the financial statements continued

31. Directors' remuneration continued

Long Term Incentive Plan (LTIP)

In addition to the above, the Directors are able to invest some of any awarded bonus amounts into a Long Term Incentive Plan. This plan was introduced by way of both providing a retention mechanism for key senior individuals and to recognise the importance of long-term strategic objectives as well as short-term goals. The Company's ownership structure precludes the adoption of conventional long-term incentive schemes (principally share option schemes), so the plan that was introduced is essentially cash based, whereby Directors can elect to deposit up to 50% of any awarded (and accounted) annual bonus into a fund, which can then be uplifted in each subsequent year on a basis linked to individual performance and as determined by the Remuneration and Nominations Committee. Subject to satisfactory business and individual performance, this accumulated fund is then released on the third anniversary of the deposit. During the reported year to September 2008, as a result of performance in respect of customer satisfaction, financial strength and cultural benchmarking, in aggregate £871,945 was released including £320,625 for the highest paid Director (2007: £837,183 including £365,000 for the highest paid Director).

32. Group restructuring note

A corporate restructure took place on 30 June 2008. Prior to this date the Motability Scheme vehicle contract hire and hire purchase assets were held in two partnerships, Motability Car Lease (MCL) and Motability Hire Purchase (MHP) with Motability Finance Ltd (MFL) as the visible and prime contracting entity. The main UK banks (Barclays, HBoS, HSBC, Lloyds TSB and RBS) have provided the equity and debt capital to the Scheme since inception. Under the partnership structure the banks made funding available under bilateral non-transferable and open-ended facilities in proportion to their partnership participation interests.

The restructure was initiated in order to enable access to the widest possible sources of funding in a transparent and fully competitive manner to secure the future of the Scheme. The restructure involved the transfer of all vehicle contract hire and hire purchase assets and associated accumulated reserves from the two partnerships to two new companies, Motability Leasing Ltd (MLL) and Motability Hire Purchase Ltd (MHP), and the transfer of ownership of MFL to a new holding company Motability Operations Group plc (MO Group). As part of this process MFL was renamed Motability Operations Ltd (MOL). MO Group obtained an A+/A2 credit rating from S&P and Moody's and secured new banking facilities of £2.9bn.

Under IFRS 3 (Business Combinations) the combination of businesses is normally accounted for with one party being recognised as the acquirer of the other. However, the combination of businesses under common control is excluded from the scope of IFRS 3 and the transaction is reflected as the restructuring of an existing business, consequently the assets and liabilities of MCL and MHP are transferred at book values. Furthermore, the business pre and post the corporate restructure is regarded as a continuing business with the financial statements being prepared on the 'predecessor' accounting basis.

The reconciliation of the separate financial statements for the period ending 30 September 2007 of partnerships and the accompanying consolidated accounts are summarised as follows:

	Previously reported £'000	Re-presented £'000
Equity		
MCL	487,685	–
MHP	20,764	–
MFL	6,934	–
Combined equity	515,383	–
MO Group-consolidated	–	515,383
Net surplus		
MCL	81,936	–
MHP	2,137	–
MFL	1,081	–
Combined net surplus	85,154	–
Re-presentation of partner's tax and margin distributions to the income statement for comparatives	(14,084)	–
MO Group-consolidated	–	71,070

33. Funding and financial risk management

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity and preference share capital and retained reserves and loss reserves excluding the fair value reserves relating to interest rate swaps.

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

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

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

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

As described in detail in note 32, the Group changed its corporate structure on 30 June 2008. The restructuring has no major effect on the Group's capital risk management policy.

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

	2008 £million	2007 £million
Actual capital (reserves, share capital and preference shares)	578	515
Economic Capital Requirement corridor (100%-130%)	556-723	485-630

The Group is not subject to externally imposed regulatory capital requirements. The Group's debt financing is subject to a customary loan covenant and the Group has complied with the terms of the covenant throughout the period.

Significant accounting policies

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

Categories of financial instruments

	2008 Group carrying value £'000	2007 Group carrying value £'000	2008 Company carrying value £'000	2007 Company carrying value £'000
Non-derivative financial assets				
Hire purchase receivables	66,598	75,779	–	–
Trade and other receivables	315,125	80,970	44,211	–
Cash and bank balances	7,525	5,138	–	–
Total non-derivative financial assets	389,248	161,887	44,211	–
Non-derivative financial liabilities				–
Trade and other payables	(415,478)	(92,068)	(580)	–
Financial liabilities	(2,408,327)	(2,124,798)	(2,386,009)	–
Total non-derivative financial liabilities	(2,823,805)	(2,216,866)	(2,386,589)	–
Net non-derivative financial liabilities	(2,434,557)	(2,054,979)	(2,342,378)	–
Derivative financial instruments	–	–	–	–
Interest rate swaps	3,094	–	3,094	–
Total	(2,431,463)	–	(2,339,284)	–

Notes to the financial statements continued

33. Funding and financial risk management continued

Fair value of financial instruments

		2008 Group carrying value £'000	2008 Group fair value £'000	2007 Group carrying value £'000	2007 Group fair value £'000
Cash and bank balances	****	7,525	7,525	5,138	5,138
Trade and other receivables	***	315,125	315,125	80,970	80,970
Hire purchase receivables – current	*	21,640	23,637	26,241	28,282
Hire purchase receivables – non-current	*	44,958	43,401	49,538	48,311
Trade and other payables – current	***	(415,478)	(415,478)	(92,068)	(92,068)
Bank loans including bank overdrafts – current	**	(23,377)	(23,377)	(108,446)	(108,446)
Bank loans – non-current	**	(2,375,000)	(2,375,000)	(2,016,352)	(2,030,067)
Redeemable preference share liabilities	*	(9,950)	(9,950)	–	–
Net non-derivative financial liabilities		(2,434,557)	(2,434,117)	(2,054,979)	(2,067,880)
Interest rate swap-cash flow hedge		3,094	3,094	–	–
		(2,431,463)	(2,431,023)	(2,054,979)	(2,067,880)

* Bearing interest at fixed rate
** Bearing interest at floating rate in 2008 and fixed rate in 2007
*** Non-interest bearing
**** Interest bearing portion of the cash and cash equivalents consists of overnight deposits

		2008 Company carrying value £'000	2008 Company fair value £'000	2007 Company carrying value £'000	2007 Company fair value £'000
Trade and other receivables	***	44,211	44,211	–	–
Trade and other payables – current	***	(580)	(580)	–	–
Financial liabilities – current		(1,059)	(1,059)	–	–
Bank loans – non-current	**	(2,375,000)	(2,375,000)	–	–
Redeemable preference share liabilities	*	(9,950)	(9,950)	–	–
Net non-derivative financial liabilities		(2,342,378)	(2,342,378)	–	–
Interest rate swap-cash flow hedge		3,094	3,094	–	–
		(2,339,284)	(2,339,284)	–	–

* Bearing interest at fixed rate
** Bearing interest at floating rate in 2008 and fixed rate in 2007
*** Non-interest bearing

The fair values of financial assets and liabilities are determined as follows:

- 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 carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables.
- The hire purchase receivables are interest bearing and the inherent interest rate is fixed at the contract date. The fair value of hire purchase receivables for disclosure purposes is estimated by a discount rate based on the market rate for similar consumer credit transactions.
- The fair value of financial liabilities for disclosure purposes is estimated by discounting the contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.
- The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract.

33. Funding and financial risk management continued

Fair value of financial instruments continued

Assumptions used in determining fair value of financial assets and liabilities

Preference shares

The fair value of the preference shares approximates to the carrying value as the discount factor used in determining the fair value is the same as the interest rate payable on the shares. The discount rate is derived from the market rate for long-term A rated corporate debt at the balance sheet date which approximates to 7%.

Financial risk management objectives

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

The Group's treasury function monitors and manages the financial risks relating to the funding and financial risk operations and co-ordinates access to the financial markets. The treasury policy of the Group and the principles set out by the policy are endorsed by the Board and applied through delegated authority to the Chief Executive Officer operating through the Executive Committee and the Asset and Liability Management Committee. The treasury policy and treasury control framework are periodically reviewed by the Audit Committee.

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

The Group's treasury function and financial risk management governance has been substantially upgraded during the year in response to the corporate restructure and refinancing that took place during the year as described in more detail in note 32. Following the restructure and refinancing, the Group is exposed to liquidity, counterparty credit risk and changes in the fair value of derivatives. Consequently the Group has introduced new treasury policies and processes to manage these risks. Prior to the restructure the Group was exposed to interest rate risk and operated the same interest rate risk principles as it does under the new arrangements.

Interest rate risk management

The Group's revenues are from operating lease rentals and hire purchase repayments that are fixed for the period of the contract; typically three years for an operating lease contract. The Group's borrowings are variable and the Group seeks to minimise its cash flow interest rate risk by entering into fixed interest rate swaps to hedge the borrowings. Amortising interest rate swaps are employed so that the fixed interest rate profile of the borrowings matches the repayment profile of the assets at the balance sheet date. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the variable rate borrowings must be hedged. The interest rate swaps expose the Group to fair value interest rate risk. The Group only looks to hedge the variable rate term borrowings. The working capital variable rate facilities are not hedged.

Debt with a carrying value of £2,375m as at 30 September 2008 is subject to floating interest rates and substantially swapped into fixed interest rates and exposes the Group to cash flow interest rate risk. (2007: Debts with a carrying value of £2,016m as at 30 September 2007 were subject to fixed interest rates, see note 32 for the details of the restructuring and refinancing of the Group on 30 June 2008.)

The Group has interest rate swaps of £2,350m maturing over the next two years. Under these swaps the Group pays an average fixed rate of 5.76%.

Interest rate sensitivity analysis

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

In the event of any change in interest rates, there would be no material effect in the reserves of the Group. Although any changes in interest rates will lead to changes in interest payable on borrowings, this will be offset by a corresponding effect in either interest rate swaps or rental increases on new assets purchased during the year. A 1% increase in interest applied to those financial instruments shown in the table above entitled 'Fair value of financial instruments' and all other variables that were held constant as held at 30 September 2008 (other than the interest rate swap) which carry interest at floating rates, would have resulted over a period of one year in a reduction to pre-tax surpluses of approximately £23.9m (2007: £1.0m). On the other hand, a 1% change in interest applied to interest rate swaps used to hedge the interest rate risk of the Group would have resulted over a period of one year in an equity increase of approximately £20.6m (2007: £0.0m).

Notes to the financial statements continued

33. Funding and financial risk management continued

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

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

	2008 Average contract fixed interest rate %	2007 Average contract fixed interest rate %	2008 Nominal principal amount £'000	2007 Nominal principal amount £'000	2008 Fair value £'000	2007 Fair value £'000
Under 1 year	–	–	–	–	–	–
Between 1-3 years	5.76	–	2,350,000	–	3,094	–
Between 3-5 years	–	–	–	–	–	–
Over 5 years	–	–	–	–	–	–

Interest rate swaps settle on a monthly basis. The Group will settle the difference between the fixed and floating interest rate on a net basis. All interest rate swap contracts exchanging fixed rate interest amounts for floating rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swaps and the interest rate payments on the loans occur simultaneously.

Credit risk management

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

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

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

The table below shows the credit limit and balances of four major counterparties at the balance sheet date using the Standard and Poor's credit rating symbols.

In 2007 the Group was not exposed to counterparty credit risk as no derivative contracts were in place and the Group did not generate surplus cash funds to place on deposit as it immediately repaid partner capital.

	Rating	2008 Credit limit £'000	2008 Carrying amount £'000	Rating	2007 Credit limit £'000	2007 Carrying amount £'000
Barclays	A-1+/AA-	20,000	14,499	–	–	–
Lloyds	A-1+/AA-	20,000	4,584	–	–	–
RBS	A-1+/AA	20,000	4,584	–	–	–
HSBC	A-1+/AA	50,000	4,677	–	–	–
			28,344			

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

33. Funding and financial risk management continued

Liquidity risk management

With the separation of the historic link between ownership and the funding of the Scheme (see note 32 for details of the restructuring of the Group), the Group is exposed to changes in market appetite for debt over time.

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

The Group policy for managing liquidity risk is to maintain additional available undrawn headroom on its committed banking facilities of at least 10% of borrowings. The Group has three and five year bank term loans with 2.75 and 4.75 years until maturity. The Group aims to investigate the possibility of further increasing the average maturity profile of the debt by issuing long maturity Corporate Bonds during 2009. Additionally, the Group continuously monitors forecast and actual cash flows. Included in note 20 is a description of additional undrawn facilities that the Group has at its disposal.

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

Group

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Financial liabilities – bank loans variable interest rate	5.8	151,408	1,242,127	1,516,978	–	2,910,513
Financial liabilities – bank loans fixed interest rate	–	–	–	–	–	–
Financial liabilities – bank overdrafts	5.5	22,317	–	–	–	22,317
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	697	1,393	1,393	11,343	14,826
Trade and other payables – non-interest bearing	–	415,478	–	–	–	415,478
		589,900	1,243,520	1,518,371	11,343	3,363,134

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

In 2007 under the partnership capital structure, the process for ensuring sufficient liquidity for the forthcoming financial year was managed through the review of the annual operating plan in conjunction with the partners.

Group

	2007 Weighted average interest rate %	2007 Under 1 year £'000	2007 Between 1-3 years £'000	2007 Between 3-5 years £'000	2007 Over 5 years £'000	2007 Total £'000
Financial liabilities – bank loans variable interest rate	5.4	7,745	6,304	4,323	144,102	162,474
Financial liabilities – bank loans fixed interest rate	6.2	136,850	226,036	258,773	1,872,250	2,493,909
Financial liabilities – bank overdrafts	5.8	43,365	–	–	–	43,365
Trade and other payables – non-interest bearing	–	92,068	–	–	–	92,068
		280,028	232,340	263,096	2,016,352	2,791,816

Notes to the financial statements continued

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

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

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Interest rate swaps	5.76	10,919	(7,630)	–	–	3,289

Company

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Financial liabilities – bank loans variable interest rate	5.8	151,408	1,242,127	1,516,978	–	2,910,513
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	697	1,393	1,393	11,343	14,826
Financial liabilities – accrued interest	–	1,059	–	–	–	1,059
Trade and other payables – non-interest bearing	–	580	–	–	–	580
		153,744	1,243,520	1,518,371	11,343	2,926,978

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

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

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Interest rate swaps	5.76	10,919	(7,630)	–	–	3,289

Since the Company was founded on 30 June 2008, no liquidity table is presented for the Company as at 30 September 2007.

33. Funding and financial risk management continued

Liquidity risk management continued

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

Group

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Hire purchase receivables – fixed interest rate	15.5	27,969	38,865	13,446	297	80,577
Trade and other receivables – non-interest bearing	–	315,125	–	–	–	315,125
Cash and bank balances – non-interest bearing	–	7,525	–	–	–	7,525
		350,619	38,865	13,446	297	403,227

Group

	2007 Weighted average interest rate %	2007 Under 1 year £'000	2007 Between 1-3 years £'000	2007 Between 3-5 years £'000	2007 Over 5 years £'000	2007 Total £'000
Hire purchase receivables – fixed interest rate	14.4	33,050	42,503	14,507	250	90,310
Trade and other receivables – non-interest bearing	–	80,970	–	–	–	80,970
Cash and bank balances – non-interest bearing	–	5,138	–	–	–	5,138
		119,158	42,503	14,507	250	176,418

Company

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Trade and other receivables – non-interest bearing	–	44,211	–	–	–	44,211
	–	44,211	–	–	–	44,211

Since the Company was founded on 30 June 2008, no liquidity table is presented for the Company as at 30 September 2007.

Notes

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