Motability Operations | Group plc

Half Year Report

For the six months ended 31 March 2019

Contents

Motability Operations was founded in 1978 to deliver the Motability Scheme, under contract to Motability the national charity.

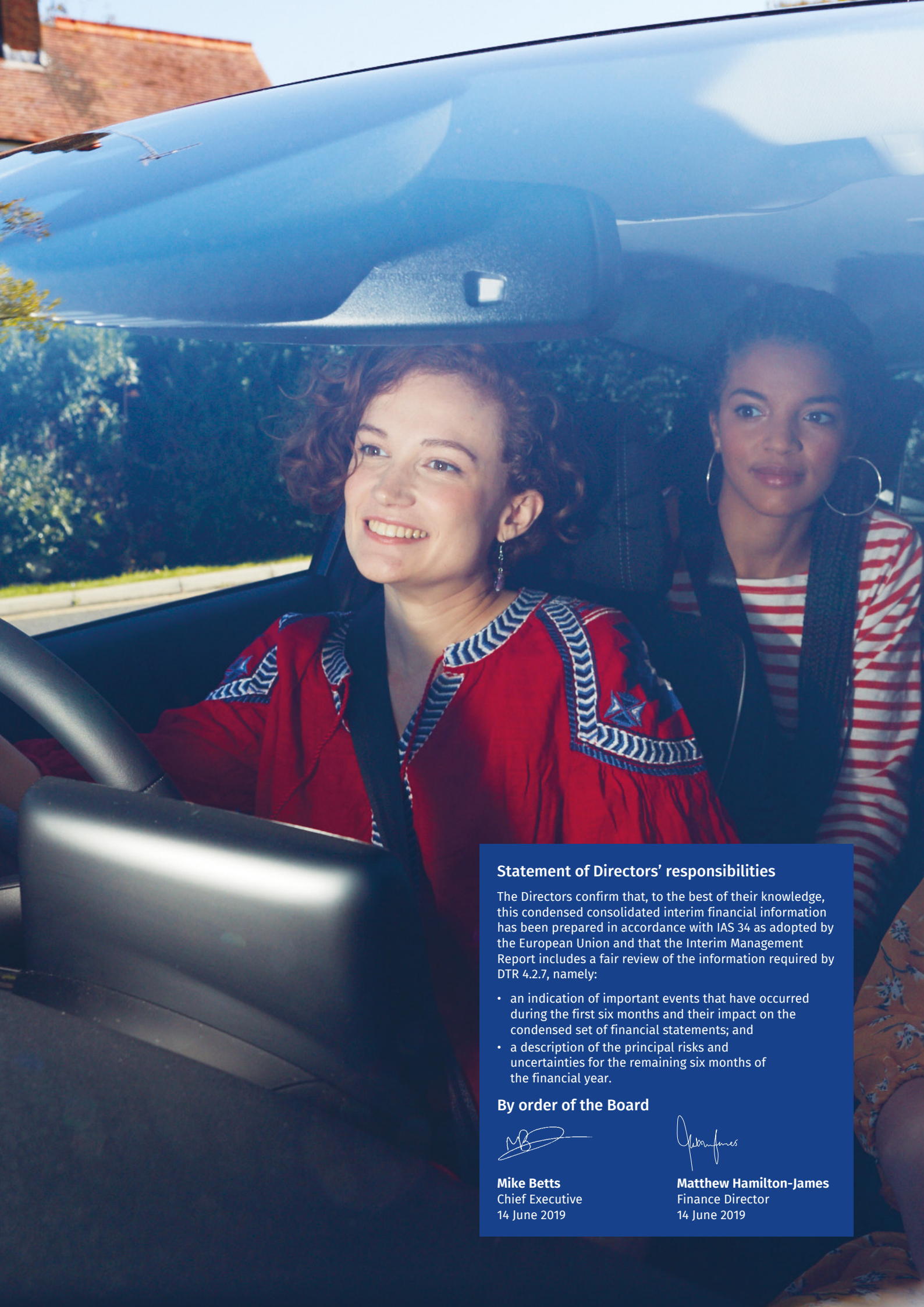
We do not pay shareholder dividends and focus purely on delivering for over 600,000 customers who lease a car, scooter or wheelchair using their qualifying mobility allowance.

We aim to deliver value and an excellent service for customers by providing an affordable, consistent, worry-free leasing proposition which is universally available across the UK.

Our proposition is provided in a sustainable manner to ensure that we meet the needs of today's and tomorrow's customers.

Our customers are at the heart of everything we do.

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



Statement of Directors' responsibilities

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

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

By order of the Board

Mike Betts
Chief Executive
14 June 2019

Matthew Hamilton-James
Finance Director
14 June 2019

The objectives of the Scheme

Universal service offering

Our proposition is designed to be universally accessible to all recipients of a qualifying mobility allowance, regardless of their personal circumstances, location or means.

Affordable choice

We aim to provide customers with access to a wide range of affordable vehicles which are suitable for their specific needs.

Worry-free mobility

We believe in making life simpler by providing a comprehensive, all-inclusive worry-free mobility solution. Our standard car lease includes full insurance, maintenance and servicing, tyre and windscreen replacement, breakdown cover and 60,000 mile allowance over three years.

Value for money

We aim to deliver a proposition which represents excellent value for money for our customers.

Excellent customer service

We aim to deliver excellent customer service with particular focus on understanding how disability affects our customers' needs. We deliver this first hand through our dedicated call centre and work with our service partners to ensure this is consistent through all customer touchpoints.

Efficiency

We aim to operate efficiently to ensure we deliver a cost-effective and seamless proposition for our customers. This includes a continual focus on tightly managing our cost base and maximising our economies of scale.

The results of the Scheme

Through our network

16,000

Motability Dealer Specialists

4,600

approved Motability dealers

>220k

new cars bought each year

To our customers

91%

customer renewal rate

98%

overall customer satisfaction

44%

cheaper than market alternatives

Through our remarketing operations

>4,200

cars sold per week

77%

percentage of cars sold through our online remarketing channel 'mfldirect'

With our employees

93%

employee engagement score recorded through an independent employee culture survey

What we do

Mobility allowance

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

Scheme customers

As we do not pay shareholder dividends we can focus purely on delivering affordable and worry-free mobility through a wide choice of vehicle solutions to meet individual customer needs

Suppliers

Delivering the Scheme

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

Funding

End of lease

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

Remarketing

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

Funding

Reinvesting our capital reserves to fund the fleet saves our customers around £400 per lease. This leaves around £4bn to be borrowed from the financial market

Suppliers

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

How we add value

We aim to make sure that qualifying customers gain access to a mobility solution meeting their individual needs through a process which is made as simple as possible.

249k

new leases processed a year through our online application process.

We aim to provide a price list with at least 200 models available to customers solely by the assignment of their disability allowance.

>350 models

have been available through the period, exceeding target.

We aim to ensure that our customers receive excellent customer service through every aspect of their lease and a 'Good Condition Bonus' (GCB) is available to customers at the end of their lease when returning their car.

40 mins

average time from incident to arrival for roadside recovery.

95%

percentage of customers receiving a GCB payment reflecting our customers engagement through the process.

Through our online remarketing process we create a competitive marketplace for the disposal of vehicles returned at the end of lease, thereby maximising sales value in the most cost-efficient manner.

>600

used cars sold every day of the week.

Our capital reserves are used to purchase customer vehicles.

£400

average saving per lease from using our capital reserves to fund vehicle purchases.

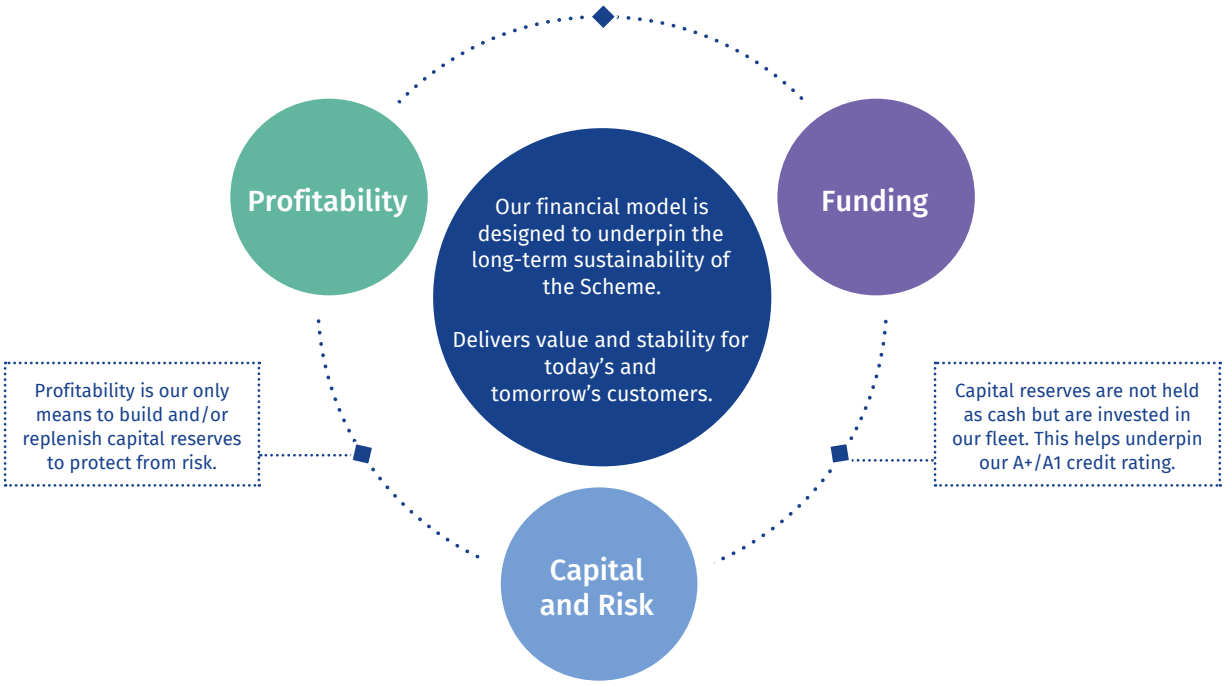
Delivering over the long term

Profitability

- We aim to deliver a consistent customer proposition that is protected from economic downturn or market-specific shocks.
- We include a margin in our lease price to enable us to minimise pricing volatility for customers should these events occur. It also means that we can recover financially from such impacts without needing to increase customer prices.
- To the extent that retained profit exceeds capital requirements, any additional profit can be reinvested into the customer proposition, or donated to Motability.

Funding

- In operating the Scheme, we are required to source the financing of £7.2bn of vehicles.
- Our capital reserves are fully reinvested into our fleet; this reduces the amount we have to borrow and therefore the cost of customer leases. The balance of our financing is provided by debt in the form of bonds issued in the debt capital markets and bank facilities.
- Our credit rating is an enabler to access funding at competitive rates from investors, with this rating being underpinned by our strong capital position.



Capital and Risk

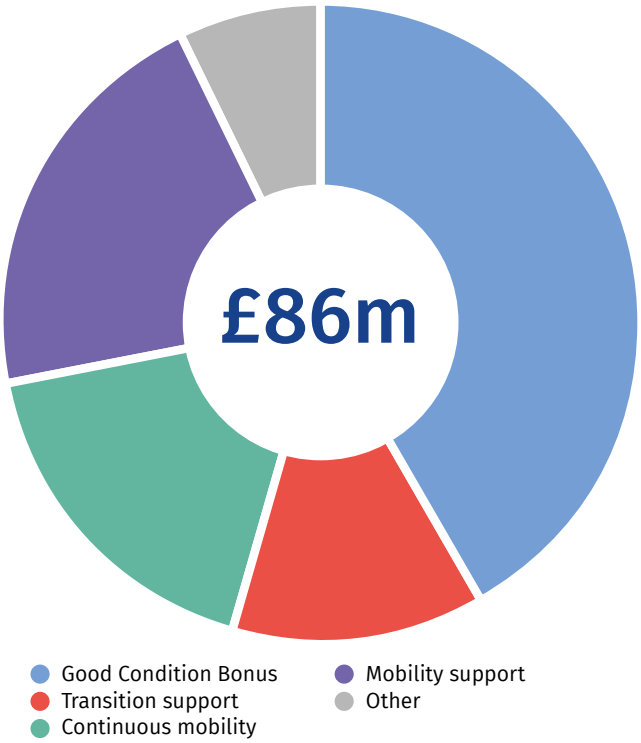
- As operators of the Motability Scheme, we bear a number of significant risks which could, if not carefully managed, undermine the long-term sustainability of the customer proposition.
- To protect the Scheme, and so customers, from exposure to these risks we aim to hold an adequate level of capital reserves.
- We use an externally validated model and approach to calculate the level of capital we should hold to underpin the long-term sustainability of the Scheme.
- Our biggest single risk relates to the value of used cars when they are returned to us by customers at the end of their lease; this residual value is something we have to forecast three to five years in advance.
- Lease prices are fixed therefore customers are not exposed to this risk.
- Used car values have been subject to significant volatility over recent years. A 1% reduction across our fleet equates to about a £58m adverse impact on our fleet residual value.

How we use our earnings

Direct Customer Investments

As operators of the Scheme, we seek to leverage economies of scale and tightly manage our cost base. By running an efficient operation we are able to deliver a consistent, highly affordable and competitive proposition for our customers.

Our focus on efficiency has enabled us, in consultation with Motability, to use more of our earnings to provide incremental value for our customers.



Good Condition Bonus

The 'Good Condition Bonus' (GCB) is our way of saying thank you to customers who look after their Motability car.

We appreciate that over the course of a lease a car will show signs of wear and tear including minor scratches, dents or damage caused by wheelchairs or other mobility aids.

Last year we doubled our investment in the GCB that is available to reward customers who engage in our vehicle return process; this is paid to 95% of customers at the end of their lease with most receiving a £500 payment.

In the first six months of the year we have made GCB payments to almost 69,000 customers.

£36m

Transition support

Since 2010 Motability Operations has donated £745m to Motability of which £175m has been to fund transitional payments to customers who have lost their qualifying mobility allowance, following PIP reassessment.

Alongside the above payment by Motability our affected customers are provided a reasonable time period (typically 8 weeks) in which to return their car after their allowance has been stopped; during this period our customer has the continued use of their car and all elements of the proposition without charge.

Extended periods of rent-free cover are provided to support any customers who are engaged in the PIP assessment appeal process.

£11m

Continuous mobility

We aim to keep our customers mobile and offer support in the event that their vehicle is not usable for a period of time.

For longer-term gaps we offer replacement vehicles and during the period provided over 40,000 customers with a hire car through our partnership programme with Europcar.

Customers can also elect to use taxi services if this is more appropriate to their needs, typically used to cover very short periods when their car is unavailable. We have funded over 10,000 journeys in the first six months of the year.

£15m

Mobility support

We invest to reduce the cost to our customers who require specialised equipment and adaptations to support their mobility needs.

We offer many standard adaptations free of charge; in the first six months of the year we have fitted 12,000 free adaptations for customers who have taken a new vehicle.

Notwithstanding the fact that we deliver a standard proposition which is around 44% cheaper than market alternatives, wheelchair accessible vehicles are very complex custom-built solutions where our investment supports customer affordability.

£18m

Support and stability for our customers

Rt. Hon Sir Stephen O'Brien KBE
Chairman

> "The past six months have seen Motability Operations continue to deliver high levels of service and performance."

In my first statement since becoming Chairman of Motability Operations Group plc on 1 April 2019, I start by saying how delighted I am to be joining this exceptional organisation, which is key to the delivery of the Motability Scheme for Motability (the charity). From my first impressions, it is clear that Motability Operations is a secure business, successfully delivering on all its objectives, united by a common culture and passion. Everyone involved in the business is dedicated to providing excellent service and value to our Scheme customers.

On behalf of the Board, I would like to pay tribute to Neil Johnson, my predecessor as Chairman, for his leadership and service to the Company, throughout his 18 years with the organisation. Neil guided the transformation of the business into a successful professional and commercial operation, and the Board has benefited greatly from his skills and experience. We wish him well in his future endeavours, and I thank Neil personally for his immense support to me in the handover of the Chairmanship of the Board. I have spent much of my first weeks travelling round our operations, making contact with teams responsible for delivering the various essential elements of the Motability Scheme. These teams focus tirelessly on providing life-transforming, worry-free mobility for customers living with disability. What is immediately clear is that Motability Operations is its people: people of outstanding talent and commitment, running a sustainable and effective service, structured through an efficient business model.

The sheer scale and complexity of the operation, from answering over 1.2 million customer calls, and selling 220,000 cars each year, to raising funds in the debt capital markets, demands a range of skills and leadership which in my experience is exceptional. The clarity and unity of purpose of all who work here significantly reinforce performance and cultural engagement, underpinning the resilience and robustness of our enterprise. I am encouraged by the drive and ambition that I have seen across Motability Operations to enhance standards of service, and maintain relevance and appeal to a changing customer base.

This is exemplified by the programme, now in its early stages, to transform online services to customers, and harness digital tools to increase flexibility and contact channels. This follows the recent implementation of a new leasing platform, which now provides the reliable basis for future digital development.

The past six months have seen Motability Operations continue to deliver high levels of performance, positioning us well as we look ahead to the second half of the year.

With customer service our priority, I am pleased that satisfaction levels maintained an excellent rating of 98% in the independent (CSI) survey of customers, carried out in October 2018.

Significantly, with customers continuing to qualify for the Scheme through the Personal Independence Payment, we continue to see growing volumes of customers with mental health or neurological issues, and on behalf of the Scheme, we adjust our support accordingly.

Affordability has been sustained through providing a range of more than 350 models on the price list that cost no more than the customer's allowance. While the financial performance of the business remains strong, it is important that we maintain a prudent approach, given the ongoing uncertainties of Brexit; the possible implications and costs arising from the increased focus on adaptations, mitigations and urgency on broad environmental issues; the continuing counter-cyclical buoyancy of the used car market in the United Kingdom; and the further anticipated decline in demand for diesel vehicles.

It is clear that a risk to any part of the Scheme, be that Motability (the charity) or Motability Operations, can affect the Scheme as a whole, so a consultative assessment of risks is undertaken, to balance this with the interests of the stability of the Scheme – customers place crucial reliance on the Scheme, so it is vital this is maintained.

The National Audit Office (NAO) published its report on the Scheme in December. Motability Operations, as key to the delivery of the Scheme, is enormously encouraged that the report affirms and acknowledges the company's impressive performance, its exceptionally high quality of customer service, and the Scheme's value for money, underscored by prices that are 45% below any market alternative.

We have fully accepted the NAO recommendations, including reviewing our governance. Aligned to this we have already increased the transparency of reporting on executive remuneration, as provided in our previous Annual Report, to a level that exceeds the regulatory requirements.

Motability Operations has also begun a review of its forecasting process, supported by third party experts, to establish whether there are any variables influencing past performance that could be more accurately forecast in the future. This will take account of factors such as the emergence of used vehicle Personal Contract Purchase (PCP) finance products which have helped drive the recent unprecedented increases in used car prices. The review started in April. It will conclude in September, and will be reported on in the end of year Annual Report and Accounts.

The size of the business's capital reserves has been the subject of public debate. It remains vital that these are kept at a level sufficient to ensure our continued operation. The purpose of these reserves is to provide a "shock absorber" against a substantial fall in used car values, or other risks which could threaten the sustainability of the Scheme. Given the transformative opportunities the Scheme provides for those with mobility challenges, there is nothing more important to our customers than the sustainability and thus predictability of the Scheme.

These capital reserves are used actively in meeting around a third of our total funding requirement; they are not held as cash, but invested in the car fleet.

In line with NAO recommendations, Motability (the charity) has initiated an external review from Oliver Wyman, to examine our capital modelling methodology and our applied risk appetite and confidence levels, and to benchmark our capital reserve levels against near-comparable companies.

"Affordability has been sustained through providing a range of more than 350 models on the price list that cost no more than the customer's allowance."

> "Following an independent assessment of our economic capital approach the Board remains committed to holding reserves consistent with a 99.99% confidence level whist also retaining 15% headroom in line with existing policy."

Significantly, the review confirms the appropriateness of Motability Operations' economic capital approach and supports the Group's application of a 99.99% confidence level (or one in ten thousand loss event), given Motability Operations' unique risk profile.

While supportive of the general economic capital approach, the review notes that management should consider adjusting assumptions underpinning the calculation of a number of conservative risk components (while remaining consistent with the 99.99% assumption).

In considering the review, Motability Operations has also reflected on credit rating implications and investor perspectives. Our ability to secure liquidity is of primary importance and investor confidence is essential. The Board is also aware of the increased financing costs associated with operating with a lower level of capital (and so higher level of debt) that would ultimately be borne by our disabled customers. That said, the Board also understands the implications of holding capital which could be deployed by Motability (the charity) in delivering its broader mandate of enhancing the lives of disabled people in general. Having given due weight to all these factors and after consultation with Motability, the Board has resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position (£150m of which is directly attributable to the Oliver Wyman review); a level which is consistent with the Board's revised assessment of the 99.99% requirement whilst also retaining 15% headroom in line with existing policy.

The Board plans to commit £100m of this release to support customers across a range of initiatives to be announced over the summer.

The balance of the release of capital reserves, along with all of this year's profits, will be donated to Motability to provide wider support for disabled people and their families. The release, and its timing, will be confirmed subject to trading conditions and access to sufficient liquidity.

The Board is confident that, following the rebasing to this revised capital reserves position, the business remains robust, affordable for customers, sustainable into the long term and capable of withstanding extreme shock events, whilst not compromising the overriding priority of preserving our stability and predictability for our customers.

Looking ahead Motability Operations will continue to develop its economic capital modelling to ensure that this remains appropriate and in line with best practice, and will seek regular independent benchmarking of its approach.

We keep employee engagement high in our sights at all times, and act on feedback where improvement is needed. One such area has been highlighted by the 2018 gender pay gap review. While we pay equally for equal roles, we have identified a mean gender pay gap of 29.6%, a slight increase on the previous year. This was not entirely unexpected, and we have a range of initiatives underway to build on our culture of inclusion, and create supportive environments for all employees. We are starting to see positive

results, but recognise that it will take time, continued commitment and focus to narrow our pay gap significantly. The Board is determined to succeed in this.

Getting to know this business and, above all, its people – its Directors, staff throughout the business, customers, dealers and partners – has already been very positive. I am extremely impressed, not only at the scale of the operation, but the sheer professionalism with which the company functions.

Mike Betts and his executive team justly deserve recognition for the leadership they bring to this dynamic and vital business, and, given its scale, complexity and context, sustaining this will always continue to be a challenge. As announced last year, Mike Betts will be leaving his role as CEO of Motability Operations once a suitable successor has been identified and appointed. Together with the Board, I am putting in place a process to attract appropriate high quality candidates for the role who are able to take the business forward.

As I look at Motability Operations and the Scheme as a whole, I see a rare success, in the form of an exceptional example of a social enterprise that delivers a vital social good through outstanding customer service and choice, delivered through the efficiency of commercial excellence. Motability Operations is a vital component contributing to the success of a Scheme which has transformed services to disabled people. I look forward to being part of the Scheme's further success, and working with the whole Board and Motability (the charity) to deliver the strategy.

I would also like to thank Lord Sterling and the governors of Motability for their support and continued confidence; the Scheme is strengthened by the open and strong working relationship between the two organisations involved in its delivery.

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

Rt. Hon Sir Stephen O'Brien KBE
Chairman

Sustainable value for customers

> "We remain committed to ensuring that we effectively manage the financial position of Motability Operations Group plc thereby underpinning the provision of a cost-effective, stable and sustainable proposition for our customers."

Performance

Overview

We continue to track a wide range of measures to assess our performance in delivering our key customer targets. Customer satisfaction is measured independently in a customer survey carried out twice a year. In the latest survey in October 2018, overall customer satisfaction was once again recorded at 98%. This result is further validated in the Institute of Customer Services' UK Customer Satisfaction Index, in which Motability Operations' customer service scored 94.3%, compared to a sector average of 79.8%.

In terms of affordability and choice, a key measure is the range of affordable vehicles available on the price list. We continue to work with manufacturers in delivering a price list which provides value and choice for our customers, with over 350 vehicle models available at 'nil advance payment' (where the customer's allowance alone is sufficient to fund all lease costs) throughout the period, including a number of automatic models. More than 250 cars could be obtained at less than the full allowance, enabling customers to keep some money back.

The ultimate validation of our performance is customer renewal rate at the end of lease. It is therefore pleasing to report that this remains consistently high at 91%. We also continue to invest in the customer proposition. During the year to September 2018 we invested more than £183m in direct customer initiatives, with this rate of investment continuing into the current financial year. Customer investments include expenditure to ensure continuous mobility for customers when their vehicle is off the road, providing a good condition bonus for customers who return their vehicle in appropriate condition at the end of lease, and expenditure to support the cost of vehicle adaptations and the affordability of wheelchair accessible vehicles.

The Government's roll-out of Welfare Reform (see below) is still in progress meaning that some existing customers will likely lose their qualifying mobility allowance and so also eligibility for the Motability Scheme. Nonetheless, overall customer numbers grew during the first half of the financial year, up by 2,000 (0.3%) on September 2018, reflecting the high renewal rate outlined above and an increase in brand new customer applications. This follows modest reductions in numbers over the past three years as a consequence of the Welfare Reform changes.

98%

overall customer satisfaction

>350

models available at 'nil advance payment' throughout the period

Financial performance

Revenue in the six months to March 2019 was £2,103m, marginally up 2.8% year on year (2018: £2,045m). Profit for the period, which is retained in the Scheme for the benefit of our customers, was £252.5m. Underlying profitability continues to track in line with our 1.5% return on asset target however, the half year result was buoyed by both the continued resilience of the used car values and recognition of the previously disclosed commission from reinsurance programmes in MO Reinsurance Ltd.

The £252.5m profit includes a gain of £103.1m from vehicle sales (2018: £104.3m), reflecting both the positive demand dynamics in the used car market and a strong performance from our vehicle remarketing operation, including the continued success of our online sales route, with 77% of vehicles sold in this channel during the six months to March 2019. The result also includes a £114.5m depreciation credit reflecting the outputs of the March 2019 fleet revaluation exercise where the current strength in used vehicle values has uplifted our base position.

The result for the first six months of trading was above target and takes Restricted Reserves on the Balance Sheet, which we use operationally to purchase vehicles, to £2,794m.

As outlined in the Chairman's statement, the Board has resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position (£150m of which is directly attributable to the Oliver Wyman review). This will be achieved through a combination of an investment in support for existing customers and by way of a charitable donation to Motability (the charity).

The Board is confident that, following the rebasing to this revised capital position the business remains robust, affordable for customers, sustainable into the long-term and capable of withstanding extreme shock events, whilst not compromising the overriding priority of preserving our stability and predictability for our customers.

Assets and residual values

The carrying value of operating lease assets has increased 4.6% since September 2018, to £7,143m. Exposure to unexpected movements in residual value represents the Groups single largest financial exposure.

At March 2019, the estimated residual value of the fleet versus the priced position reflected a projected a net gain of £237m. This projected improvement is credited to the income statement over the remaining term of the respective leases. At the Balance Sheet date £75.9m of this gain had been recognised through the income statement, with the balance to be charged across the next three financial years.

Financing and liquidity

The Group continues to pursue a strategy aimed at diversifying sources of funding, protecting structural liquidity and maintaining a well-laddered debt maturity profile.

In determining the timing of refinancing activities, as well as taking into account the dates of our upcoming debt maturities, careful consideration is given to the economic and political backdrop, to the extent that they may affect the availability of liquidity in the market.

Of the Group's £121m Cash and Cash Equivalents balance reported at 31 March 2019, £80m is ring-fenced in respect of insurance liabilities in MO Reinsurance Ltd.

The Group retains a £1.5bn Revolving Credit Facility to provide liquidity headroom of which £200m was drawn at 31 March 2019.

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

Insurance

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

Following an independent review of our actuarial assessment of the reserving position, MORL reported a £20.9m post-tax profit for the six months to March 2019.

This positive result is driven by the recognition of commission (£30.6m) in respect of a quota-share reinsurance contract whereby MORL is effectively rebated if claims experience is favourable to reinsurance premiums.

> **"Our financial performance and focus on cost management underpin our continued investment in the customer proposition."**

Welfare Reform

In 2013, the Government introduced a new benefit – Personal Independence Payment (PIP) – which is gradually replacing Disability Living Allowance (DLA) for disabled people aged between 16 and 64.

From October 2013, the Department for Work and Pensions (DWP) began to reassess some two million disabled people, including around 360,000 who were leasing a Motability car. Recipients who qualify for the enhanced rate of the mobility component of PIP are able to continue leasing a car as they do today. However, because PIP is a new benefit assessed using different criteria, some people are losing their eligibility for the Motability Scheme. Other potential customers will qualify for the first time, including those with cognitive impairments.

As a Scheme, we support those customers losing eligibility by providing a rent-free period following the loss of their allowance (generally eight weeks) with a financial support payment made available to qualifying customers when their car has been handed back.

The financial cost of the rent-free period is funded from current year earnings. To fund the transition support package offered by Motability we have previously made donations totalling £175m.

As at 31 March 2019, almost 94,000 Scheme customers, since PIP implementation in 2013, have lost their entitlement to the higher-rate allowance following their PIP reassessment, and consequently have also lost their eligibility to continue leasing a product on the Motability Scheme.

Outlook

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

As the UK Government continues to negotiate the terms of the UK's exit from the European Union, there remains an uncertain economic backdrop, potentially affecting exchange rates and the price of new cars.

Our most significant risk relates to unforeseen movements in the market of second-hand vehicles and our fleet revaluation includes a Brexit overlay based on our assessment of the potential impact from an economic downturn following a disorderly settlement. The impact of this adjustment to our central forecast reduces the estimated residual value of the fleet by £129m.

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

In respect of pricing, we can react to further weakening of exchange rates, should that occur, through our quarterly pricing process. Inflation in base costs and/or servicing would ultimately need to be reflected in pricing but as a business we will seek to protect customers from any unexpected shocks that result from this process.

Although the market for used cars has remained buoyant through the first half of the year, the uncertainty related to the structure and timing of the final arrangement with the European Union is expected to impact consumer confidence and we will monitor residual values carefully.

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

40 mins

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

£2,103m

revenue in the six months to March 2019, marginally up year on year (2018: £2,045m)

Our strategic framework

Our strategy

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

Our values

Our values are central to delivering and meeting the needs and expectations of our customers. We embrace diversity, which enables us to have a wide variety of approaches and perspectives, enhancing performance and creating value for customers.

People and principles

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

Performance

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

Turn to pages 12-15 to view performance linked to our strategic pillars.

Risk management

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

Turn to pages 16-18 for more information on our risk management.

Build our customer and disability expertise

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

Goals

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

Objectives

- Deliver best-practice customer service through our call centre.
- Ensure that the standard of services deployed through our key suppliers is commensurate with our internal targets.
- Build our adaptation and conversion expertise to ensure that customers have a seamless experience and that we are recognised for the excellence of our 'one-stop-shop' service.
- Provide our customers with the information and tools they need to select a suitable car from the wide range available.
- Provide information to support decision-making to meet customers' mobility needs.
- Work with disability organisations for guidance and support.

Initiatives delivered

- Expanded our front-line customer services team as a planned response to addressing more complex customer needs that have arisen through our changing customer base, to ensure most customers only have to speak to one advisor to resolve their query.
- Invested further in adaptations to maximise the range available to customers when they choose their vehicle and extended support to improve Wheelchair Accessible Vehicle (WAV) affordability.
- Improved our continuous mobility programme through partnership with a national taxi service removing the need for customers to pre-fund journeys.
- Continued to support PIP stopped-allowance cases and provide an option for qualifying customers to retain their vehicle for up to 26 weeks with extended support available if a customer appeal extends beyond this period.
- Continued to develop our expertise in working with customers who have cognitive disabilities and understanding the best way to support our customers with complex mental health conditions to ensure that their interaction with us is appropriate to their individual needs.

> "It really is a lifeline that I can get out and about and live my life."

Key Performance Indicators

98%

overall customer satisfaction

Target of >92%

83%

calls answered within 20 seconds

Target of >80%

40mins

roadside assistance average response time

Target of <42 min

Provide value and choice

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

Goals

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

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

Objectives

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

Initiatives delivered

- Worked with car manufacturers to maintain choice and affordability for customers with more than 350 cars available at no more than the allowance, despite cost pressures from exchange rates and supply challenges related to the emissions testing being introduced through the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).
- Provided a choice of over 250 cars which are available to customers at less than their full allowance.
- Progressed the option for customers to add the provision of a lightweight manual wheelchair as part of their main lease.
- Continued activity on the long-term development of the supporting systems infrastructure for our online remarketing processes. The development will deliver a sustainable and secure platform for the future and provide opportunities to deliver enhancements to our existing remarketing capabilities.

> "They didn't just take into account that I have a disabled child, they took into account my whole family."

Key Performance Indicators

>350

affordable vehicle choice at 'nil advance payment'

Target of >200

>44%

cheaper than alternative

77%

of vehicles sold online at the end of lease

Target of >70%

Improve reach and awareness

We seek to create improved awareness and understanding of the Scheme proposition within our potential market. In doing so, we attract new customers to the Scheme.

Goals

Through promoting greater understanding of the Scheme proposition, we seek to ensure potential customers are well positioned to evaluate its benefits.

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

Objectives

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

Initiatives delivered

- Continued our series of summer events, known as One Big Days, offering current and potential customers, and their families, the opportunity to find out more about the Motability Scheme at first hand. These events attracted almost 21,000 visitors, and a record 1,684 adapted test drives. Guests rate the events on average at 92%, with almost two thirds saying they would follow up their attendance with a visit to a dealer.
- Rolled out the initial phase of a major systems project which included replacement of the application system used across the dealer network. This phase has migrated functionality to a sustainable and more flexible platform which has delivered some immediate improvements for dealers but will ultimately support the option for customers, if they wish, to manage elements of their application and other in-life changes online.
- Continued to support Motability's work with Family Fund, the UK's largest charity providing grants for low income families raising disabled or seriously ill children and young people, to provide vehicles to families with children under the age of three who are seriously ill or disabled but do not yet qualify for a government mobility allowance. This engagement has been endorsed by the DWP with funding to date provided by the Motability Tenth Anniversary Trust.

> "It's given me the freedom to continue on my journey of recovery both physically and mentally, it's life changing."

Key Performance Indicators

98%
trust in Motability
Trust in the Scheme

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

98%
customer advocacy
Target of 85%

Ensure long-term sustainability

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

Goals

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

Objectives

- Maintain a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events.
- Create opportunities to access wider sources of competitive funding. We aim to maintain our credit rating, enabling us to secure the most appropriate funding at competitive rates.
- Continue to nurture effective partnerships with key stakeholders.
- Maintain a forward-looking environmental policy, providing a choice of environmentally friendly vehicles on the Scheme, balancing customer need with fuel economy and emissions.
- Ensure that our premises and information technology infrastructure are robust and future-proof.
- Attract and retain quality people.

Initiatives delivered

- Initiated further development aligned to our strategic IT roadmap that will secure systems sustainability (replacing aged legacy systems) with linked benefits flowing across business operations.
- Conducted an independent employee culture survey which provided an engagement score of 93%, significantly ahead of the benchmark of other high-performing organisations.
- Refreshed our internal values which provide guidance on delivering to the high expectations we demand in working to meet the needs of our customers.

> “I don’t think people understand how easy the Scheme is and how worry-free it is.”

Key Performance Indicators

93%
employee engagement
Target to exceed HPO benchmark (83%)

A+/A1
credit rating

7.84yrs
weighted average debt maturity profile

Our dynamic and robust approach

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

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

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

We have a Director with specific responsibility for risk and a dedicated Risk team. This year saw the risk process further substantiated following an independent review of the Risk Appetite Framework.

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

Risk identification and monitoring

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

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

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

Risk management framework

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

1st line of defence
Primary risk management

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

2nd line of defence
Risk control

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

3rd line of defence
Assurance

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

Risk Appetite Framework

Our risk management approach is supported by the use of a clear Risk Appetite Framework (RAF) within which we have formalised risk reporting to provide effective line of sight to management.

The framework builds on our strong risk management culture and aligns our strategic planning and risk management activities. The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels which includes over 140 risk metrics.

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

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

High level

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

Directional

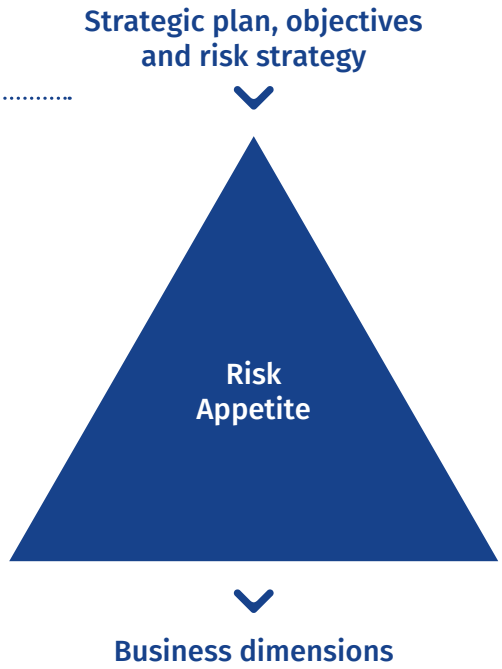
Key Risk Driver and related risk appetite statements, measures and limits

Specific

Principles and policies to operationalise risk appetite

Detailed

Detailed risk appetite measures and limits



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

Summary of our key risks and mitigations

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

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

Independent review report to Motability Operations Group plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half year financial report for the six months ended 31 March 2019 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 31 March 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half year financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half year financial report is the responsibility of, and has been approved by, the directors. The Directors are responsible for preparing the half year financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half year financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half year financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Simon Clark
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
14 June 2019

Consolidated income statement

For the six months ended 31 March 2019

	Note	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m Restated*
Revenue	4	2,103.1	2,045.1
Net operating costs excluding charitable donations		(1,716.0)	(1,729.4)
Charitable donations		(0.2)	–
Net operating costs	6	(1,716.2)	(1,729.4)
Profit from operations		386.9	315.7
Finance costs	7	(76.5)	(83.4)
Profit before tax		310.4	232.3
Taxation			
Taxation excluding the impact of future changes in the UK corporation tax rate	8	(57.9)	(44.7)
Re-measurement of deferred tax due to future changes in the UK corporation tax rate	8	–	–
Profit for the period		252.5	187.6

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

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

Consolidated statement of comprehensive income

For the six months ended 31 March 2019

	Note	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m Restated*
Profit for the period		252.5	187.6
Other comprehensive income items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	15	(32.6)	(3.7)
Gains on foreign currency translation	15	33.0	3.1
Tax relating to components of other comprehensive income		(0.1)	0.1
Other comprehensive income/(losses) for the period, net of tax		0.3	(0.5)
Total comprehensive income for the period attributable to equity		252.8	187.1

(*) Restated due to the adoption of new accounting standards. See note 22.

The notes on pages 26 to 57 form part of these financial statements

Consolidated balance sheet

As at 31 March 2019

	Note	31 March 2019 £m	30 September 2018 £m Restated**	31 March 2018 £m Restated**
Assets				
Non-current assets				
Intangible assets		56.4	49.6	44.6
Property, plant and equipment		19.2	18.6	15.9
Assets held for use in operating leases	9	7,143.2	6,829.2	6,509.6
Financial assets at amortised cost (previously held to maturity investments)		135.1	138.1	128.3
Prepayments		19.9	21.2	19.8
Derivative financial instruments	16	77.2	106.4	86.9
		7,451.0	7,163.1	6,805.1
Current assets				
Corporation tax receivable		29.5	29.5	–
Inventories	10	130.8	82.5	104.0
Financial assets at amortised cost (previously held to maturity investments)		68.6	94.8	66.9
Cash and bank balances		166.9	327.7	707.5
Insurance receivables	11	340.8	298.9	259.3
Trade and other receivables		282.1	290.2	331.0
Derivative financial instruments	16	–	22.0	18.8
		1,018.7	1,145.6	1,487.5
Total assets		8,469.7	8,308.7	8,292.6
Liabilities				
Current liabilities				
Corporation tax payable		–	–	(65.7)
Deferred rental income and provisions for rebates	12	(243.2)	(236.3)	(189.7)
Insurance payables	13	(68.6)	(74.7)	(76.6)
Trade and other payables		(197.2)	(198.0)	(212.4)
General insurance provisions	14	(366.9)	(345.5)	(299.1)
Financial liabilities	15	(375.5)	(427.3)	(432.7)
		(1,251.4)	(1,281.8)	(1,276.2)
Net current (liabilities)/assets		(232.7)	(136.2)	211.3
Non-current liabilities				
Deferred rental income and provisions for rebates	12	(256.3)	(247.5)	(224.2)
Financial liabilities	15	(3,735.8)	(3,865.6)	(3,851.7)
Derivative financial instruments	16	(1.5)	–	–
Deferred tax liabilities		(423.6)	(365.5)	(327.7)
		(4,417.2)	(4,478.6)	(4,403.6)
Total liabilities		(5,668.6)	(5,760.4)	(5,679.8)
Net assets		2,801.1	2,548.3	2,612.8
Equity				
Ordinary share capital		0.1	0.1	0.1
Hedging reserve	15	6.6	6.3	1.7
Restricted reserves (*)		2,794.4	2,541.9	2,611.0
Total equity		2,801.1	2,548.3	2,612.8

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

(**) Restated due to the adoption of new accounting standards. See note 22.

These financial statements on pages 22 to 57 were approved by the Board of Directors on 14 June 2019 and signed on behalf of the Board.

Mike Betts
Chief Executive

The notes on pages 26 to 57 form part of these financial statements

Consolidated statement of changes in equity

For the six months ended 31 March 2019

	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total £m
At 30 September 2017, as previously reported	0.1	2.2	2,430.9	2,433.2
Adjustment on initial application of IFRS 15	–	–	(7.5)	(7.5)
Restated balance at 1 October 2017 (*)	0.1	2.2	2,423.4	2,425.7
Comprehensive income – restated (*)				
Profit for the period	–	–	187.6	187.6
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(3.7)	–	(3.7)
Gains on foreign currency translation	–	3.1	–	3.1
Tax relating to components of other comprehensive income	–	0.1	–	0.1
Total comprehensive (losses)/income – restated (*)	–	(0.5)	187.6	187.1
At 31 March 2018 – restated (*)	0.1	1.7	2,611.0	2,612.8
At 30 September 2018, as previously reported	0.1	6.3	2,547.5	2,553.9
Adjustment on initial application of IFRS 15	–	–	(5.6)	(5.6)
Restated balance at 1 October 2018 (*)	0.1	6.3	2,541.9	2,548.3
Comprehensive income				
Profit for the period	–	–	252.5	252.5
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(32.6)	–	(32.6)
Gains on foreign currency translation	–	33.0	–	33.0
Tax relating to components of other comprehensive income	–	(0.1)	–	(0.1)
Total comprehensive income	–	0.3	252.5	252.8
At 31 March 2019	**0.1**	**6.6**	**2,794.4**	**2,801.1**

(*) Restated due to the adoption of new accounting standards. See note 22.

The notes on pages 26 to 57 form part of these financial statements

Consolidated statement of cash flows

For the six months ended 31 March 2019

	Note	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m
Cash flows from operating activities			
Cash generated from operations	17	23.9	126.4
Interest paid		(79.0)	(88.2)
Income tax paid		–	(16.5)
Charitable donations		(0.2)	–
Net cash (used in)/generated from operating activities		(55.3)	21.7
Cash flows from investing activities			
Purchase of intangible assets		(10.1)	(2.4)
Purchase of corporate property, plant and equipment		(2.7)	(0.5)
Proceeds from sale of corporate property, plant and equipment		0.2	0.4
Net divestment of/(investment in) financial assets at amortised cost		29.2	(92.9)
Net cash generated from/(used in) investing activities		16.6	(95.4)
Cash flows from financing activities			
New loans raised		200.0	–
Proceeds from settlement of derivatives		20.1	16.7
Bonds redeemed		(346.0)	(441.9)
Net cash used in financing activities		(125.9)	(425.2)
Net decrease in cash and cash equivalents		(164.6)	(498.9)
Cash and cash equivalents at beginning of period		286.0	1,158.3
Cash and cash equivalents at end of period	17	121.4	659.4

The notes on pages 26 to 57 form part of these financial statements

Notes to the interim financial statements

1. General information

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

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

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

This condensed set of financial statements does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2018 were approved by the Board of Directors on 6 December 2018 and delivered to the Registrar of Companies. The report of the Auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed set of financial statements has been reviewed, not audited.

Accounting convention

The financial statements have been prepared under the historical cost convention, except the revaluation of financial assets and financial liabilities (including derivative instruments) which are valued at fair value through profit or loss apart from derivative instruments relating to cash flow hedges which go through other comprehensive income.

2. Significant accounting policies

Basis of preparation

This condensed set of financial statements for the six months ended 31 March 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and IAS 34 *Interim Financial Reporting,* as adopted by the European Union. The condensed set of financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 September 2018, which have been prepared in accordance with IFRSs as adopted by the European Union. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2018, as described in those annual financial statements.

Going concern

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

Taxation

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

Seasonality

Each year there is a minor dip in the volumes of new contracts in February and August as these are the months prior to the bi-annual changes of registration plates in March and September. This does not distort the half yearly reporting cycle as each occurrence is one month prior to the balance sheet reporting date. Major charitable donations are normally authorised in the second half of each reporting year as results for the full year become more certain.

2. Significant accounting policies continued

Adoption of new or revised standards

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

IFRS 9	*Financial Instruments*
	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 15	*Revenue from Contracts with Customers*

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers

IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces a new impairment model for financial assets and new rules for hedge accounting.

IFRS 15 covers the disaggregation of revenue and its recognition in line with contractual performance obligations.

Both standards are effective for the first time for entities with an annual reporting period commencing on or after 1 January 2018, so for the Group the first period of adoption is the year ending 30 September 2019.

The impact on the Group of the adoption of these standards is disclosed in Note 22.

Adoption of both standards has not had a material impact on either the Group's consolidated financial statements or Motability Operations Group plc's individual Company financial statements.

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

IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*

IFRS 16 *Leases*

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

IFRS 17 *Insurance Contracts*

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

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

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

Notes to the interim financial statements continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies:

Residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 9 and the impact of the change in estimates during the year is also disclosed in note 6. Included in the estimate of residual values at 31 March 2019 is an adjustment of £129.5m (30 September 2018: £125.4m, 31 March 2018: £110.7m) with regards to downside risk to vehicle resale values due to uncertainty around Brexit negotiations and the European/domestic political landscape.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 9). As at 31 March 2019, if the value of the net sale proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used car market), the effect would be to increase/decrease the depreciation on these vehicles by £57.9m (30 September 2018: £54.7m. 31 March 2018: £50.1m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases, from the start of the current accounting year, so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value.

Insurance contracts

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

The level of commission receivable from the Group's outward reinsurance comprises two elements. The first is a guaranteed percentage of the premium payable to reinsurers; this is recognised in the financial statements on the same basis as the related reinsurance expense. The second element of the reinsurance commission is dependent upon the reinsurance loss ratio experienced over the term of the contract. This element of the commission is not recognised as income in the financial statements until such time as the loss ratio can be determined with reasonable certainty, which on the basis of an analysis of current loss development patterns, is judged to be 18 months after the contract end date at which time 100% of the provisional commission receivable will be recognised.

The Group Actuary has undertaken an actuarial study of the Group's claims reserves and, based upon the latest study and the current Ogden discount rate of -0.75% (30 September 2018: -0.75%, 31 March 2018: -0.75%). The actuary has estimated that as at 31 March 2019 there is a contingent commission of £2.8m (30 September 2018: £36.1m, 31 March 2018: £35.9m) receivable by the Group.

Intangible assets

The Groups' accounting policy as described in note 2 of the 2018 Annual Report and Accounts is to amortise intangible assets on a straight-line basis over their estimated useful lives, between three and seven years.

In July 2017 the Group implemented new IT systems. These systems are working as anticipated and are delivering our business processes. They also meet our needs for the foreseeable future and can be modified through configuration and continued support from the software supplier. As such, they are long-term strategic solutions that will be maintained and upgraded to support the business requirements over the coming years. Based on this, the estimated useful life of the intangible asset was seven years from implementation date, and there have been no indications of impairment.

4. Revenue

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

	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m Restated*
Rentals receivable for operating lease assets	609.7	615.3
Rentals receivable for operating lease in-life services	92.7	90.7
Rentals receivable for operating lease insurance	278.9	281.6
Proceeds from disposal of operating lease assets (I)	1,102.5	1,039.2
Insurance reimbursements from disposal of operating lease assets	16.3	14.7
Finance income	1.7	2.2
Other income	1.3	1.4
Total revenue	2,103.1	2,045.1

(*) See note 22.

(I) During the six months ended 31 March 2019 the Group made a gain of £103.0m on the disposal of operating lease assets (six months ended 31 March 2018: £104.3m). See note 17.

Reinsurance premiums earned by the Group's insurance captive of £116.5m (six months ended 31 March 2018: £130.0m) relate to the Group's fleet. Therefore, on consolidation, they are recognised as a reduction of insurance premiums paid as part of the Group's fleet operating costs.

Movements in deferred income balances are disclosed in note 12.

Details of transaction prices relating to the remaining performance obligations are disclosed in note 12.

5. Segmental analysis

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

Scheme Operations

The main responsibilities of the Scheme Operations segment are:

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

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

Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

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

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

Segmental performance

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

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

Notes to the interim financial statements continued

5. Segmental analysis continued

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the six months ended 31 March 2019 and 31 March 2018.

Six months ended 31 March 2019	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	609.7	–	–	609.7
Rentals receivable for operating lease in-life services	92.7	–	–	92.7
Rentals receivable for operating lease insurance	278.9	–	–	278.9
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,118.8	–	–	1,118.8
Inter-segment proceeds	21.0	–	(21.0)	–
Insurance income	–	116.5	(116.5)	–
Other revenue	1.7	1.3		3.0
Total revenue	2,122.8	117.8	(137.5)	2,103.1
Net book value of disposed operating lease assets	(1,028.4)	–	–	(1,028.4)
Fleet operating costs	(333.3)	–	116.5	(216.8)
Insurance claims and commission costs	–	(91.5)	21.0	(70.5)
Depreciation on assets used in operating leases	(317.5)	–	–	(317.5)
Other operational costs	(82.3)	(0.5)	–	(82.8)
Charitable donations	(0.2)	–	–	(0.2)
Net operating costs	(1,761.7)	(92.0)	137.5	(1,716.2)
Profit from operations	361.1	25.8	–	386.9
Finance costs	(76.5)	–	–	(76.5)
Profit before tax	284.6	25.8	–	310.4
Taxation	(53.0)	(4.9)	–	(57.9)
Profit for the period	231.6	20.9	–	252.5

Six months ended 31 March 2018 Restated*	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	615.3	–	–	615.3
Rentals receivable for operating lease in-life services	90.7	–	–	90.7
Rentals receivable for operating lease insurance	281.6	–	–	281.6
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,053.9	–	–	1,053.9
Inter-segment proceeds	18.6	–	(18.6)	–
Insurance income	–	130.0	(130.0)	–
Other revenue	2.8	0.8	–	3.6
Total revenue	2,062.9	130.8	(148.6)	2,045.1
Net book value of disposed operating lease assets	(962.5)	–	–	(962.5)
Fleet operating costs	(273.3)	–	130.0	(143.3)
Insurance claims and commission costs	–	(103.0)	18.6	(84.4)
Depreciation on assets used in operating leases	(427.3)	–	–	(427.3)
Other operational costs	(111.6)	(0.3)	–	(111.9)
Charitable donations	–	–	–	–
Net operating costs	(1,774.7)	(103.3)	148.6	(1,729.4)
Profit from operations	288.2	27.5	–	315.7
Finance costs	(83.4)	–	–	(83.4)
Profit before tax	204.8	27.5	–	232.3
Taxation	(39.4)	(5.3)	–	(44.7)
Profit for the period	165.4	22.2	–	187.6

(*) See note 22.

5. Segmental analysis continued

The following tables show certain asset and liability information as at 31 March 2019, 30 September 2018 and 31 March 2018 regarding business operating segments.

31 March 2019	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	75.6	–	–	75.6
Assets held for use in operating leases (including inventories)	7,274.0	–	–	7,274.0
Derivative financial instruments	77.2	–	–	77.2
Insurance receivables	–	296.1	44.7	340.8
Trade and other receivables	301.8	0.2	–	302.0
Corporation tax receivable	29.5	–	–	29.5
Financial assets	187.9	284.0	(101.3)	370.6
Total assets	7,946.0	580.3	(56.6)	8,469.7
Deferred rental income and provisions for rebates	(499.5)	–	–	(499.5)
Insurance payables	–	(68.6)	–	(68.6)
Trade and other payables	(197.0)	(0.2)	–	(197.2)
Corporation tax payable	–	–	–	–
Financial liabilities	(4,111.3)	–	–	(4,111.3)
Deferred taxation	(423.6)	–	–	(423.6)
General insurance business provisions	–	(322.2)	(44.7)	(366.9)
Derivative financial instruments	(1.5)	–	–	(1.5)
Total liabilities	(5,232.9)	(391.0)	(44.7)	(5,668.6)
Net assets	2,713.1	189.3	(101.3)	2,801.1
Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	6.6	–	–	6.6
Restricted reserves	2,706.4	88.0	–	2,794.4
Total equity	2,713.1	189.3	(101.3)	2,801.1

Notes to the interim financial statements continued

5. Segmental analysis continued

30 September 2018 Restated*	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	68.2	–	–	68.2
Assets held for use in operating leases (including inventories)	6,911.7	–	–	6,911.7
Derivative financial instruments	128.4	–	–	128.4
Insurance receivables	–	254.3	44.6	298.9
Trade and other receivables	311.3	0.1	–	311.4
Corporation tax receivable	29.5	–	–	29.5
Financial assets	377.0	284.8	(101.2)	560.6
Total assets	7,826.1	539.2	(56.6)	8,308.7
Deferred rental income and provisions for rebates	(483.8)	–	–	(483.8)
Insurance payables	–	(74.7)	–	(74.7)
Trade and other payables	(197.8)	(0.2)	–	(198.0)
Financial liabilities	(4,292.9)	–	–	(4,292.9)
Deferred taxation	(365.5)	–	–	(365.5)
General insurance business provisions	–	(300.9)	(44.6)	(345.5)
Total liabilities	(5,340.0)	(375.8)	(44.6)	(5,760.4)
Net assets	2,486.1	163.4	(101.2)	2,548.3
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	6.3	–	–	6.3
Restricted reserves	2,479.7	62.2	–	2,541.9
Total equity	2,486.1	163.4	(101.2)	2,548.3

(*) See note 22.

31 March 2018 Restated*	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	60.5	–	–	60.5
Assets held for use in operating leases (including inventories)	6,613.6	–	–	6,613.6
Deferred tax asset	–	–	–	–
Derivative financial instruments	105.7	–	–	105.7
Insurance receivables	–	219.8	39.5	259.3
Trade and other receivables	350.6	0.2	–	350.8
Financial assets	668.4	335.6	(101.3)	902.7
Total assets	7,798.8	555.6	(61.8)	8,292.6
Deferred rental income and provisions for rebates	(413.9)	–	–	(413.9)
Insurance payables	–	(76.6)	–	(76.6)
Trade and other payables	(212.3)	(0.1)	–	(212.4)
Corporation tax payable	(65.7)	–	–	(65.7)
Financial liabilities	(4,284.4)	–	–	(4,284.4)
Deferred taxation	(327.7)	–	–	(327.7)
General insurance business provisions	–	(259.6)	(39.5)	(299.1)
Derivative financial instruments	–	–	–	–
Total liabilities	(5,304.0)	(336.3)	(39.5)	(5,679.8)
Net assets	2,494.8	219.3	(101.3)	2,612.8
Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	1.7	–	–	1.7
Restricted reserves	2,493.0	118.0	–	2,611.0
Total equity	2,494.8	219.3	(101.3)	2,612.8

(*) See note 22.

6. Net operating costs

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

	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m Restated**
Net book value of disposed operating lease assets	999.5	934.9
Net book value of operating lease assets derecognised as insurance write-offs	28.9	27.6
Fleet operating costs including insurance, maintenance and roadside assistance costs*	216.8	164.2
Insurance claims expense	70.5	84.4
Other product costs including continuous mobility costs, adaptations support and communications	24.6	23.7
Employee costs	23.6	25.6
Other operating costs	12.2	10.6
Legal and professional fees	9.8	14.0
Motability levy and rebates	6.2	5.7
Bad debt charges and movement in bad debt provisions	0.7	6.0
Management fees	0.4	0.4
Charitable donations	0.2	–
Net operating costs before depreciation	1,393.4	1,297.1
Depreciation on assets used in operating leases	317.5	427.3
Depreciation and amortisation on property, plant and equipment and intangible assets	5.3	5.0
Net operating costs	1,716.2	1,729.4

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

(**) See note 22.

The depreciation charge on assets used in operating leases includes a £90.0m release (six months ended 31 March 2018: £23.2m charge) relating to changes in estimates during the period of future residual values.

7. Finance costs

	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m
Interest and charges on bank loans and overdrafts	6.0	5.7
Interest on debt issued under the Euro Medium Term Note Programme	70.2	77.4
Preference dividends	0.3	0.3
Total finance costs	76.5	83.4

Notes to the interim financial statements continued

8. Taxation

The major components of the consolidated tax expense are:

	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m
Current tax		
Charge for the period	–	66.7
Total	–	66.7
Deferred tax		
Origination and reversal of temporary differences	59.0	(22.0)
Deferred tax credit due to re-measurement of opening reserves following adoption of IFRS 15	(1.1)	–
Total	57.9	(22.0)
Tax on profit	57.9	44.7

Income tax expenses have been recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year. As noted on page 8, the Group expects to be in a position to make a charitable donation again this year and so the current element of the tax charge is expected to be £nil.

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, profits are taxable at 19% for this accounting year (2018: 19%).

In accordance with CTA 2009 the adjustment to opening reserves arising from a change to IFRS 15 is treated as an adjustable expense for tax purposes in the first period following adoption of the changes i.e. the current period.

Tax paid

Under HMRC's quarterly instalments regime for corporation tax, two of the four instalments for last year are payable in the first half of this year. The Group paid £nil relating to prior years during the six months to 31 March 2019 (2018: £16.5m).

9. Assets held for use in operating leases

Cost	Motor vehicle assets £m
At 1 October 2017	7,932.3
Additions	1,504.1
Transfer to inventory	(1,421.8)
At 31 March 2018	8,014.6
At 1 October 2018	8,186.2
Additions	1,708.3
Transfer to inventory	(1,438.1)
At 31 March 2019	**8,456.4**
Accumulated depreciation	
At 1 October 2017	1,519.1
Charge for the period	427.3
Eliminated on transfer to inventory	(441.4)
At 31 March 2018	1,505.0
At 1 October 2018	1,357.0
Charge for the period	317.6
Eliminated on transfer to inventory	(361.4)
At 31 March 2019	**1,313.2**
Carrying amount	
At 1 October 2017	6,413.2
Additions	1,504.1
Depreciation	(427.3)
Transfer to inventory (note 10)	(980.4)
At 31 March 2018	6,509.6
At 1 October 2018	6,829.2
Additions	1,708.3
Depreciation	(317.6)
Transfer to inventory (note 10)	(1,076.7)
At 31 March 2019	**7,143.2**

Notes to the interim financial statements continued

9. Assets held for use in operating leases continued

Residual values

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

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

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

Years in which unguaranteed residual values are recovered

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
No later than one year	1,781.6	1,723.9	1,450.1
Later than one year and not later than two years	1,813.9	1,737.7	1,672.7
Later than two years and not later than three years	2,110.8	1,930.1	1,817.4
Later than three years and not later than four years	38.3	36.6	32.2
Later than four years and not later than five years	44.5	41.4	41.5
Total exposure	**5,789.1**	5,469.7	5,013.9

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

Timing of revisions to original priced residual values included in the unguaranteed residual values above

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Amounts carried at 31 March/30 September	75.9	(7.9)	(193.6)
Amounts to be released/(charged) in future years	160.9	83.5	(113.3)
Total effect of changes in estimated residual value	**236.8**	75.6	(306.9)

The Group as lessor

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

	31 March 2019 £m	30 September 2018 £m Restated*	31 March 2018 £m Restated*
No later than one year	984.2	928.5	911.2
Later than one year and not later than two years	552.1	494.5	483.4
Later than two years and not later than three years	181.1	167.4	172.6
Later than three years and not later than four years	7.7	6.4	6.0
Later than four years and not later than five years	2.7	2.0	2.2
Total	**1,727.8**	1,598.8	1,575.4

(*) See note 22.

10. Inventories

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Ex-operating lease assets held for sale	130.8	82.5	104.0

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

The cost of inventories recognised as expense and included in net operating costs amounted to £1,028.4m (31 March 2018: £962.5m).

The movements of inventories in the six-month periods ended 31 March 2019 and 2018 are as follows:

	£m
At 1 October 2017	86.1
Transfer from operating lease assets (note 9)	980.4
Disposals (including insurance write-offs)	(962.5)
At 31 March 2018	104.0
At 1 October 2018	82.5
Transfer from operating lease assets (note 9)	1,076.7
Disposals (including insurance write-offs)	(1,028.4)
At 31 March 2019	130.8

11. Insurance receivables

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Insurance premium debtor	31.3	32.7	35.4
Claims recoveries and rebates	57.0	52.2	48.7
Reinsurance claims recoveries and commissions receivable	252.5	214.0	175.2
Total insurance receivables	340.8	298.9	259.3

The carrying value of insurance receivables approximates to fair value.

12. Deferred rental income and provisions for rebates

	31 March 2019 £m	30 September 2018 £m Restated**	31 March 2018 £m Restated**
Current			
Customers' advance payments*	143.5	138.0	132.9
Vehicle in-life service income	15.1	15.2	15.2
Customers' end of contract bonuses – provision for rebates	84.6	83.1	41.6
Total current	243.2	236.3	189.7
Non-current			
Customers' advance payments*	148.7	143.3	139.8
Vehicle in-life service income	49.4	47.5	47.6
Vehicle insurance income	1.2	–	6.0
Customers' end of contract bonuses – provision for rebates	57.0	56.7	30.8
Total non-current	256.3	247.5	224.2
Total	499.5	483.8	413.9

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

(**) See note 22.

Notes to the interim financial statements continued

12. Deferred rental income and provisions for rebates continued

Deferred income balances

Significant changes in the deferred income balances under IFRS 15 during the period are as follows:

	In-life services income £m	Insurance income £m	Total £m
At 1 October 2017	62.0	13.1	75.1
Revenue recognised that was included in the deferred income balance at the beginning of the period	(5.4)	(8.0)	(13.4)
Increases due to cash received, excluding amounts recognised as revenue during the period	6.2	0.9	7.1
At 31 March 2018	62.8	6.0	68.8
At 1 October 2018	62.7	–	62.7
Revenue recognised that was included in the deferred income balance at the beginning of the period	(4.6)	–	(4.6)
Increases due to cash received, excluding amounts recognised as revenue during the period	6.4	1.2	7.6
At 31 March 2019	**64.5**	**1.2**	**65.7**

Transaction price allocated to the remaining performance obligations

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

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
No later than one year	158.0	157.5	157.6
Later than one year and not later than two years	103.4	102.3	102.4
Later than two years and not later than three years	39.7	38.8	38.8
Later than three years and not later than four years	5.7	5.6	5.4
Later than four years and not later than five years	1.8	1.8	1.8
Total	**308.6**	306.0	306.0

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

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
No later than one year	441.8	454.5	470.9
Later than one year and not later than two years	277.2	289.7	305.9
Later than two years and not later than three years	95.8	101.2	109.4
Later than three years and not later than four years	8.2	8.8	8.9
Later than four years and not later than five years	2.5	2.8	2.9
Total	**825.5**	857.0	898.0

13. Insurance payables

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Reinsurance premiums payable	20.4	16.3	15.6
Commissions and administration fee payable	14.2	31.5	28.7
Claims reimbursements payable	34.0	26.9	32.3
Total insurance payables	**68.6**	74.7	76.6

The carrying value of insurance payables approximates to fair value.

14. General insurance provisions and risk management

Insurance risk management

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

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

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

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

Motor insurance risks

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

Sources of uncertainty in the estimation of future claim payments

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

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

Notes to the interim financial statements continued

14. General insurance provisions and risk management continued

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £30,000 (2018: £30,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5.0m (2018: £5.0m) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 119.3% (2018: 118.3%) of the Group's net earned premium income or £297.0m (2018: £309.3m) in the aggregate whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 133.94% (2018: 129.47%) of net premium earned or £36.5m (2018: £29.3m) in aggregate, whichever is the lesser. The Group's exposure above these limits is unlimited.

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

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

General insurance provisions

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

Claims reserves including IBNR

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

Motor quota-share reinsurance	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Claims reserves including IBNR	366.9	345.5	299.1
Third-party recoveries reserve	(44.7)	(44.6)	(39.5)
Reinsurance recoveries reserve	(236.1)	(209.9)	(167.3)
Total net retained	**86.1**	91.0	92.3

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

Chain Ladder method

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

Expected Burning Cost method

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

Bornhuetter-Ferguson method

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

Average Cost per Claim method

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

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

14. General insurance provisions and risk management continued

Motor quota-share reinsurance

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

Estimate of ultimate claims cost	Underwriting period ended 31 March 2019 £m	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2017 £m	Underwriting year ended 30 September 2016 £m	Underwriting year ended 30 September 2015 £m	Underwriting year ended 30 September 2014 £m	Total £m
At end of reporting period	134.8	281.3	251.3	220.5	157.2	52.0	
One year later	–	292.7	229.4	221.3	153.6	51.7	
Two years later	–	–	230.3	214.1	154.1	49.3	
Three years later	–	–	–	210.3	148.5	53.4	
Four years later	–	–	–	–	148.8	49.8	
Five years later	–	–	–	–	–	50.6	
Current estimate of cumulative claims	134.8	292.7	230.3	210.3	148.8	50.6	1,067.5
Cumulative payments to date	(65.5)	(200.9)	(190.7)	(176.4)	(135.4)	(50.5)	(819.4)
Rebates	12.9	26.4	25.0	20.5	12.9	4.1	101.8
Total liability	82.2	118.2	64.6	54.4	26.3	4.2	349.9

Estimate of ultimate claims cost net of reinsurance	Underwriting period ended 31 March 2019 £m	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2017 £m	Underwriting year ended 30 September 2016 £m	Underwriting year ended 30 September 2015 £m	Underwriting year ended 30 September 2014 £m	Total £m
At end of reporting period	96.4	193.6	176.2	163.9	122.9	40.3	
One year later	–	200.1	160.5	154.0	118.2	40.2	
Two years later	–	–	159.6	160.5	115.7	39.1	
Three years later	–	–	–	159.0	113.9	39.4	
Four years later	–	–	–	–	113.6	38.7	
Five years later	–	–	–	–	–	38.7	
Current estimate of cumulative claims	96.4	200.1	159.6	159.0	113.6	38.7	767.4
Cumulative payments to date	(65.5)	(199.4)	(183.4)	(166.8)	(125.3)	(42.7)	(783.1)
Rebates	12.9	26.4	25.0	20.5	12.9	4.1	101.8
Total liability net of reinsurance	43.8	27.1	1.2	12.7	1.2	0.1	86.1
Comprises:							
Claims reserves including IBNR							366.9
Third-party recoveries reserve							(44.7)
Reinsurance recoveries reserve							(236.1)
Total							86.1

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

Notes to the interim financial statements continued

14. General insurance provisions and risk management continued

Movements in insurance liabilities

	Period ended 31 March 2019			Year ended 30 September 2018		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims including IBNR	363.8	(228.2)	135.6	314.5	(183.1)	131.4
Notified claims recoveries	(44.6)	–	(44.6)	(36.8)	–	(36.8)
Total at beginning of period	319.2	(228.2)	91.0	277.7	(183.1)	94.6
Cash paid for claims settled						
In the period	(113.6)	8.6	(105.0)	(201.5)	16.1	(185.4)
Movement in liabilities						
Current period claims including IBNR	134.8	(38.4)	96.4	112.0	(103.4)	8.6
Prior period claims	9.7	(6.0)	3.7	131.0	42.2	173.2
Total at end of period	350.1	(264.0)	86.1	319.2	(228.2)	91.0
Notified claims including IBNR	394.8	(264.0)	130.8	363.8	(228.2)	135.6
Notified claims recoveries	(44.7)	–	(44.7)	(44.6)	–	(44.6)
Total at end of period	350.1	(264.0)	86.1	319.2	(228.2)	91.0

15. Financial liabilities

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Current			
Accrued interest and coupon	30.1	38.3	42.0
Cash in the course of transmission	45.5	41.7	48.1
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	299.9	347.3	342.6
Total current	375.5	427.3	432.7
Non-current			
Bank loans	598.9	398.8	398.8
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	3,126.9	3,456.8	3,442.9
Preference shares	10.0	10.0	10.0
Total non-current	3,735.8	3,865.6	3,851.7
Total	4,111.3	4,292.9	4,284.4
The financial liabilities are repayable as follows:			
On demand and no later than one year	375.5	427.3	432.7
Later than one year and no later than two years	–	299.8	299.7
Later than two years and no later than five years	1,468.0	1,283.9	797.0
Later than five years	2,267.8	2,281.9	2,755.0
Total	4,111.3	4,292.9	4,284.4

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

15. Financial liabilities continued

Bank borrowings

All bank borrowings as at 31 March 2019, 30 September 2018 and 31 March 2018 are at floating rates.

As at 31 March 2019 the Group has the following principal bank loans:

a) A five-year term loan of £0.4bn taken out on 26 September 2016, extended for one year effective 26 September 2017 and a further one year extension on the 26 September 2018 (2018: five-year term loan of £0.4bn taken out on 26 September 2016, extended for one year effective 26 September 2017). The loan repayment date is 26 September 2023 (2018: 26 September 2022).

b) A five-year revolving credit facility of £1.5bn taken out on 26 September 2016, extended for one year effective 26 September 2017 and extended for a second time by one year effective 26 September 2018 (2018: five-year revolving credit facility of £1.5bn taken out on 26 September 2016, extended for one year effective 26 September 2017) of which £200m was drawn as at 31 March 2019 (30 Sep 2018: £nil, 31 Mar 2018: £nil). The facility repayment date is 26 September 2023.

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

Debt issued under the Euro Medium Term Note Programme

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

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
3.250% Eurobond due 2018 (I)	–	347.3	342.6
6.625% Sterling bond due 2019 (IV)	299.9	299.8	299.7
5.375% Sterling bond due 2022	398.6	398.4	398.2
1.625% Eurobond due 2023 (II)	470.5	486.7	479.9
0.875% Eurobond due 2025 (III)	430.0	445.0	439.1
3.750% Sterling bond due 2026	297.9	297.7	297.6
4.375% Sterling bond due 2027	296.9	296.7	296.5
5.625% Sterling bond due 2030	298.6	298.6	298.5
2.375% Sterling bond due 2032	344.6	344.4	344.2
3.625% Sterling bond due 2036	589.8	589.5	589.2
	3,426.8	3,804.1	3,785.5

(I) The repayment obligation in respect of the Eurobonds of €389.9m was settled on 30 November 2018 for £325.9m.
(II) The repayment obligation in respect of the Eurobonds of €550m (£473.4m) is hedged by cross-currency swap contracts (note 16) for the purchase of €550m and for the sale of £402.5m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(III) The repayment obligation in respect of the Eurobonds of €500m (£430.4m) is hedged by cross-currency swap contracts (note 16) for the purchase of €500m and for the sale of £433.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(IV) On 14 March 2017 the Company redeemed £150m of the 6.625% £450m Sterling bond due 2019.

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

No issuances were made in the period. During the previous two financial years the Group has issued the following bonds:

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

Notes to the interim financial statements continued

15. Financial liabilities continued

Other comprehensive income and the hedging reserve

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

Under the cash flow hedge accounting rules outlined in IFRS 9, to the extent the hedge remains effective, any resulting net valuation difference is shown (after tax) as a hedging reserve on the balance sheet, and any movements in the hedging reserve are recognised as other comprehensive income rather than through the income statement.

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 31 March 2019, the Eurobond debt liability was increased by £67.5m (30 Sep 2018: was increased by £120.6m). This movement of £53.1m is a result of a Eurobond being settled during the year, releasing £20.1m, and Sterling strengthening against the Euro by £33.0m. The associated assets and liabilities relating to derivatives at 31 March 2019 were £75.7m (30 Sep 2018: assets of £128.4m). This movement of £52.7m is a result of derivatives taken out against a Eurobond maturing during the year, releasing £20.1m, and a decrease in valuation of £32.6m. The net valuation difference at 31 March 2019 is therefore an asset of £8.2m which, after tax at 19%, leads to a hedging reserve of £6.6m.

Preference shares

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

The weighted average interest rates on borrowings as at 31 March 2019, 30 September 2018 and 31 March 2018 were as follows:

	31 March 2019 %	30 September 2018 %	31 March 2018 %
Non-current bank loans	1.4	1.5	1.3
Non-current debt issued under the Euro Medium Term Note Programme	3.9	3.9	3.9
Non-current preference shares	7.0	7.0	7.0

At 31 March 2019, 30 September 2018 and 31 March 2018, the Group had the following undrawn committed borrowing facilities:

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Working capital facility	100.0	100.0	100.0
Revolving credit facility	1,300.0	1,500.0	1,500.0
Total	1,400.0	1,600.0	1,600.0

Undrawn committed facilities expire as follows:

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Within one year	10.0	10.0	5.0
Within one to two years	–	–	–
Within two to five years	1,390.0	1,590.0	1,595.0
Total	1,400.0	1,600.0	1,600.0

16. Derivative financial instruments

	31 March 2019		30 September 2018		31 March 2018	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges						
Cross-currency swaps	76.7	836.2	127.9	1,162.2	104.4	1,162.2
Interest rate swaps	(1.0)	400.0	0.5	400.0	1.3	400.0
Total	75.7	1,236.2	128.4	1,562.2	105.7	1,562.2
Included in non-current liabilities	(1.5)	633.8	–	–	–	–
Included in current liabilities	–	200.0	–	–	–	–
Derivative financial instrument liabilities	(1.5)	833.8	–	–	–	–
Included in non-current assets	77.2	402.4	106.4	1,036.2	86.9	1,036.2
Included in current assets	–	–	22.0	526.0	18.8	526.0
Derivative financial instrument assets	77.2	402.4	128.4	1,562.2	105.7	1,562.2

Cross-currency swaps

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

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

Interest rate swaps

At 31 March 2019, the fixed interest rates varied from 0.7463% to 1.006% (2018: the fixed interest rates varied from 0.409% to 0.7463%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 31 March 2019 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

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

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
No later than one year	(11.3)	(5.8)	(11.2)
Later than one year and no later than three years	(21.7)	(21.2)	(20.8)
Later than three years and no later than five years	(15.3)	(21.3)	(21.3)
Later than five years	(5.2)	(5.8)	(5.3)
Total	(53.5)	(54.1)	(58.6)

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

Notes to the interim financial statements continued

17. Cash generated from operations

Reconciliation of profit to net cash flow from operating activities:

	Six months ended 31 March 2019 £m	Six months ended 31 March 2018 £m Restated*
Profit before tax	310.4	232.3
Adjustments for:		
Depreciation and amortisation charge on corporate assets	5.3	5.0
Depreciation charge on operating lease assets	317.5	427.3
Finance costs	76.5	83.4
Gains on disposal of operating lease assets	(103.0)	(104.3)
Losses on operating lease assets written off through insurance	12.6	12.9
Gains on disposal of corporate assets	(0.1)	(0.1)
(Decrease)/increase in provisions	(0.3)	1.6
Operating cash flows before movements in working capital	618.9	658.1
Purchase of assets held for use in operating leases	(1,708.3)	(1,504.1)
Proceeds from sale of assets held for use in operating leases	1,102.5	1,039.2
Proceeds from insurance reimbursements of operating lease assets written off	16.3	14.7
Charitable donations	0.2	–
Increase in insurance receivables	(41.9)	(34.1)
Decrease/(increase) in other receivables	6.0	(56.0)
Increase in deferred rental income	15.7	8.8
Increase in general insurance provisions	21.4	27.0
(Decrease)/increase in insurance payables	(6.1)	10.8
Decrease in other payables	(0.8)	(38.0)
Cash generated from operations	23.9	126.4

(*) See note 22.

Cash and cash equivalents

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

18. Analysis of changes in net debt

	At 1 October 2018 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £m	At 31 March 2019 £m
Cash and bank balances	327.7	(160.8)	–	–	–	166.9
Cash in the course of transmission	(41.7)	(3.8)	–	–	–	(45.5)
Cash and cash equivalents	286.0	(164.6)	–	–	–	121.4
Bank loans	(398.8)	(200.0)	–	–	(0.1)	(598.9)
Debt issued under the Euro Medium Term Note Programme	(3,804.1)	346.0	33.0	–	(1.7)	(3,426.8)
Derivative financial instruments	128.4	(20.1)	–	(32.6)	–	75.7
Preference shares	(10.0)	–	–	–	–	(10.0)
Financing activities	(4,084.5)	125.9	33.0	(32.6)	(1.8)	(3,960.0)
Total net debt	(3,798.5)	(40.3)	33.0	(32.6)	(1.8)	(3,838.6)

	At 1 October 2017 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £m	At 31 March 2018 £m
Cash and bank balances	1,168.3	(460.8)	–	–	–	707.5
Cash in the course of transmission	(10.0)	(38.1)	–	–	–	(48.1)
Cash and cash equivalents	1,158.3	(498.9)	–	–	–	659.4
Bank loans	(398.7)	–	–	–	(0.1)	(398.8)
Debt issued under the Euro Medium Term Note Programme	(4,228.6)	441.9	3.1	–	(1.9)	(3,785.5)
Derivative financial instruments	126.1	(16.7)	–	(3.7)	–	105.7
Preference shares	(10.0)	–	–	–	–	(10.0)
Financing activities	(4,511.2)	425.2	3.1	(3.7)	(2.0)	(4,088.6)
Total net debt	(3,352.9)	(73.7)	3.1	(3.7)	(2.0)	(3,429.2)

	31 March 2019 £m	30 September 2018 £m	31 March 2018 £m
Cash and bank balances	166.9	327.7	707.5
Derivative financial instruments	75.7	128.4	105.7
Current financial liabilities	(375.5)	(427.3)	(432.7)
Non-current financial liabilities	(3,735.8)	(3,865.6)	(3,851.7)
Total	(3,868.7)	(3,836.8)	(3,471.2)
Less interest accruals included in financial liabilities	30.1	38.3	42.0
Total net debt	(3,838.6)	(3,798.5)	(3,429.2)

Notes to the interim financial statements continued

19. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the six months ended 31 March 2019 amounted to £2,325,608 (six months ended 31 March 2018: £2,546,029). Net contributions due at the balance sheet date were £7,328 (31 March 2018: £32,995).

20. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

The Group operates the Scheme under contract to the Motability Charity. The business model is set out on page 3.

Transactions

During the six months ended 31 March 2019 the Group paid £4.6m (six months ended 31 March 2018: £4.5m) relating to Motability administration costs (the 'Motability levy').

In addition, £1.4m was paid by the Group as a rebate negotiated with Motability, which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair accessible vehicles (six months ended 31 March 2018: £1.2m).

The funding of the Group through bank loans is provided by the shareholder banks on commercial terms (see note 7 for details of financing costs of bank loans); £0.2m of bank charges were also paid in the period (six months ended 31 March 2018: £0.3m). Additionally, total fees of £0.8m (six months ended 31 March 2018: £0.8m) were due to the shareholder banks in proportion to their shareholdings for management services.

During the period, the Group made preference share dividends payments of £0.7m to the shareholder banks (six months ended 31 March 2018: £0.7m).

At 31 March 2019, £91.9m of cash and bank balances were held with shareholder banks (30 September 2018: £57.8m, 31 March 2018 £142.6m). During the six months ended 31 March 2019, the Group received interest payments on these cash deposits totalling £0.1m (six months ended 31 March 2018: £0.2m).

The Group's bond issuances, under the Euro Medium Note Term Programme (see note 15), are arranged by the shareholder banks. During the six months ended 31 March 2019 the Group has paid fees of £nil (six months ended 31 March 2018: £nil) in relation to bond issuances.

The Group enters into cross-currency and interest rate swap contracts (see note 16) with the shareholder banks to mitigate its exposure in interest rate risk and foreign exchange risk. During the six months ended 31 March 2019 the Group made a net payment of £nil (six months ended 31 March 2018: received a net payment of £0.2m) in respect of interest rate swaps, and received a net payment of £2.1m (six months ended 31 March 2018: received a net payment of £4.7m) in respect of cross-currency swaps.

21. Fair value of financial instruments

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

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

Summary of financial instruments

		31 March 2019 carrying value £m	31 March 2019 fair value £m	30 September 2018 carrying value £m	30 September 2018 fair value £m	31 March 2018 carrying value £m	31 March 2018 fair value £m
Cash and bank balances	I	166.9	166.9	327.7	327.7	707.5	707.5
Trade and other receivables	II	99.9	99.9	89.3	89.3	159.1	159.1
Financial assets at amortised cost	V	203.7	203.9	232.9	231.9	195.2	194.2
Trade and other payables	II	(195.9)	(195.9)	(196.6)	(196.6)	(210.8)	(210.8)
Cash in the course of transmission and accrued interest and coupon	II	(75.6)	(75.6)	(80.0)	(80.0)	(90.1)	(90.1)
Bank loans – non-current	IV	(598.9)	(598.9)	(398.8)	(398.8)	(398.8)	(398.8)
Debt issued under the Euro Medium Term Note Programme*	III	(3,426.8)	(3,857.8)	(3,804.0)	(4,154.8)	(3,785.5)	(4,188.8)
Redeemable preference share liabilities	III	(10.0)	(13.9)	(10.0)	(13.5)	(10.0)	(13.5)
Net non-derivative financial instruments		(3,836.7)	(4,271.4)	(3,839.5)	(4,194.8)	(3,433.4)	(3,841.2)
Interest rate swap – cash flow hedge		(1.0)	(1.0)	0.5	0.5	1.3	1.3
Cross-currency swap – cash flow hedge		76.7	76.7	127.9	127.9	104.4	104.4
Total		(3,761.0)	(4,195.7)	(3,711.1)	(4,066.4)	(3,327.7)	(3,735.5)

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

Fair value measurements

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

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no transfers between Level 1 and Level 2 in either direction in the period (2018: no transfers).

Cash and bank balances, trade and other receivables, trade and other payables, cash in the course of transmission and accrued interest and coupon, and bank loans are not included in the table below as their carrying amount is a reasonable approximation of fair value.

Notes to the interim financial statements continued

21. Fair value of financial instruments continued

Fair value measurements continued

	31 March 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	203.9	–	–	203.9
	203.9	–	–	203.9
Non-derivative financial liabilities				
Financial liabilities	–	(3,871.7)	–	(3,871.7)
	–	(3,871.7)	–	(3,871.7)
Derivative financial instruments				
Interest rate swaps	–	(1.0)	–	(1.0)
Cross-currency swaps	–	76.7	–	76.7
	–	75.7	–	75.7
Total	203.9	(3,796.0)	–	(3,592.1)

	30 September 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	231.9	–	–	231.9
	231.9	–	–	231.9
Non-derivative financial liabilities				
Financial liabilities	–	(4,168.3)	–	(4,168.3)
	–	(4,168.3)	–	(4,168.3)
Derivative financial instruments				
Interest rate swaps	–	0.5	–	0.5
Cross-currency swaps	–	127.9	–	127.9
	–	128.4	–	128.4
Total	231.9	(4,039.9)	–	(3,808.0)

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

22. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 October 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

IFRS 15

The Group applied IFRS 15 fully retrospectively using the practical expedient in paragraph C5(c) of IFRS 15, under which the Group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue for all reporting periods presented before the date of initial application – i.e. 1 October 2018. The details and quantitative impact of the changes in accounting policies are disclosed below.

Rentals receivable for operating lease assets

As noted on pages 2 and 3, MO offer a "worry-free mobility" proposition through all-inclusive contract hire agreements with its customers. These agreements are classified as operating leases in the books of the Group under IFRSs.

Before IFRS 15, under IAS 17 *Leases* and IAS 18 *Revenue*, the Group recognised its leasing revenue on a straight-line basis in general, but used other systematic bases for elements of the rental relating to:

- in-life service costs ("ILSC"), covering maintenance, servicing, tyre and windscreen replacements and breakdown cover
- insurance cover
- end-of-contract bonuses

For ILSC, revenue was assigned in line with the expected vehicle maintenance spend curve (as such services are back-loaded for a three-year lease of a new vehicle, such that approximately 16% occur in the first year, 37% in the second year and 47% in the final year). For insurance, revenue was assigned in line with premium payments due to the Group's fronting insurer, and for end-of-contract bonuses revenue was recognised only when the expected payouts materialised. For insurance, the fleet premiums in general rise every six months, so the obligation to pay premiums in the latter stages of a lease is typically higher than the early stages, requiring a deferral of rentals received in the early stages.

Under IFRS 15, the Group has disaggregated the ILSC and insurance revenue streams and assigned each with an element of the priced safety margin, and will now show these as separate lines of revenue and disclose information about the performance obligations expected under the contracts. By assigning elements of the profit margin to these revenue streams, this means that although revenue continues to be booked in line with the expected pattern of spending, the same applies to the margins, so that there is a small increase to the deferred income balance at the date of initial application of the standard (1 October 2018).

In terms of end-of-contract bonuses, under IFRS 15 these should be presented as rebates by netting them off revenue, so these are no longer shown "grossed up" within both revenue and costs when they fall due.

IFRS 15 has had no effect on other revenue streams, such as the revenue for the car lease element of rentals or disposals of vehicles at the end of the lease period, as leases are outside the scope of the standard.

The tables below show the effect of IFRS 15 on the comparative periods, and also the effect on the current period.

Disaggregation and key judgements

Management has made a key judgement in applying the disaggregation of the contractual obligations to treat ILSC and insurance cover rentals as separate revenue streams (and not to disaggregate any further). This is due to a) the maintenance, servicing, tyres, windscreens and breakdown cover all being similar in nature in terms of keeping the vehicles on the road in good condition and have a well-established history of timing effects in terms of the historic spend curve, and b) the insurance element being a separate obligation with different timing characteristics.

In terms of the transition method selected, a fully retrospective approach was judged to be appropriate due to the short-term nature of the leased assets and the good historical data available to support the calculations.

Margins have been applied giving due consideration to possible future increases to prices in both the ILSC and insurance sectors, to protect the revenue streams from impairment in the event of such increases. To do so, past changes in historical spending curves were reviewed.

Note 12 has been expanded to show a) the movement in deferred income during the period and b) the expected future revenue to be recognised in line with future performance obligations. In addition, Note 9 now disaggregates the car leasing element of future rentals receivable for the first time.

Notes to the interim financial statements continued

22. Changes in accounting policies continued

IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

There are three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. This classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of "held to maturity", "loans and receivables" and "available for sale". The Group previously carried "held to maturity" investments within its insurance captive, MORL. These are now classified as "financial assets at amortised cost".

IFRS 9 largely retains the existing requirements from IAS 39 for financial liabilities.

There has been no material impact net of tax on opening reserves arising from transition to this standard.

Transition

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The following assessments were made on the basis on the facts and circumstances that existed at the date of initial application (1 October 2018).

a) The determination of the business model within which a financial asset was held, and

b) All hedging relationships designated under IAS 39 at 30 September 2018 met the criteria for hedge accounting under IFRS 9 at 1 October 2018 and are therefore regarded as continuing hedging relationships

Key policies

Recognition and initial measurement

Trade receivables are initially recognised when originated, and initially measured at the transaction price. Other financial assets and liabilities are recognised when the Company within the Group becomes a party to the contractual provisions of the instrument and are initially valued including transaction costs directly attributable to their acquisition or issue.

Classification and subsequent measurement

Financial assets are measured at amortised cost, and this classification would only be changed if the Group changed its business model (in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model).

In classifying these assets at amortised costs, both of the following conditions have been found to apply: the business model has an objective to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The business model

The financial assets at amortised cost are held at MORL, the reinsurance captive. MORL holds investments in a managed bond solution segregated into portfolios with differing maturity profiles, reflecting the fact that cash arises from two sources: capital and reinsurance premiums. The portfolios are managed with the main aim of capital preservation, with key restrictions set by the treasury policy on credit quality, asset type, duration of assets and maximum exposures. Over the life of these portfolios no early sales have ever been made. The only provision for making an early disposal is where a significant increase to an asset's credit risk occurs (e.g. a significant downgrade in a bond's rating to below investment grade – with the Group's minimum rating requirement being A- or A3 this would mean a four-notch fall in the bond's rating.)

Assessment whether contractual cash flows are solely payments of principal and interest

The Group has considered the contractual terms of the instruments, including assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, including contingent events that would change the timing of cash flows, variable-rate features, prepayment and extension features and non-recourse features.

The treasury policy adopted by the Group in respect of financial assets does not allow for investments in instruments with trigger events which could change the amounts or timing of cash flows, callable bonds, arrangements denominated in foreign currencies. The allowable investments are corporate and government debt instruments which pay interest as per the bond issue and principal at maturity.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest method, where relevant reduced by impairment losses with interest income and impairment recognised in profit or loss. Any gain or loss on derecognition would be recognised in profit or loss.

22. Changes in accounting policies continued

Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost, and subsequently measured using the effective interest method. Interest expense is recognised in profit or loss, as is any gain or loss on derecognition.

Derecognition

Financial assets are derecognised when contractual rights to the cash flows expire or are transferred along with substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the contractual obligations are discharged or cancelled, or expire. The Group would also derecognise a financial liability when its terms are modified and the cash flows of the modified terms are substantially different, in which case a new financial liability based on the modified terms would be recognised at fair value.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting: Cash flow hedges

When a derivative is designated as a cash flow hedging instrument (on the Group's Eurobonds), the effective portion of changes in fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion would be recognised immediately in profit or loss.

Impairment policy: credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired, primarily by reviewing credit ratings. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the counterparty
- A breach of contract such as default, or being long past due
- It is probable that a creditor will default, enter bankruptcy or undergo a detrimental financial reorganisation

On investments held to collect, the Group considers that the low credit risk practical expedient in IFRS 9 applies as the treasury policy limits the range of investments such that the instruments have a strong capacity to meet their contractual cash flow obligations, they are resilient to adverse changes in economic and business conditions, and a strong external rating (see "The business model" above). This means that only twelve month expected credit losses will be recorded for these financial instruments, and these are not material for the Group.

In terms of expected credit losses on trade receivables, the Group's policy is to collect all trade debt via direct debit at the point of sale for vehicle disposals, or monthly in other cases. Customer rentals are either paid upfront or by assignment of Government allowances which are collected electronically on a four-weekly basis. No trade receivables include a significant financing component.

IFRS 9 allows for a simplified approach (rather than a "staging" approach) in such circumstances and the Group uses a provision matrix combining historical provision rates with current conditions and reasonable and supportable forecasts about the future. No material impact has resulted from the adoption of IFRS 9.

Modifications

No financial assets have been modified or renegotiated in the period.

Notes to the interim financial statements continued

22. Changes in accounting policies continued

Impacts on financial statements

The following tables summarise the impacts of adopting IFRS 15 on the Group's consolidated financial statements.

Consolidated income statement

For the six months ended 31 March 2018

	As previously reported £m	Adjustments £m	As restated £m
Revenue	2,068.8	(23.7)	2,045.1
Net operating costs excluding charitable donations	(1,750.3)	20.9	(1,729.4)
Charitable donations	–	–	–
Net operating costs	(1,750.3)	20.9	(1,729.4)
Profit from operations	318.5	(2.8)	315.7
Finance costs	(83.4)	–	(83.4)
Profit before tax	235.1	(2.8)	232.3
Taxation	(44.7)	–	(44.7)
Profit for the period	190.4	(2.8)	187.6

Consolidated statement of comprehensive income

For the six months ended 31 March 2018

	As previously reported £m	Adjustments £m	As restated £m
Profit for the period	190.4	(2.8)	187.6
Other comprehensive income items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	(3.7)	–	(3.7)
Gains on foreign currency translation	3.1	–	3.1
Tax relating to components of other comprehensive income	0.1	–	0.1
Other comprehensive losses for the period, net of tax	(0.5)	–	(0.5)
Total comprehensive income for the period attributable to equity	189.9	(2.8)	187.1

22. Changes in accounting policies continued
Impacts on financial statements continued

Consolidated income statement
For the six months ended 31 March 2019

	Under old standards £m	Difference £m	Under IFRS 15 £m
Revenue	2,141.5	(38.4)	2,103.1
Net operating costs excluding charitable donations	(1,753.9)	37.9	(1,716.0)
Charitable donations	(0.2)	–	(0.2)
Net operating costs	(1,754.1)	37.9	(1,716.2)
Profit from operations	387.4	(0.5)	386.9
Finance costs	(76.5)	–	(76.5)
Profit before tax	310.9	(0.5)	310.4
Taxation	(58.0)	0.1	(57.9)
Profit for the period	252.9	(0.4)	252.5

Consolidated statement of comprehensive income
For the six months ended 31 March 2019

	Under old standards £m	Difference £m	Under IFRS 15 £m
Profit for the period	252.9	(0.4)	252.5
Other comprehensive income items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	(32.6)	–	(32.6)
Gains on foreign currency translation	33.0	–	33.0
Tax relating to components of other comprehensive income	(0.1)	–	(0.1)
Other comprehensive income for the period, net of tax	0.3	–	0.3
Total comprehensive income for the period attributable to equity	253.2	(0.4)	252.8

Notes to the interim financial statements continued

22. Changes in accounting policies continued
Impacts on financial statements continued

Consolidated balance sheet
30 September 2018

	As previously reported £m	Adjustments £m	As restated £m
Assets			
Non-current assets			
Intangible assets	49.6	–	49.6
Property, plant and equipment	18.6	–	18.6
Assets held for use in operating leases	6,829.2	–	6,829.2
Financial assets at amortised cost (previously held to maturity investments)	138.1	–	138.1
Prepayments	21.2	–	21.2
Derivative financial instruments	106.4	–	106.4
	7,163.1	–	7,163.1
Current assets			
Corporation tax receivable	29.5	–	29.5
Inventories	82.5	–	82.5
Financial assets at amortised cost (previously held to maturity investments)	94.8	–	94.8
Cash and bank balances	327.7	–	327.7
Insurance receivables	298.9	–	298.9
Trade and other receivables	290.2	–	290.2
Derivative financial instruments	22.0	–	22.0
	1,145.6	–	1,145.6
Total assets	8,308.7	–	8,308.7
Liabilities			
Current liabilities			
Deferred rental income and provisions for rebates	(234.6)	(1.7)	(236.3)
Insurance payables	(74.7)	–	(74.7)
Trade and other payables	(198.0)	–	(198.0)
General insurance provisions	(345.5)	–	(345.5)
Financial liabilities	(427.3)	–	(427.3)
	(1,280.1)	(1.7)	(1,281.8)
Net current liabilities	(134.5)	(1.7)	(136.2)
Non-current liabilities			
Deferred rental income and provisions for rebates	(243.6)	(3.9)	(247.5)
Financial liabilities	(3,865.6)	–	(3,865.6)
Deferred tax liabilities	(365.5)	–	(365.5)
	(4,474.7)	(3.9)	(4,478.6)
Total liabilities	(5,754.8)	(5.6)	(5,760.4)
Net assets	2,553.9	(5.6)	2,548.3
Equity			
Ordinary share capital	0.1	–	0.1
Hedging reserve	6.3	–	6.3
Restricted reserves	2,547.5	(5.6)	2,541.9
Total equity	2,553.9	(5.6)	2,548.3

22. Changes in accounting policies continued
Impacts on financial statements continued

Consolidated balance sheet
31 March 2018

	As previously reported £m	Adjustments £m	As restated £m
Assets			
Non-current assets			
Intangible assets	44.6	–	44.6
Property, plant and equipment	15.9	–	15.9
Assets held for use in operating leases	6,509.6	–	6,509.6
Financial assets at amortised cost (previously held to maturity investments)	128.3	–	128.3
Prepayments	19.8	–	19.8
Derivative financial instruments	86.9	–	86.9
	6,805.1	–	6,805.1
Current assets			
Inventories	104.0	–	104.0
Financial assets at amortised cost (previously held to maturity investments)	66.9	–	66.9
Cash and bank balances	707.5	–	707.5
Insurance receivables	259.3	–	259.3
Trade and other receivables	331.0	–	331.0
Derivative financial instruments	18.8	–	18.8
	1,487.5	–	1,487.5
Total assets	8,292.6	–	8,292.6
Liabilities			
Current liabilities			
Corporation tax payable	(65.7)	–	(65.7)
Deferred rental income and provisions for rebates	(188.6)	(1.1)	(189.7)
Insurance payables	(76.6)	–	(76.6)
Trade and other payables	(212.4)	–	(212.4)
General insurance provisions	(299.1)	–	(299.1)
Financial liabilities	(432.7)	–	(432.7)
	(1,275.1)	(1.1)	(1,276.2)
Net current assets	212.4	(1.1)	211.3
Non-current liabilities			
Deferred rental income and provisions for rebates	(215.0)	(9.2)	(224.2)
Financial liabilities	(3,851.7)	–	(3,851.7)
Deferred tax liabilities	(327.7)	–	(327.7)
	(4,394.4)	(9.2)	(4,403.6)
Total liabilities	(5,669.5)	(10.3)	(5,679.8)
Net assets	2,623.1	(10.3)	2,612.8
Equity			
Ordinary share capital	0.1	–	0.1
Hedging reserve	1.7	–	1.7
Restricted reserves (*)	2,621.3	(10.3)	2,611.0
Total equity	2,623.1	(10.3)	2,612.8

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