

06541091

# Motability Operations Group plc

Annual Report and Accounts 2012

TUESDAY



\*A1023N8Y\*  
A12 18/12/2012 #239  
COMPANIES HOUSE

## **Who we are**

Motability Operations is the operator of the Motability Car Scheme and, more recently, the Powered Wheelchair and Scooter Scheme. The Motability Scheme enables disabled people to exchange either their Higher Rate Mobility Component of Disability Living Allowance or their War Pensioners' Mobility Supplement to obtain a new car, powered wheelchair or scooter.

As a not-for-profit plc, we re-invest any surpluses back into the business for the benefit of our customers.

**[www.motabilityoperations.co.uk](http://www.motabilityoperations.co.uk)**

## Our prime purpose

We have developed a clear strategic agenda designed to satisfy our prime purpose of providing our customers with independence and mobility by offering a wide choice of vehicles at affordable prices.

We aim to deliver first-class customer service, and believe that understanding how disability affects our customers' needs is critical in meeting this objective. Ensuring the long-term sustainability of our business is essential for the delivery of these objectives.

See how we achieved all of our goals through our strategy in action and performance case studies featured on the right.

**Page 10** *Customer and disability expertise*

**Page 12** *Value and choice*

## Contents

### **2 Directors' report**

- 2 Chairman's statement
- 4 Our business model
- 6 Chief Executive's review
- 8 Strategy in action and performance
- 18 Finance Director's review
- 20 Operational review
- 23 People and principles
- 24 Risk management
- 27 Board of Directors
- 28 Other statutory information

### **29 Governance**

- 29 Corporate governance
- 31 Remuneration report

### **33 Financial statements**

- 33 Auditors' report
- 34 Financial statements
- 38 Notes to the financial statements

**Page 14** *Reach and awareness*

**Page 16** *Long-term sustainability*

## Chairman's statement

### Motability Operations has delivered another year of excellent performance

The end of our planning year sees us emerge with a robust business, satisfied customers, and a strong culture

Neil Johnson, Chairman

This reflects our determination to deliver excellence and first rate service in every area of our business, including the achievement of record levels of customer satisfaction

Success is measured through customer satisfaction, but also through renewals and advocacy. The year has seen us maintain a 92% renewal rate, and 97% of customers would now recommend the Scheme

During the year, a number of initiatives helped enhance our customers' experience when contacting call centres. A similar focus on raising the quality of response to dealers' calls has lifted performance in this critical area. Our support for customers through digital channels also moved forward with the launch of our new and improved website [motability.co.uk](http://motability.co.uk)

In addition, customers reported improved satisfaction with their experience and relationships with our dealers, buoyed by a new programme of dealership training

This year we also implemented a number of changes designed to help safeguard the Scheme from abuse, and particularly to help ensure that Motability cars are primarily used for the benefit of the disabled customer. New guidelines for drivers and a streamlined price list were introduced in January. Customers identified as having exceptional circumstances continue to be assessed in line with their disability needs

Our vehicle sales arm reached a new milestone, with 64% of cars sold via our online sales channel [mfdirect](http://mfdirect). This achievement in vehicle remarketing helped deliver a strong financial performance for the wider business

Acting with integrity and upholding the highest standards of corporate governance continued to form an essential component of our business strategy

We aim to follow best practice in all aspects of governance including the way the Board and key committees are structured and operate. We have formally evaluated the effectiveness of the committees and the outcome has been very positive

As chair of the Nomination Committee, I place significant importance on enabling the development of employees, on identifying talent and ensuring succession plans are in place for key roles in the business

Looking forward, we continue to monitor the progress of the Government's Welfare Reform Act. We remain confident that we can address any changes as they emerge, while maintaining our focus on consistent quality of service to our customers. We will continue to strive to improve the efficiency and professionalism of the business, including some major investments in new and improved IT systems

We are currently in a strong financial position and can face the future with confidence. The Motability family is a team involving both the Motability (the Charity) and Motability Operations. I'd like to take this opportunity particularly to thank Lord Sterling and the Governors of Motability for their support. We will continue to work closely together in this partnership

Motability Operations' successful year has been achieved through the continuing efforts of Mike Betts, the Executive team, and all our employees, whose steady commitment and passion for the business's objectives continue to deliver outstanding results

Our track record demonstrates that we have the people, the determination, and the culture to handle whatever challenges the next year brings



Neil Johnson OBE  
Chairman

**Motability Operations provides customers with the freedom to enjoy a full and active life**

### Our business model

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

As operators of the 'Motability Scheme', secured through a contract with Motability, we receive customers' mobility allowances assigned directly from the Department for Work and Pensions (DWP). This revenue stream, which is received directly from Government, is therefore with minimal credit risk. As operators of the Scheme, we seek to leverage economies of scale and to tightly manage our cost base. It is by running an efficient operation that we are able to consistently deliver a highly affordable and competitive proposition for our customers.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme you must receive the qualifying Government allowance. Motability plays no role in deciding who is eligible for this allowance. The 1.9 million people who are currently in receipt of this allowance could seek to obtain one of these products from Motability Operations. At present, around 33% of this potential customer base participates in the Scheme.

In choosing to take a vehicle, powered wheelchair or scooter on the Scheme, customers assign their mobility allowance to Motability Operations. In return, we provide worry-free mobility including full insurance, maintenance and servicing, including (as applicable) tax, tyre and windscreen replacement, breakdown assistance and 60,000 miles mileage allowance over three years.

We aim to offer customers a comprehensive and affordable product range. Currently, 34 vehicle manufacturers (representing 96% brand availability) and 16 powered wheelchair and scooter manufacturers are represented on the Scheme.

#### Mobility allowance

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

#### Motability Operations

As the UK's largest car leasing company, we have 35 years' experience in the industry and have supplied over three million vehicles since the Motability Scheme was launched.

During 2010, our remit was expanded to include delivery of the Powered Wheelchair and Scooter (PWS) Scheme on behalf of Motability. From 1 July 2010, we became responsible for all new leases written on the Scheme. From 1 October 2010, following the acquisition of

### How we operate

---

#### Motability Charity directs and oversees the Scheme

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

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

#### Motability Operations

Manages the Motability Car, Powered Wheelchair and Scooter Scheme

#### Mobility allowance

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

#### Customers

Customers have access to a wide range of products that meet their specific needs.

---

Route2mobility (R2m) – the previous service provider – Motability Operations assumed responsibility for the leases of existing PWS customers. This step consolidated the delivery of the PWS Scheme under one provider. Our approach to operating the PWS Scheme is wholly aligned with that of the Car Scheme proposition.

Our objective is to offer affordable, worry-free mobility to those with qualifying allowances. Through the Motability Scheme, potential customers can choose to divert the allowance into leasing or the hire purchase of a new car, powered wheelchair or scooter. We aim to provide sustained value and choice, combined with first-class customer service. All companies within Motability Operations Group plc operate to serve this common purpose.

Total customer numbers have increased steadily over recent years, with over 624,000 customers currently choosing to access the Scheme, made up of over 613,000 Car Scheme customers and over 11,000 PWS Scheme customers. We bought over 222,000 new cars and re-sold 191,000 into the used car marketplace during the financial year ended September 2012.

Through our strong financial position we are well equipped to deliver a stable customer proposition. This strength has been built on our prudent reserves and risk management methodology, our diversified fleet portfolio, our excellent business culture and best-practice governance. It is as a result of these strengths that we are able to provide our customers with sustained affordability throughout the economic cycle. As a not-for-profit plc, we reinvest any surpluses back into the business for the benefit of our customers.

### **At Motability Operations, we provide:**

- Worry-free mobility through a Contract Hire product including (as appropriate) insurance, maintenance and servicing, tyre and windscreen replacement, breakdown assistance and a 60,000 mile mileage allowance over three years.
- Excellent brand choice with 34 manufacturers represented on the Car Scheme, and all of the major scooter and powered wheelchair providers represented.
- Over 200 cars on the price list that are available by using the mobility allowance alone, with no 'advance payment'.
- A full range of adaptations and wheelchair accessible vehicles.

### **To achieve this we:**

- Manage and develop relationships with key manufacturers.
- Work in partnership with over 4,800 car dealers and 178 mobility outlets to provide excellent customer service.
- Proactively manage suppliers to ensure an excellent and sustained customer experience on very affordable terms.
- Provide telephone support to our customers through our best-practice call centre, supported by a fully interactive web-based query tool.
- Ensure that our workforce of over 800 people across our two sites in London and Bristol remains engaged and motivated.

---

## **Funding**

Funding from the financial market

### **Delivering the Scheme**

Cars, Powered Wheelchairs and Scooters are delivered through partnerships with manufacturers and dealers.

### **End of lease**

After the three-year lease period, vehicles are returned to Motability Operations. Over 90% of customers choose to renew their lease.

### **Remarketing**

Used cars are resold into the used car market through our market-leading online channel "mfdirect" and our national auction programme.

### **Suppliers**

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

## Chief Executive's review

### Motability Operations delivers a simple proposition – worry free, affordable mobility for disabled people

Our customers are provided with a unique leasing arrangement, bundling car or wheelchair, insurance, servicing and maintenance into one seamless package

Mike Betts, Chief Executive

This is now a service we successfully provide to more than 624,000 customers. Operating on this scale requires the close co-operation of many individuals, internal and external, who demonstrate something special – a distinctive passion for delivering excellence for our customers

#### Successful performance

I am delighted that we are again able to report a highly successful set of results, which have seen us meeting or surpassing all our targets

As well as maintaining our record 98% level of customer satisfaction, we have delivered a strong financial outturn, ensuring the business is in a robust position to withstand any future shock

Through the year, we met all our objectives for affordability, consistently providing a choice of more than 300 cars in exchange for the Higher Rate Disability Allowance alone

In January, we streamlined our price list to focus closely on those cars chosen by 95% of our customers (generally priced below £2,000 advance payment, and with a retail value of under £25,000). Although this meant lower availability of some premium marques, our choices, provided by 34 manufacturers, included 50 automatics, as well as 120 adaptations available at no extra cost. We provided a wide range of green and fuel efficient choices, and a large selection of affordable wheelchair accessible vehicles

A number of changes were made this year, designed to help protect the Scheme from misuse, and safeguard its reputation. In particular, it was important to increase familiarity with Scheme rules, and tighten guidelines, to ensure that Motability cars are used for the benefit of the disabled customer

The changes included some restrictions on named drivers, who should generally live within five miles of the disabled customer, and reduced the selection of cars available to younger drivers. Exceptions are considered to address particular disability needs. We also introduced a statement to help customers understand their responsibilities

A number of achievements helped deliver our customer satisfaction level, including consistent service from our contact centre. Over 80% of calls are answered in less than 20 seconds, and we resolved more than 90% of queries at first point of contact. We also improved our customer communications and website, creating a more welcoming impact, and more than doubling the information available

To help customers in their car choices we also extended the range of adapted test drives available at our One Big Day events in the summer. Despite the disappointing weather, more than 8,000 people attended, taking more than 1,170 test drives. Again, the visitor feedback was very positive

The dealer experience is critical for our customers, and we also enhanced dealer training this year. This included capacity for online training to augment classroom sessions. With this support, customer satisfaction with dealer experiences such as delivery and servicing increased

More than 97% of Motability customers are happy to recommend the Scheme to a friend, and we continue to see a renewal rate above 92% for those customers reaching the end of their three-year lease

Our Powered Wheelchair and Scooter Scheme reached 11,000 customers. During the year, customer satisfaction for these customers rose to 94%. Work is underway to review our proposition for this important customer group to ensure they experience first class value and service



---

## **We offer customers a wide range of choice to meet their individual disability needs**

We see our business culture as the bedrock for excellent customer service, and this year 93% of employees participated in our MyView survey. This independent survey which tracks Motability Operations against other high performing organisations saw us move forward in every category, with particularly high scores recorded for employee engagement and customer focus.

### **Financial sustainability**

We have maintained stable pricing, working closely with manufacturers to provide a wide choice and balanced portfolio. Our calculation of residual values was enhanced with the implementation of a new forecasting methodology. We continued to drive improvements in used vehicle sale revenues with more than 64% of cars sold online – a record high.

Through the year we improved our structural liquidity and obtained two new bonds, £300m Sterling and €550m Euros. Our financial strength has improved with our retained reserves increasing, underlining our confidence in the Scheme's long-term financial viability.

We have begun a programme of investment, to ensure our IT systems and premises are capable of supporting our business into the long term. Our investment will also ensure we minimise our impact on the environment. The buildings will be class leading for accessibility, capable of helping us with our ambition to employ more disabled people.

Careful management of risk and a strong culture of governance and control helped us make sure that financial and operational risks were appropriately managed through the year.

---

## **Highlights**

**98%**

Overall customer satisfaction with the Scheme

**>300**

Vehicle models at 'nil advance payment' (target is 200)

**>92%**

Renewal rate at the end of the lease

---

### **Looking ahead**

The next year brings a raft of challenges including disability benefit changes. From 2013, the DWP will start to implement the move from Disability Living Allowance to Personal Independence Payment. Inevitably there will be some who fail to qualify for the new benefit, and are consequently no longer eligible for the Scheme, we also expect new recipients to have access to Motability for the first time.

We are currently working closely with our colleagues at Motability to plan the appropriate levels of support as people go through this transition.

Given the continued poor economic outlook and advent of benefit reform there will be difficult times ahead, but I am confident we have all the skills and experience to manage whatever the year brings us. It has been a successful year, and I'd like to thank everyone who has played their part in the business success.



**Mike Betts**  
Chief Executive

## Strategy in action and performance

### Our prime purpose

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

**Our strategy is built around our customers – we aim to deliver excellent service and an affordable and consistent proposition**

---

### Our strategy

To deliver these ambitions, we have defined four strategic 'pillars'. These set out a clear framework within which we align our business objectives, performance targets and business planning. Our people, positioning principles, culture and values form the bedrock to delivery of 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. We aim to be confident in meeting our customers' needs.

---

### People and principles

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

See page 23

### 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.

See pages 10-17

### Risk management

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

See pages 24-26

## Build our customer and disability expertise

Not only does my Motability car give me my independence back, but I have the peace of mind that no matter what happens there is always someone at the end of the telephone who is trained and experienced to calm my nerves. Motability has the customer in mind all the time.

Customer looking at a Wheelchair Accessible Vehicle at a 'One Big Day' event

## Strategy

### Build our customer and disability expertise

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

## 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

## KPIs

Overall customer satisfaction (%) **98%**

We deliver by listening to our customers and ensuring that we meet their requirements

Calls answered within 20 seconds (%) **84%**

We have successfully met our target of answering 80% of calls within 20 seconds for 60 consecutive months. The removal of our Interactive Voice Recognition in 2010 means that customers quickly reach a real person

Roadside assistance average response time **41.5 min**

Mobility is a priority to our customers – in the event of a breakdown our customers receive priority assistance, and with an average response time of 41.5 minutes, customers are quickly attended to and are mobile again

## Provide value and choice

Now I'm no longer able to drive, I have decided to lease a scooter. There are plenty of products to choose from and the Motability package saves me money as everything is included. It seems like there is something for everyone, no matter what their needs are.

**Customer discussing the different scooters available through the Motability Powered Wheelchair and Scooter Scheme**

## Strategy

### 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

## KPIs

Affordable choice

>200

We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. During the year we exceeded this target with over 340 models at any one time.

Relative affordability  
– % cheaper than alternative

43%

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

Volume of vehicles sold  
online at the end of lease

>120k

Selling via our online sales channel, 'mfdirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals, and also ensures a competitive sales environment through which we seek to maximise our net return.

## Improve reach and awareness

My wife and I recently attended a One Big Day event. It was great to see so many cars in one place and get sound advice from your staff. It was interesting talking to other disabled people in my position and my family also enjoyed the day immensely.

**Prospective customer looking at the different types of adaptations available to help make travelling easier**



---

## Strategy

### Improve reach and awareness

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

## Goals

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

Fundamental to this is 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 in increasing 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

## KPIs

Growth in customers (%) **3.7%**

There were 624,397 customers on the Scheme in September, with new customers joining the Scheme through improved awareness and understanding amongst recipients, combined with sustained levels of customer renewals.

Customer renewal rate at the end of lease **92%**

Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year this was maintained at above 92%.

Customer advocacy **97%**

Existing customers are the Scheme's biggest advocates, with over 97% saying that they would recommend the Scheme to others.

## Ensure long-term sustainability

I am very proud to work for an organisation which has the customer at the heart of every decision. Motability Operations' values are clear and well communicated and there is great opportunity for personal training and development which keeps motivation levels high.

The employee MyView survey demonstrated that employee engagement levels exceeded those of other high performing companies

## Strategy

### Ensure long-term sustainability

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

## 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 tolerating 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 regard the enhancement of our reputation and the continuation of 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, ensuring availability of a range of low-emission vehicles, but balancing our customers' needs with CO<sub>2</sub> considerations
- Ensure that our premises and information technology infrastructure are robust and future-proof
- Attract and retain quality people

Revenue (£m)

**+9.4%**

Customer growth and Index-linked lease payments are the primary drivers of revenue growth

Credit rating

**A+/A2**

We seek to preserve our relative credit rating with our robust approach to financial and risk management and through the flexibility of our pricing engine. Both ratings were re-affirmed during the year with stable outlooks.

Reserves sufficiency ratio (%)

**117%**

Our Economic Capital model determines our reserves sufficiency requirement in the context of our risk profile. We aim to keep this ratio between 100% and 130% to protect the longevity of the Scheme.

Employee engagement (%)

**95%**

We participate in an independent annual review of business culture, where we have significantly outperformed the 'high-performing organisations' benchmark. Employee engagement is 17% higher than the 'high-performing organisations' benchmark.

## Finance Director's review

### Our overarching financial objective is to safeguard the long-term sustainability of the Scheme

The robust nature of our reserves base and excellent structural liquidity are integral elements of a conservative financial management strategy which underpins the delivery of this objective

David Gilman, Finance Director

During the year ended September 2012 the Group's reserves and liquidity positions were further enhanced – so giving us confidence as we look to the future. With secure financials, we remain well placed to continue to deliver sustained affordability and choice to our customers through the economic cycle

#### Financial performance

##### Targets met

Motability Operations Group plc delivered excellent financial performance in the year ended September 2012. Targets were exceeded across the full range of financial measures. The transfer to reserves, which are retained in the business for the benefit of our customers, was £234m (representing a Return on Gross Assets of 4.0%). This result takes restricted reserves on the balance sheet to £1,414m – where they continue to track towards the centre of the target economic capital corridor.

The Group's liquidity position was further enhanced during the year, with a closing, un-drawn committed facility of £1,600m (up from £880m in September 2011). Balance Sheet ratios further evidence the robust nature of the Group's financial position, with the ratio of Total Group Assets Total Net Debt, which is targeted to be no less than 1.25:1, at 1.71:1 in September 2012. The Group's credit ratings were reaffirmed as A+/A2, with a stable outlook from Standard & Poor's and Moody's respectively.

Total customer numbers continued to increase during the year, with a closing fleet of 624,397 – representing 3.7% growth year on year. Within this, the closing Car Scheme fleet stood at 613,395, whilst the Powered Wheelchair & Scooter Scheme customer numbers increased to 11,002.

Revenue increased to £3,126m – up 9.3% year on year. This reflects both an increase in rental income – up 9.6% to £1,747m (a product of the growth in customer numbers combined with the 5.2% uplift in the DLA from April 2012), and an increase in vehicle resale proceeds – with 191,400 sold during the year and proceeds up 8.6% to £1,368m.

#### Cost management

Our operating cost base has continued to be tightly managed during the year through the application of effective cost management disciplines and via robust supplier management and procurement processes. Whilst rising insurance costs have been a feature of the wider UK motor market over the past few years, these trends appear

to have plateaued. Notwithstanding these pressures, MO has continued to offer excellent affordability to customers throughout the period.

#### Assets and residual values

Operating Lease Assets increased by £336m during the year to £5,313m – reflecting the increase in customer numbers and also an increase in the average value of vehicles on the Scheme.

The Group has a demonstrable track-record of successfully managing residual values through the economic cycle. The prudent and effective management of the asset base remains a top priority for management. This is achieved through the use of a sophisticated methodology for determining the residual value of each asset at the inception of the lease, and also through a quarterly re-assessment of this anticipated residual value during the life of each lease. This revaluation allows us to be agile and adjust residual values as appropriate to reflect market trends. This allows us to mitigate the risk of potential market volatility.

At each financial period end, this revaluation may result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the period and over the remaining life of the lease. Our in-house model, which was once again externally validated during the year, has consistently outperformed alternative external benchmarks, and remains less volatile and typically more conservative in outlook than other market views. At September 2012, the projected revaluation of the fleet versus the priced position reflected an anticipated gross gain of £75m, with the alternative market valuation forecasting a £299m gain – evidencing our conservative and prudent positioning.

As regards vehicle resale performance, the Group realised significant gains on disposal during the year ended September 2012, recognising a £23.4m surplus crystallising on the sale of expiring vehicles (135.6k vehicles sold) and a further £48.2m in respect of early terminating leases (55.8k vehicles). This result demonstrates the effectiveness of our remarketing operation – with 121,800 (64%) of vehicles sold via our online channel (mfdirect) – and also a sustained period of stability in the used car market.

#### Financing

##### Reserves management

The Group's reserves management approach is designed to ensure the sustainability and stability of the Scheme into the long term. The Group uses its restricted reserves (which are retained exclusively for the benefit of the Scheme – with shareholders having no entitlement to dividends) to protect the Scheme, and so customers, from potential market or economic shock events.

We continue to use an Economic Capital model to determine the level of restricted reserves appropriate to protect the business from such economic shocks. The overarching principle is to ensure that we protect the sustainability of the Scheme through the economic cycle, and in so doing preserve the relative stability of prices, affordability and choice for our customers. We have adopted a conservative approach, with a core underlying assumption that we need sufficient reserves (Economic Capital) to cover the loss that may arise from all but the most extreme risk events. Not only do we perform an internal annual review of this model to ensure that it adequately reflects the current risk profile of the business, but we also, periodically, validate our approach through an independent external review – the most recent review concluded by corroborating our approach as robust, proportionate and commensurate with emerging best practice. It identified a well developed programme of stress-testing and the active engagement of both the Board and senior management in the Economic Capital process, and notes that, through the application of this appropriately conservative methodology, our capital position benchmarks well to that of peer financial institutions.

Our policy is to seek to manage restricted reserves within a target corridor between 110% and 130% of the calculated Economic Capital Requirement (ECR). This aims to ensure that the Group's restricted reserves are maintained above 'sufficiency' – providing greater tolerance in the event of economic shock, and so less volatility in lease pricing for the customer.

The Group uses a comprehensive range of stress-test scenarios to validate the Economic Capital approach. By running a series of hypothetical market specific and wider economic extreme stress scenarios, we can objectively scrutinise the efficacy of the Group's restricted reserves. The conclusion of this stress-testing is to affirm the extremely robust nature of the Group's balance sheet, so providing management with great confidence and assurance as we look to the future.

The appropriateness and effectiveness of this approach continues to be clearly demonstrable through the recent and ongoing macro-economic stresses – with the sustained delivery of affordability and choice to customers throughout. During the year restricted reserves have been successfully managed within the target corridor – with a closing position representing 117% of ECR.

#### Cash and funding

The Group targets a policy to ensure that it has sufficient committed financing facilities to provide for at least 12 months' growth plus 20%. Consistent with this policy, and in order to enhance the diversity, maturity profile and flexibility of available facilities, the Group undertook the following refinancing activities in January and February 2012:

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

Following this refinancing activity the Group's aggregate facility stands at £4.935 billion. At the Balance Sheet date we had drawn £3.3 billion of this available facility, with the un-drawn balance of £1.6 billion providing more than sufficient headroom to meet Group policy.

These refinancing activities have considerably strengthened the liquidity of the Group's borrowing. Furthermore, given the range of tenor in our seven bond issues to date, we have also successfully diversified and extended the maturity profile of our debt. At the balance sheet date the average tenor of our blended borrowing portfolio was 7.57 years.

#### Treasury policy

Consistent with other aspects of our business activities, we have adopted a risk-averse approach to treasury management. We use derivative financial instruments (specifically interest rate swaps) to reduce our exposure to interest rate movements that affect the funding of existing leased assets. The Group also fully hedges the foreign currency risk consequent on its two fixed-rate Eurobonds using cross-currency interest rate swaps. The Group's overall interest rate risk management strategy is to convert all new issued foreign denominated debt into the Group's functional currency of sterling.

We have established hedge accounting, and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value being shown on the face of the Balance Sheet. The fair value of the hedging reserve at 30 September 2012 was a liability of £10.1m post-tax.



David Gilman  
Finance Director

## Corporate structure

The diagram below sets out the current corporate structure:



## Operational review

### Overview

As outlined in the 'Strategy in action & performance' section (pages 8 -17) the year ended September 2012 saw the Group continue to deliver high levels of performance across a range of targets

Customer measures in terms of choice, affordability and satisfaction were all exceeded throughout the period, with overall customer satisfaction continuing at the all-time high of 98%. Renewal rates continued to track above 92% and total customer numbers increased 3.7% to 624,397

### Customer awareness and advocacy of the Scheme

Better awareness and understanding of the key components of the Motability 'package' enable customers to make informed decisions on whether to take a vehicle, powered wheelchair or scooter on the Scheme

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

One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 97% would recommend the Scheme

In addition, a number of promotional programmes have enhanced customers' awareness, including our successful 'One Big Day' regional open days. These events provide an opportunity for both existing and potential customers to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue. These events continue to prove to be very popular, with over 8,000 people taking the opportunity to visit and find out more

A measure of our success in building greater understanding is the growth in the number of new customers. During the year, 81,572 new customers chose to take a vehicle, powered wheelchair or scooter on the Scheme. This, combined with continued excellent renewal rates of 92% among existing customers (a product of high customer satisfaction and sustained affordability), has precipitated continued growth during the financial year. Our total customer base increased by 3.7% year-on-year, closing at 624,397 customers on the Scheme

In terms of future customer numbers, from next year the Government plans to begin to implement a number of changes under the Welfare Reform Act – specifically, from 2013 the DWP will start to implement the move from Disability Living Allowance to Personal Independence Payment. Inevitably there will be some who fail to qualify for the new benefit, and consequently will be no longer eligible for the Scheme, we also expect new recipients to have access to Motability for the first time. We are currently working closely with our colleagues at Motability to plan the appropriate levels of support as people go through this transition

Whilst it is anticipated that the implementation of these changes will result in a slow down in growth in the medium term, the business is well equipped to respond flexibly to all outcomes. Our fully scalable business model, and our robust financial and operational platform have enabled us to respond positively to recent expansion – equally this also positions us well to support customers through the transition to the Personal Independence Payment

### Product offering

During the year, we consistently exceeded our targets on affordability and the choice of vehicles we offer to our customers on the Scheme. This is particularly pleasing given the pressures that the wider economic environment has placed on prices

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

Our prices are over 40% cheaper than our external benchmark, which references the cost of commercial contract hire quotations. We set out to ensure that at least 200 cars are available at nil advance payment, including a wide choice of automatics and green options. We have consistently met this target throughout the year. We also supply a range of affordable Wheelchair Accessible Vehicles (WAVs)

Range and choice are important to both our renewing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail marketplace. During the financial year, we offered vehicles from up to 36 manufacturers with nearly 2,000 vehicle derivatives on the price list. Our approach to the PWS Scheme is also to provide customers with a wide and representative choice

We are pleased to offer this continued stability in pricing, which allows customers to make consistent choices based on needs when selecting a car, powered wheelchair or scooter with minimal volatility between each price list

As signalled in the 2011 Annual Report, Motability Operations, alongside the Charity, continues to monitor the Scheme offering to ensure the proposition remains appropriate, and that it continues to deliver high value to its customers consistent with the Scheme's core objectives. During 2012 a number of changes were implemented, which collectively were designed to protect the integrity and reputation of the core of the Scheme

In January, we streamlined our price list to focus closely on those cars chosen by 95% of our customers (generally priced below £2,000 advance payment, and with a retail value of under £25,000)

Other changes were made this year, designed to help protect the Scheme from misuse, and safeguard its reputation. In particular, we have taken steps to improve customers' and Scheme partners' familiarity with Scheme rules, and have tightened guidelines, to ensure that Motability cars are used exclusively for the benefit of the disabled customer

The changes include some restrictions on named drivers, who should generally live within five miles of the disabled customer, and reduce the selection of cars available to younger drivers. Exceptions are considered to address particular disability needs. We also introduced a statement to help customers understand their responsibilities

### Customer experience

We focus on providing customers with a seamless, worry-free experience. Product choice and affordability are significant elements of this, but meeting our customers' needs is about much more.

We aim for excellent customer service, which in our case clearly requires that we take particular steps to meet our customers' disability-related requirements.

We have used an independent research agency to conduct bi-annual customer surveys since 2003. These surveys cover all the key customer contact points on the Scheme. The latest results showed a record level of overall customer satisfaction of 98%, indicating excellent levels of customer service. The survey continues to provide valuable feedback on our customer proposition.

Our customer call centre plays a pivotal role in supporting our customers. The excellent customer satisfaction results are in no small part attributable to the consistent service levels delivered by our customer call centre, which has now achieved more than five years of answering 80% of calls within 20 seconds. The quality of customer service gained additional recognition with the awards of Best Newcomer, Best in Public Services and second best overall in the Sunday Times Top 50 Call Centre awards.

Initiatives designed to support and enhance the customer experience include:

- Improvements made to customer communications and website, creating a more welcoming impact, and more than doubling the information available.
- Removal of our Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly.
- Operating an online 'Lingubot' called 'Ask Mo', which enables customers to 'chat' through their queries in ordinary language.
- Availability of an online 'car search', which gives customers a user friendly and readily navigable tool to find the vehicle that best meets their needs.
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one.
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

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

Measurement of our disability expertise is inherently more subjective and difficult. However, we continue to place significant focus on ensuring that we meet this goal, both as a customer service organisation and in our role as an employer. Examples include:

- The use of a Specialised Mobility Team to support the delivery of the PWS Scheme proposition.
- Displaying vehicle accessibility information on our website.
- The availability of targeted specialist publications including the Wheelchair Accessible Vehicle (WAV) Guide.
- The Car Price Guide includes images of cars with accessibility considerations, an 'automatics' column and images to help customers visualise the types of cars available.

### Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 96% brand availability based on market share, with 34 manufacturers currently on the Scheme. This now provides our customers with access to over 4,100 vehicle derivatives, delivered through a network of over 4,800 car dealerships. During the year we accounted for over 11.5% of UK car registrations.

As a consequence we represent an increasingly important route to market for the manufacturers. We regard our partnership with them as extremely valuable to the Scheme.

While we take responsibility for the overall customer experience, Motability specialists employed by the car and PWS dealerships conduct the primary face-to-face relationship with the customer. We introduced the Motability Dealer Partnership (MDP) programme in 2004 to ensure that customers receive a consistently high level of service in the car dealerships. This is designed to influence dealer behaviour and performance in every key element of the leasing process (supply, service and after sales) with a particular emphasis on customer service. The MDP programme has, through targeted investment, delivered improvements that have led to a better customer experience at car dealerships.

Throughout the year, dealers continued to work closely with us to improve awareness and understanding of the Scheme, and provide a warm welcome for Motability customers.

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

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

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

### Remarketing

At the end of contract, we sell our returning fleet into the used market. During the financial year ended September 2012, we sold 191,000 cars into the used trade. We have developed an innovative multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online application which is augmented by a proactive auction programme. Our web-based tool, 'mfindirect', is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week. This route to market has a number of advantages over physical channels including its lower cost, and in that it allows a more targeted approach. This system platform was upgraded during 2011 to ensure its future capability and scalability.

Our end-of-contract processes enable us to sell a car online before it is returned at the end of lease. While we target this marketing across all our registered buyers, it provides a particular opportunity for the dealers who originally supplied and then maintained the vehicle.

## Operational review continued

It means that they can buy a low mileage, fully serviced vehicle that they know first-hand, and which, through our end-of-contract process, will most likely be returned to their forecourt at the end of lease. This opportunity has been promoted to the dealers through the 'Get Your Own Back' marketing campaign.

Our online sales channel, 'mflirect', provides a competitive purchasing environment and ensures that we both maximise our sales return and minimise disposal costs. Online sales accounted for over 64% of all disposals during 2012. Cars that do not sell online are usually routed to auction and sold in one of our branded events. We have progressively routed more of our early-terminating stock via the online channel, with an 18% increase in volumes year-on-year.

Through the versatility of our remarketing strategies, the proactive management of stock, and an increased buyer base, the remarketing team has delivered an excellent performance in 2012, with over £70m gains recognised across aggregate sales.

### Environment

Environmental issues continue to feature prominently on the political and economic agenda.

We know that our customers are keen to look for greener choices. However, given their limited mobility, public transport is, for them, rarely a viable option. We therefore aim to ensure that a range of lower emitting, higher MPG vehicle choices is available (which in turn are more cost effective for our customers). We continued to take a proactive approach to managing our CO<sub>2</sub> emissions agenda with a number of initiatives that provide information and choice for our customers. These include:

- Introducing alternative vehicles with lower CO<sub>2</sub> emissions, including hybrids, combined fuel and new technology products
- Making attractive, low CO<sub>2</sub> cars available in all vehicle categories on the Scheme (the price list highlights at least two low CO<sub>2</sub> vehicles in each vehicle category)
- Featuring green choices (low CO<sub>2</sub> vehicles) in all our promotional mailings
- Providing practical advice to help lower motoring costs and CO<sub>2</sub> emissions in our customer publications, our annual customer newsletters and through our website

Our approach to meeting our environmental responsibilities also extends to the management of our internal infrastructure. In terms of premises, we run a continuing programme of capital investment to ensure that our plant and equipment remain energy efficient and we actively aim to recycle an increasing proportion of our waste. We encourage employees to minimise their environmental footprint through use of video-conferencing facilities, promoting lift-share arrangements and our membership of the Government's Cycle to Work Scheme.

### Corporate Social Responsibility

Motability Operations actively embraces its Corporate Social Responsibility obligations. This manifests in a number of ways, including:

- Through the Scheme's core objectives, we help customers to gain independence and lead fuller lives through affordable, worry-free mobility
- We offer our facilities to various disability organisations and local associations
- We have an environmental policy which is reviewed through the Health & Safety Committee and Risk Management Committee. Motability Operations is also registered with the Carbon Trust
- Our HR policies allow for flexible working, including staggered and reduced working hours
- We operate a scholarship programme which is designed to provide financial support and work experience (through summer placements) for a number of disabled students each year

### Other environmental, social & governance policies

In addition to those set out above, MO also has the following policies in place:

- Fraud & Bribery Prevention Policy
- Employee Information Security Policy
- Health & Safety Policy
- Insider Trading & Information Policy
- Whistle-blowing Policy
- People Policy (including policies on Bullying & Harassment, Disability Confidence, Diversity & Grievances)

These policies are made accessible to all employees via the Company's intranet, and form part of the induction pack for all new starters.

### Charitable and political donations

During the year the Company made charitable donations of £49,084 (2011: £32,414) to support and sponsor local initiatives through our 'mycommunity' programme.

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

### Proposed dividend

In accordance with the Shareholders' agreement, the ordinary shareholding carries no rights to income.

### Directors' indemnity

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



---

## People and principles

### People

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

Our values (which are described to the right) 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. We aim to be confident in meeting our customers' needs.

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

Our leaders are assessed every year using 360-degree feedback.

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

Our scholarship programme offers disabled students the opportunity for work experience and financial assistance during their degree course.

While regretted attrition levels are low, we manage the risk of losing key individuals through regular talent reviews and succession planning. Our Nomination Committee reviews the plans for Directors and senior managers. High potential employees are identified and we develop people through different mechanisms including internal secondments.

### Principles

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

- Compete on value and customer and disability expertise
- Provide specialist support to remove barriers where appropriate
- Have excellent plc practices and governance
- Work closely with Motability
- Maintain excellent relations with stakeholders
- Are recognised as an outstanding and responsible employer
- Are non-political and transparent
- Ensure that our financial position is capable of sustaining the Scheme into the future
- Provide value for stakeholders
- Are recognised and respected in the community
- Maintain a forward-looking green policy, balancing needs with emissions

### Our values

We strive for excellence in customer service

- Our customers are our first and major focus
- We take ownership
- We are disability-confident

We are passionate about what we do

- We understand the aims and objectives of our business
- We set high standards and go the extra mile
- We trust and respect others and value differences

We have a high performance culture

- We strive for the highest standards
- We recognise and reward strong performance and success
- We are resilient and professional

We think and act commercially

- We have sound business judgement  
We manage our business for the long term
- We understand the impact of our decisions

We are friendly, flexible and facilitating

- We act honestly and with integrity
- We have a 'can do' and solution-based approach
- We work together and communicate openly

### Employment of disabled people

We are committed to employing and retaining the best person for the job, whoever that person may be. Our policy is to ensure that disabled people receive equal and fair consideration in recruitment, training and career development. Support and adjustments are provided to ensure that the needs of employees who are, or become, disabled are met. The Company ensures that its policies and practices are not barriers to disabled people. We are 'Gold Card Members' of the Business Disability Forum (formerly the Employers' Forum on Disability). We are accredited by Jobcentre Plus to use the Disability 'two ticks' symbol ('positive about disabled people'). We have an internal disability networking group which is sponsored by the HR Director.

### Employee involvement

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

## Risk management

At Motability Operations, we recognise that sound risk management is fundamental to the successful and sustainable operation of the business. It is a core commitment that our approach protects the 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 Policy, which is enshrined within our governance framework, is overseen and managed by our Risk Management Committee.

We make certain that, through this policy and approach, our activities meet standards of behaviour and fall within boundaries that are consistent with our approved level of appetite for risk. Whilst we do not fall under FSA regulation, we seek to align our risk management approach with best market practice.

We use Economic Capital principles (described opposite) to determine and manage our reserves position.

### Risk identification and monitoring

We have designed our risk management framework around the 'three lines of defence' approach to risk governance. Consistent with this approach, we have a dedicated risk management function that is integral 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.

### Key risks and mitigations

#### Residual values

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

Through our team of experts, we have developed and implemented an in-house residual value forecasting model to help manage this risk. This combines the latest econometric modelling techniques with subjective feedback gathered from used car buyers and market experts. We developed the model in consultation with Oxford Economic Forecasting, which has validated and endorsed our approach. The model is periodically re-calibrated and validated – the most recent independent review being completed during the year ended September 2012. Since it was first implemented in October 2004, our in-house model has outperformed the alternative market benchmarks. We also undertake a quarterly re-forecasting exercise to review and monitor the actual position and assess the associated financial impacts of any movement in residual values.

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

We manage this disposal performance risk through the effectiveness of our remarketing activity, through our streamlined logistics operation and through our commercial sales force. Our proactive portfolio management has reduced concentration risk in recent years, with a broad spread of models and manufacturers now represented in our diversified fleet.

## 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 management

### Supplier failure

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

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

### Credit risk

Our income is principally received from the DWP, through the allowances assigned to us by our customers, hence the credit risk is considered to be very low. Where the total cost of the lease exceeds the value of the customers' allowance, then the customer is required to make an upfront balancing payment – the 'advance payment' – prior to taking possession of the vehicle.

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

### Treasury risk

The availability of sustainable funding and liquidity is critical to our ongoing operation. This has been brought into sharpened focus since the 'credit crunch' with scarcity of competitive funding affecting many businesses. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.

We manage these risks through a well defined Treasury Policy, the operation of which is overseen by the Asset and Liability Management Committee – a sub-committee of the Executive Committee. We maintain a risk-averse stance and continue to develop a diversified portfolio of funding maturities, seeking to lock the majority of funding onto fixed rates. Our policy is also to avoid exotic treasury products. Through our robust financial management and governance we seek to maintain a credit rating that allows us access to a range of debt markets on competitive terms. It is our policy to ensure that we maintain sufficient financing facilities in place to cater for projected growth over the next 12 months, plus 20% headroom.

### Restricted reserves and economic capital

Ensuring that we have the financial resilience to withstand economic turbulence without compromising the customer offering is at the forefront of our approach to balance sheet management. The Group holds 'restricted reserves' to provide the necessary financial shock-absorber to ensure this sustainability into the long term. Restricted reserves are retained exclusively for the benefit of the Scheme – with ordinary shareholders having no entitlement to dividends.

The Group uses Economic Capital (EC) principles to determine the appropriate level of restricted reserves. The EC process involves undertaking a comprehensive assessment of the material risks and evaluated potential impacts the Group faces given its core activities. The key risks are outlined in the table on page 26.

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

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

Not only do we perform an annual review of this model to ensure that it adequately reflects the current risk profile of the business, but we also periodically validate our approach through an independent external review.

The most recent review, commissioned in 2010, concluded by corroborating our approach as robust, proportionate and commensurate with emerging best practice. It identified a well developed programme of stress-testing and the active engagement of both the Board and senior management in the economic capital process, and noted that, through the application of this appropriately conservative methodology, our capital position benchmarks well to that of peer financial institutions.

Our policy is to seek to manage reserves within a target operating corridor of between 100% and 130% of the ECR, to protect the longevity of the Scheme. Operating this policy aims to ensure that the Group's restricted reserves are maintained above sufficiency – providing greater tolerance in the event of economic shock, and so less volatility in lease pricing for the customer.

The Group uses a comprehensive range of stress-test scenarios to validate the Economic Capital approach. By running a series of hypothetical market specific and wider economic extreme stress scenarios, we can objectively scrutinise the efficacy of the Group's restricted reserves. The conclusion of this stress-testing is to affirm the extremely robust nature of the Group's balance sheet – and so provide management with great confidence and assurance as we look to the future.

## Summary of our key risks and mitigations

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

We use Economic Capital principles to determine and manage our reserves position in the context of these risks. Through this policy and approach we ensure that the business remains sustainable through the economic cycle.

Risk factors	Potential impact	Mitigation
<b>Residual values</b>		
Unexpected movements in used car values, failure to achieve market value on disposal	<ul style="list-style-type: none"> <li>Volatility in profitability, reserves and pricing</li> <li>Potential impact on affordability and choice</li> </ul>	<ul style="list-style-type: none"> <li>Sophisticated in-house residual value setting and forecasting process</li> <li>Risk Capital management for asset risk using Economic Capital principles</li> <li>Market-leading remarketing approach</li> </ul>
<b>Supplier failure</b>		
Failure of key manufacturer or other key Scheme supplier	<ul style="list-style-type: none"> <li>Compromised customer service provision and potential financial impact of securing alternative supplier</li> <li>In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties</li> </ul>	<ul style="list-style-type: none"> <li>Active monitoring of credit ratings and market announcements</li> <li>Strong supplier relationships and communication</li> <li>Diversified portfolio</li> </ul>
<b>Credit</b>		
Risk of default of key income streams and exposure to bad debt	<ul style="list-style-type: none"> <li>Potential impact on cash inflows and consequent write-off to Income Statement</li> </ul>	<ul style="list-style-type: none"> <li>Principal income stream directly from DWP – therefore minimal credit risk</li> <li>Residual credit risks are managed through credit assessments and an effective credit control function</li> </ul>
<b>Treasury</b>		
Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk	<ul style="list-style-type: none"> <li>Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth funding</li> </ul>	<ul style="list-style-type: none"> <li>Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps</li> <li>Balanced portfolio of funding maturities and diversification into bond market</li> <li>Maintenance of good credit rating</li> <li>Good treasury system, controls and governance</li> </ul>
<b>Operational</b>		
Risk of failure of key systems, controls or processes	<ul style="list-style-type: none"> <li>Potential financial and reputational risk</li> <li>Risk of business disruption</li> </ul>	<ul style="list-style-type: none"> <li>Robust control environment</li> <li>Active monitoring of Business Continuity and Disaster Recovery plans</li> </ul>

---

## Board of Directors

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

### Neil Johnson OBE

#### Non-Executive Chairman

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

### Executive Directors

#### Mike Betts

##### Chief Executive

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

#### Anne Downey

##### HR Director

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

#### David Gilman

##### Finance Director

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

#### Ian Goswell

##### Commercial Services Director

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

#### Ashley Sylvester

##### Operations Director

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

### Non-Executive Directors

#### John Callender

##### Independent Non-Executive Director

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

#### Nigel Clibbens

##### Non-Executive Director

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

### Frank Gardner OBE

#### Independent Non-Executive Director

Frank was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 10 December 2008.

### Joe Hennessy OBE

#### Independent Non-Executive Director

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

### Christopher Lendrum CBE

#### Independent Non-Executive Director

Christopher was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 10 June 2009.

### David Oldfield

#### Non-Executive Director

David was appointed as a Non-Executive Director of Motability Operations Group plc on 14 September 2011 (alternate – Richard Francis, appointed 14 September 2011).

### Mark Parsons

#### Non-Executive Director

Mark was appointed as a Non-Executive Director of Motability Operations Group plc on 20 February 2012 (alternate – Ian Stuart, appointed 20 February 2012 and resigned 13 June 2012, when Duncan Rowberry was appointed).

### Mike Russell-Brown

#### Non-Executive Director

Mike has been a Non-Executive Director of Motability Operations since 2006. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Malcolm Brookes, resigned 31 July 2012).

### David Smith

#### Independent Non-Executive Director

David was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 July 2010.

### Jo Pentland

#### Company Secretary

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

### Other statutory information

#### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of the surplus or loss of the Group for that period.

In preparing these financial statements the Directors are required to

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

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

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

Each of the Directors, whose names and functions are listed on page 27, confirm that, to the best of their knowledge

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and surplus of the Group, and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

#### Going concern

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

#### Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

#### Directors

Neil Johnson, Mike Betts, John Callender, Nigel Clibbens, Anne Downey, Frank Gardner, David Gilman, Ian Goswell, Joe Hennessy, Christopher Lendrum, David Oldfield, Mike Russell-Brown, David Smith and Ashley Sylvester served as Directors throughout the year.

Richard Francis and Peter Lord served as alternate Directors throughout the year.

Mark Parsons was appointed as a Director on 20 February 2012.

Ian Stuart was appointed as Mark Parsons' alternate as of 20 February 2012 and resigned on 13 June 2012 when Duncan Rowberry was appointed.

Martin Lord was appointed as Mike Russell-Brown's alternate as of 1 November 2012.

Antony Jenkins resigned as a Director on 20 February 2012.

Malcolm Brookes resigned as an alternate Director on 31 July 2012.

#### Directors' interests

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

Signed by order of the Board



Jo Pentland  
Company Secretary

13 December 2012

### Corporate governance

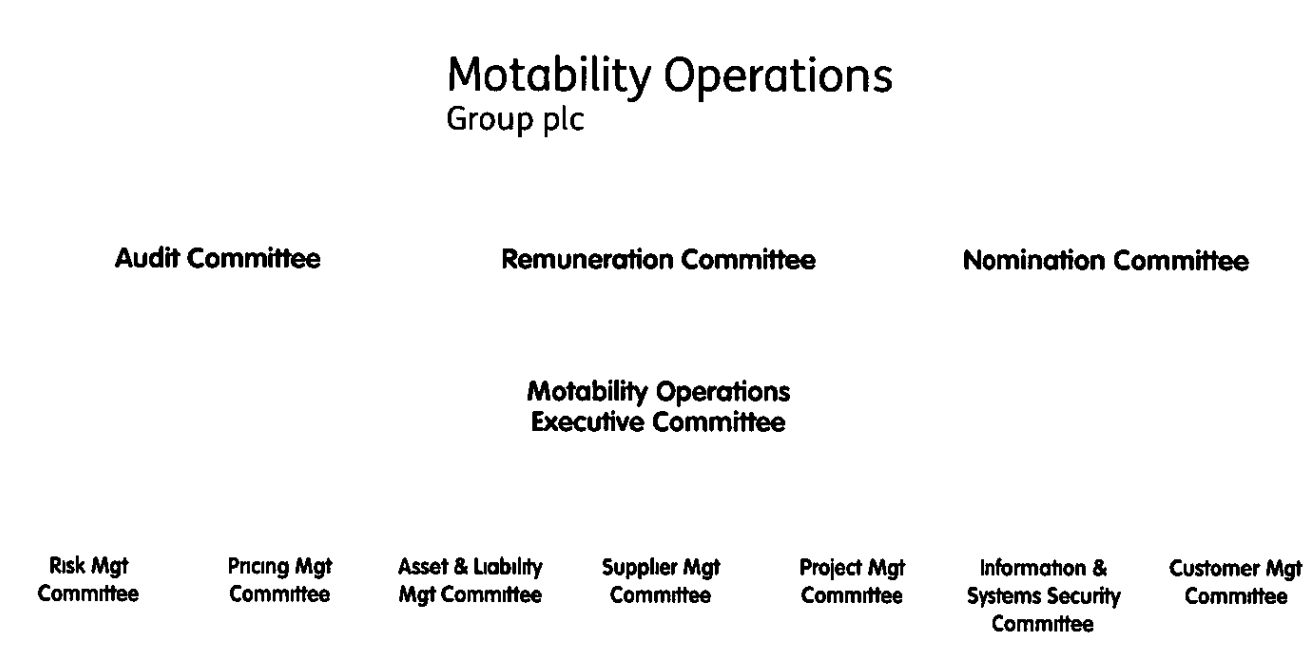
The Board considers that good corporate governance is central to achieving the objectives of Motability Operations, and that this underpins the sustainability of our product offering. As such we are committed to high standards of corporate governance.

While the Board has overall responsibility for the success of the business, its strategic direction, governance and financial control, the Executive Committee is responsible for the day-to-day management

of the Group and, in particular, for the formulation of strategy, supervising operational management, and providing structure and leadership for the business.

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

#### Governance structure



#### The Board's responsibilities

Matters reserved for the Board include:

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

#### Roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive has been clearly established. The responsibility of the Non-Executive Chairman includes leading the Board and ensuring its

effectiveness. This includes setting the agenda for Board meetings and, with the assistance of the Company Secretary, arranging for the Directors to receive timely, accurate and clear information ahead of Board meetings.

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

#### Non-Executive Directors

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

#### Executive Committee

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

## Corporate governance continued

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

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

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

### Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors and four Non-Executive Directors. The Committee is chaired by Christopher Lendrum, the other members being John Callender, Nigel Clibbens, David Oldfield, Mark Parsons, Mike Russell-Brown and David Smith. Executive Directors and members of senior management are in attendance where appropriate. The Committee has delegated authority from the Board to

- Review and recommend the annual assurance plan to the Board and receive reports from Internal Audit on progress against plan
- Oversee all assurance activity and monitor the adequacy and effectiveness of such activity
- Review audit reports and monitor management's progress against agreed actions
- Monitor the objectivity, independence and effectiveness of the external auditors, including the sanction of non-audit activity undertaken
- Consider any substantive control issues arising, including major control failures or incidents
- Oversee the operation of the risk management framework, including the risks identified in the corporate risk register
- Oversee internal and public financial reporting

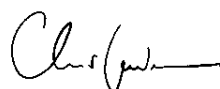
The Committee meets quarterly in advance of meetings of the main Board, at which the Committee chairman reports. Matters considered at every meeting include

- The Company's capital position, including the evolution of major risks and their implication for capital requirements as recorded and measured through the risk register
- A Treasury Report covering policy and factors affecting liquidity (including bank finance availability and bond market access) to ensure that satisfactory liquidity is maintained at all times
- Progress reports from the responsible Executive Director on all current major change programmes and projects
- Internal Audit reports and issue resolution over the previous quarter
- Reports on any significant control failures or incidents over the previous quarter

The financial statements for the half year and full year are considered in depth at the Committee's May and December meetings respectively, with the benefit of a detailed report on the findings of the external auditors, PricewaterhouseCoopers (PwC), who are in attendance to present their report and respond to questions. In issuing unqualified reports in the year ended 30 September 2012 the auditors provided appropriate assurance and identified no matters of material concern to the Committee.

The Committee is satisfied that PwC complies with UK regulatory and professional requirements and that its objectivity is not compromised. The current lead audit partner Anne Simpson has been in post for some four years, and will be subject to change in 2013 under the provisions of PwC's partner rotation policy. PwC has held the audit contract for the Company since 2008, and it is envisaged that it will be put out to tender in 2018 in conformance with the updated UK Corporate Governance Code of the Financial Reporting Council.

In recognition of the importance of evaluating its own effectiveness, in 2012 the Committee undertook a review covering members' experience and knowledge in the context of the key aspects of its work, the results of which were both reassuring and useful in preparing for future challenges.



**Christopher Lendrum CBE**  
Audit Committee Chairman



### Nomination Committee

The Nomination Committee comprises the Non-Executive Chairman and two Independent Non-Executive Directors. It is chaired by Neil Johnson and the other members are John Callender and Christopher Lendrum. The CEO and HR Director are in attendance where appropriate. The Committee meets bi-annually and has delegated authority from the Board to

- Review succession and retention plans
- Review plans for the appointment of new Directors and reappointment of Non-Executive Directors at the end of their term
- Review the structure, size and composition of the Board

Recognising the importance of assessing the Board's effectiveness and performance for good corporate governance, an evaluation of the Board was undertaken in late 2011. The process involved review of a number of areas including

- The Board's processes, composition and size
- The Board's objectives, remit and terms of reference
- Quality, quantity and frequency of information flow from and to management
- Skills of the Directors
- Relationships with stakeholders

The results of the evaluation exercise were reviewed by the Chairman and the Nomination Committee and were presented to the Board in March 2012. In summary

- 85% of respondents rated the performance of the Board in relation to other Boards as 'outstanding' and 'well ahead of others'. The remaining 15% rated the Board's performance as 'very good to excellent'.

Respondents stated that

- The Board regularly monitored and evaluated the performance of the Company against its strategy and annual operating plan holding the Executive appropriately accountable
- The Chairman was an effective leader of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda
- The Board understood and approved the strategy for the Company, as proposed by the Executive
- The financial reporting data approved by the Board for publication presented a balanced and clear assessment of the Company's position and prospects



Neil Johnson OBE  
Nomination Committee Chairman

### Remuneration Committee

The Remuneration Committee comprises the Non-Executive Chairman of Motability Operations, four Independent Non-Executive Directors and one Non-Executive Director.

The Committee is chaired by John Callender, the other members being Neil Johnson, Joe Hennessy, Christopher Lendrum, Mark Parsons and David Smith. In addition, the Committee draws on the expertise of an external independent specialist for benchmarking, for advice on best practice and to confirm that a thorough and well governed process is applied. No employee is permitted to participate in discussions or decisions which directly relate to their own remuneration.

The Committee meets bi-annually and has delegated authority from the Board to review and approve

- The overall positioning of market competitive remuneration packages
- Base salaries and increases for the Executive Directors
- The design, terms and eligibility of performance-related pay schemes including long-term incentive arrangements
- When short and long-term payments will be made and whether any portion of such payments should be deferred
- The policy for pension arrangements and other benefits for the Directors
- The broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive Committee

The Committee reports bi-annually to the main Board and works closely with the Audit and Nomination Committees.

### Remuneration report

**The link between performance and pay**

As described in pages 8-17 the Company has a clear strategic agenda, with an overarching purpose of providing customers with independence and mobility by offering a wide choice of vehicles at affordable prices. Each year, the Company reviews and refreshes this strategic agenda with annual objectives and targets being adjusted accordingly. Remuneration is then linked very clearly to these Company and individual performance targets as well as by reference to individuals' ability to demonstrate performance consistent with the Company's core values (see below).

Performance appraisals are conducted annually by employees' direct managers and leaders are assessed every year using 360-degree feedback. Employees' appraisal ratings directly drive any discretionary pay awards. Each Executive Director and Head of Function also receives and is required to comply with an Accountability Statement which not only describes departmental objectives and budgets but also catalogues expectations in respect of a range of matters including risk management, diversity, fraud & bribery prevention and adherence to Company policies.

Motability Operations' culture and its people are fundamental to its success and the Company is committed to recruiting and retaining an engaged and motivated workforce. The Company's core values, iterated below, are central to delivering excellent performance. These core values are

- To provide excellence in customer service
- To be passionate about what we do
- To have a high performance culture
- To think and act commercially
- To be friendly, flexible and facilitating

## Corporate governance continued

The main measure of the Company's culture is through the use of an annual employee survey conducted by an independent external company

The performance of the Company, its culture and the risks facing the Company are regularly considered when the Board and the Remuneration Committee address remuneration matters

Motability Operations deploys proportionate pay and benefit programmes which facilitate the achievement of its objectives. The Company reviews its remuneration against the market to ensure that remuneration is affordable and competitive over the long term, is able to attract talent, and incentivises and encourages retention, whilst at the same time ensuring it does not encourage inappropriate behaviours and actions. The Company does not reward poor performance or failure. The Company places the highest importance on meeting both short-term performance targets and long-term objectives.

The Company has no share or share option schemes and pay for all employees, Executive Directors, the Non-Executive Chairman and Independent Non-Executive Directors is managed through the PAYE system (Pay As You Earn).

### Key remuneration elements for employees and Executive Directors

Remuneration seeks to strike an appropriate balance between fixed and variable pay.

The key elements of remuneration for employees are:

- Base pay
- Annual performance-related payments. These payments are not guaranteed and are overtly linked to clear and sustainable measures of business performance.
- Non-contributory pension scheme (defined contribution)
- Benefits including private medical insurance, life assurance and critical illness cover. A company car/allowance is provided for certain roles.

The key elements of remuneration for Executive Directors are:

- Base pay
- Annual performance-related payments
- Long-term incentive arrangements
- Non-contributory pension scheme (defined contribution). In light of the 'annual' and 'life-time' limits the Government introduced in 2010, Directors can reduce or cease contributions being made to the Company's pension scheme and, instead, receive a pension allowance.
- Benefits including private medical insurance, life assurance, company car/allowance and critical illness cover.

Annual performance-related pay awards and payments into long-term incentive arrangements are not guaranteed and are overtly linked to clear and sustainable measures of business performance. Annual performance-related payments for the Executive Directors are linked to both business and personal performance. They are discretionary and cannot exceed 50% of base salary.

Long-term incentive arrangements apply to the CEO and the Executive Directors. There are two programmes in place:

(1) The Long Term Incentive Plan (LTIP) is linked to the Company's long-term objectives of maintenance of sufficient reserves, high levels of customer satisfaction and renewal levels, lease affordability and excellent business culture. Any payment is also determined by

reference to the Company's external credit rating. The Plan aims to encourage sustained excellent performance and the retention of Directors and is consistent with FSA principles in respect of long-term incentives. The ownership structure of the Company precludes the use of shares or share options as long-term incentives. However, the Plan overtly and directly links any future payout with clear and unambiguous measures of sustained performance aligned to the Company's strategic objectives. Performance criteria are designed so that units allocated into the Plan can both increase and decrease in value. The main features of the LTIP are:

- The Remuneration Committee determines annually, on a discretionary basis, whether LTIP units should be allocated to any Executive Director. The notional value of an allocated unit is £1,000, with the accumulated value varying up or down in subsequent years.
- Potential payouts are deferred for three years.
- The value of any potential payout is determined by annual assessment against specific performance requirements in respect of the level of customer service, customer retention, lease affordability, reserves adequacy and business culture.
- Potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the LTIP, the accumulated units can be converted into cash and released.

(2) The Long Term Incentive Scheme (LTIS) for the CEO was introduced in October 2010. It is a 'one-off', five-year programme. As regards any future value the Scheme mirrors the LTIP except in the following respects:

- Any value attaching to units allocated at the discretion of the Remuneration Committee will be paid, subject to specific performance requirements (per the LTIP) and continuing employment, only after the fifth anniversary of the initial allocation.
- The CEO can elect at the point of allocation that the value of any units be released in five years at the nominal allocation value, thereby foregoing any potential value enhancement but avoiding also the prospect of units having no, or diminished value. Alternatively, he can elect that the value of allocations be determined by reference to the same criteria as those applying to the LTIP: i.e. by annual assessment against specific performance requirements in respect of the level of customer service and retention, reserves adequacy and business culture and with potential payouts also being impacted by movements in the Company's credit rating.

### Key remuneration elements for Non-Executive Chairman and the Independent Non-Executive Directors

The Chairman receives an annual fee, a company car/allowance and private medical insurance. The Chairman does not receive any other benefits or pension.

The Independent Non-Executive Directors receive a basic annual fee. In addition, when an Independent Non-Executive Director is a member or chair of a Board Committee, a separate fee is paid.

Details of Directors' remuneration are set out in note 31 on pages 59-60 of the Financial Statements.



John Callender  
Remuneration Committee Chairman

## Independent Auditors' report to the members of Motability Operations Group plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of Motability Operations Group plc for the year ended 30 September 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's Members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2012 and of the Group's surplus and Group's and Parent Company's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

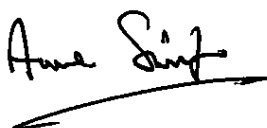
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Anne Simpson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
13 December 2012

## Income statement

For the year ended 30 September 2012

	Note	2012 Group £m	2011 Group £m
Revenue	4	3,126.3	2,860.9
Net operating costs	6	(2,700.7)	(2,483.7)
<b>Surplus from operations</b>		<b>425.6</b>	<b>377.2</b>
Finance costs	9	(165.9)	(144.0)
<b>Surplus before tax</b>		<b>259.7</b>	<b>233.2</b>
Taxation	10	(25.4)	(27.3)
<b>Surplus for the year</b>		<b>234.3</b>	<b>205.9</b>

Under section 408 of the Companies Act 2006, the Group has elected to take the exemption with regard to disclosing the Company income statement and statement of comprehensive income. The Company's surplus for the year was £6.8m (2011: £9.7m).

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

## Statement of comprehensive income

For the year ended 30 September 2012

	2012 Group £m	2011 Group £m
<b>Surplus for the year</b>	<b>234.3</b>	<b>205.9</b>
<b>Other comprehensive income</b>		
Gains/(losses) on movements in fair value of cash flow hedging derivatives	5.5	(7.3)
Tax relating to components of other comprehensive income	(1.6)	1.6
<b>Other comprehensive income/(deficit) for the year, net of tax</b>	<b>3.9</b>	<b>(5.7)</b>
<b>Total comprehensive income for the year attributable to equity</b>	<b>238.2</b>	<b>200.2</b>

The notes on pages 38 to 68 form part of these financial statements.

# Balance sheets

As at 30 September 2012

	Note	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	11	7 8	3 4	-	-
Property, plant and equipment	12	15 5	6 2	-	-
Assets held for use in operating leases	13	5,312 6	4,976 6	-	-
Investment in subsidiaries	15	-	-	12 6	12 6
Loans to other Group companies	15	-	-	3,335 0	3,195 2
Hire purchase receivables	17	22 6	40 6	-	-
Trade and other receivables	18	13 5	-	-	-
Deferred tax asset	24	5 8	7 3	3 1	4 8
		5,377 8	5,034 1	3,350 7	3,212 6
<b>Current assets</b>					
Corporation tax receivable		13 6	14 0	-	1 2
Inventories	14	68 4	60 7	-	-
Loans to other Group companies	15	-	-	43 4	40 4
Cash and bank balances	16	102 5	33 7	92 3	31 0
Hire purchase receivables	17	16 0	22 2	-	-
Trade and other receivables	18	218 9	210 4	18 5	10 5
		419 4	341 0	154 2	83 1
<b>Total assets</b>		<b>5,797 2</b>	<b>5,375 1</b>	<b>3,504 9</b>	<b>3,295 7</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Deferred income	19	(178 5)	(146 4)	-	-
Trade and other payables	20	(145 0)	(132 1)	(103 3)	(42 6)
Financial liabilities	21	(89 7)	(80 2)	(46 4)	(35 2)
Derivative financial instruments	22	(0 6)	(7 2)	(0 6)	(7 2)
Provision for other liabilities	23	(2 1)	(2 1)	-	-
		(415 9)	(368 0)	(150 3)	(85 0)
<b>Net current assets/(liabilities)</b>		<b>3 5</b>	<b>(27 0)</b>	<b>3 9</b>	<b>(19)</b>
<b>Non-current liabilities</b>					
Deferred income	19	(172 0)	(181 3)	-	-
Financial liabilities	21	(3,271 8)	(3,193 8)	(3,271 8)	(3,193 7)
Derivative financial instruments	22	(62 4)	(7 2)	(62 4)	(7 2)
Deferred tax liabilities	24	(470 9)	(458 7)	-	-
		(3,977 1)	(3,841 0)	(3,334 2)	(3,200 9)
<b>Total liabilities</b>		<b>(4,393 0)</b>	<b>(4,209 0)</b>	<b>(3,484 5)</b>	<b>(3,285 9)</b>
<b>Net assets</b>		<b>1,404 2</b>	<b>1,166 1</b>	<b>20 4</b>	<b>9 8</b>
<b>Equity</b>					
Ordinary share capital	25	0 1	0 1	0 1	0 1
Hedging reserve		(10 1)	(13 9)	(10 1)	(13 9)
Restricted reserves (*)		1,414 2	1,179 9	30 4	23 6
<b>Total equity</b>		<b>1,404 2</b>	<b>1,166 1</b>	<b>20 4</b>	<b>9 8</b>

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

These financial statements were approved by the Board of Directors on 13 December 2012.



**Mike Betts**  
Chief Executive

Motability Operations Group plc  
Registered number 6541091

The notes on pages 38 to 68 form part of these financial statements

## Statements of changes in equity

For the year ended 30 September 2012

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2010	0.1	(8.2)	974.0	965.9
<b>Comprehensive income</b>				
Surplus for the year	-	-	205.9	205.9
<b>Other comprehensive income</b>				
Losses on movements in fair value of cash flow hedging derivatives	-	(7.3)	-	(7.3)
Tax relating to components of other comprehensive income	-	1.6	-	1.6
<b>Total comprehensive (deficit)/income</b>	-	(5.7)	205.9	200.2
At 1 October 2011	0.1	(13.9)	1,179.9	1,166.1
<b>Comprehensive income</b>				
Surplus for the year	-	-	234.3	234.3
<b>Other comprehensive income</b>				
Gains on movements in fair value of cash flow hedging derivatives	-	5.5	-	5.5
Tax relating to components of other comprehensive income	-	(1.7)	-	(1.7)
<b>Total comprehensive income</b>	-	3.8	234.3	238.1
At 30 September 2012	0.1	(10.1)	1,414.2	1,404.2

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2010	0.1	(8.2)	13.9	5.8
<b>Comprehensive income</b>				
Surplus for the year	-	-	9.7	9.7
<b>Other comprehensive income</b>				
Losses on movements in fair value of cash flow hedging derivatives	-	(7.3)	-	(7.3)
Tax relating to components of other comprehensive income	-	1.6	-	1.6
<b>Total comprehensive (deficit)/income</b>	-	(5.7)	9.7	4.0
At 1 October 2011	0.1	(13.9)	23.6	9.8
<b>Comprehensive income</b>				
Surplus for the year	-	-	6.8	6.8
<b>Other comprehensive income</b>				
Gains on movements in fair value of cash flow hedging derivatives	-	5.5	-	5.5
Tax relating to components of other comprehensive income	-	(1.7)	-	(1.7)
<b>Total comprehensive income</b>	-	3.8	6.8	10.6
At 30 September 2012	0.1	(10.1)	30.4	20.4

The notes on pages 38 to 68 form part of these financial statements

## Statements of cash flows

For the year ended 30 September 2012

	Note	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	26	126 6	(292 9)	(84 4)	(478 5)
Interest (paid)/received		(155 0)	(130 5)	14 8	17 5
Income tax (paid)/received		(13 0)	(27 8)	1 3	(2 6)
<b>Net cash used in operating activities</b>		<b>(41 4)</b>	<b>(451 2)</b>	<b>(68 3)</b>	<b>(463 6)</b>
<b>Cash flows from investing activities</b>					
Acquisition of subsidiary, net of cash acquired		-	(3 8)	-	(4 1)
Purchase of corporate property, plant and equipment and intangible assets		(18 2)	(7 3)	-	-
Proceeds from sale of corporate property, plant and equipment		0 5	0 4	-	-
<b>Net cash used in investing activities</b>		<b>(17 7)</b>	<b>(10 7)</b>	<b>-</b>	<b>(4 1)</b>
<b>Cash flows from financing activities</b>					
New loans raised		751 6	720 2	751 6	719 2
Bank loans repaid		(625 4)	(263 6)	(622 0)	(255 0)
<b>Net cash generated from financing activities</b>		<b>126 2</b>	<b>456 6</b>	<b>129 6</b>	<b>464 2</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>67 1</b>	<b>(5 3)</b>	<b>61 3</b>	<b>(3 5)</b>
Cash and cash equivalents at beginning of year		(7 8)	(2 5)	31 0	34 5
<b>Cash and cash equivalents at end of year</b>	16	<b>59 3</b>	<b>(7 8)</b>	<b>92 3</b>	<b>31 0</b>

The notes on pages 38 to 68 form part of these financial statements

## Notes to the 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. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 4 and 5.

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

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

#### Accounting convention

The financial statements have been prepared under the historical cost convention, except the revaluation of financial assets and financial liabilities (including derivative instruments) which are valued at fair value through profit or loss.

### 2 Significant accounting policies

#### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Except as described below, the accounting policies have been applied consistently to the years 2012 and 2011.

#### Adoption of new or revised standards

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

Amendments to IFRS 7	<i>Financial Instruments Disclosures</i>
Amendments to IAS 1	<i>Presentation of Financial Statements</i>
IAS 24 (revised)	<i>Related Party Disclosures</i>
Amendments to IAS 34	<i>Interim Financial Reporting</i>
Amendments to IFRIC 13	<i>Customer Loyalty Programmes</i>

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

Amendments to IFRS 7	<i>Financial Instruments Disclosures</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IAS 1	<i>Presentation of Financial Statements</i>
Amendment to IAS 12	<i>Income Taxes</i>
Amendments to IAS 16	<i>Property, Plant and Equipment</i>
Amendment to IAS 19	<i>Employee Benefits</i>
Amendment to IAS 27	<i>Consolidated and Separate Financial Statements</i>
IAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
Amendments to IAS 32	<i>Financial Instruments Presentation</i>
Amendments to IAS 34	<i>Interim Financial Reporting</i>

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

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



## 2 Significant accounting policies continued

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report on pages 8 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 18 to 19. In addition, Note 33 to the accounts includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit, liquidity and foreign exchange risk.

The Group has considerable financial resources together with a long-term contract with Motability to operate the 'Motability Scheme'. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

After making enquiries, 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 the annual report and accounts.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The net assets and results of acquired businesses are included in the consolidated financial statements from their respective dates of acquisition, being the date on which the Group obtains control.

All intra-Group transactions and balances are eliminated on consolidation.

### Investment in subsidiaries

The Company's investments in its subsidiaries are stated at cost less any provision for impairment in the Parent Company's balance sheet. Impairment provisions are charged to the income statement.

### Intangible assets

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

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and provision for any impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The carrying values of all property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

### Assets held for use in operating leases

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the net carrying value of the operating lease assets, which were previously held for use in operating leases and then become held for sale, as at the date of the transfer to inventory. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Revenue recognition

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

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

Proceeds from disposal of operating lease assets are recognised when the significant risks and rewards of ownership of the assets have been transferred to the buyer.

### Deferred income – maintenance

Rental income in respect of vehicle maintenance is deferred to the extent that it relates to future maintenance activities. See note 19.

### Deferred income – vehicle condition

Rental income is deferred on a straight-line basis over the life of the lease to the extent that it is expected to be repaid to lessees for returning leased assets in good condition. See note 19.

### Notes to the financial statements continued

#### 2 Significant accounting policies continued

##### Leasing obligations

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

##### Net operating costs

Net operating costs comprise net book value of disposed operating lease assets, depreciation, insurance, maintenance, dealer supply and service payments, roadside assistance and other Scheme-related costs including the Motability levy (see note 30) and overheads. An analysis is provided in note 6

Overheads include the cost to the Group of the Directors' long-term incentives, recognised on an accruals basis over the period to which the performance criteria relate, adjusted for changes in the probability of performance criteria being met or conditional awards lapsing

##### Finance costs

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

##### Retirement benefit costs

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

##### Taxation

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

Current tax is the expected tax payable on the surplus for the period, using tax rates enacted or substantively enacted by the balance sheet date

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

##### Provision for other liabilities

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

##### Share capital

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

##### Financial instruments

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

##### Foreign currency translation

During the period, and in the previous period, the Company issued fixed-rate Eurobonds and at the same time entered into cross-currency interest rate swap arrangements to hedge its foreign currency risk. The Company's overall interest rate risk management strategy is to transform all new issued foreign denominated debt into the Company's functional currency of Sterling

Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at rates of exchange prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the rates of exchange prevailing on the dates of the transactions. Individual transactions denominated in foreign currencies are translated into Sterling at the exchange rates prevailing on the dates payment takes place. Gains and losses arising on retranslation are, with the exception of the effective portion of foreign exchange gains or losses on debt instruments designated as hedging instruments in a cash flow hedge relationship, included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them. The Group hedged all its foreign currency risks on the Eurobonds and does not have any other monetary assets or liabilities in foreign currencies

##### Financial assets

###### Trade and other receivables

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

Trade receivables do not carry any interest and are stated at their nominal value, which approximates to the fair value because of their short maturities, as reduced by appropriate allowances for estimated irrecoverable amounts

###### Hire purchase receivables

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

Assets purchased by customers under hire purchase contracts are included in 'hire purchase receivables' at gross amount receivable, less unearned finance charges. Finance income is recognised over the lease term using a net investment method so as to reflect a constant periodic rate of return on the Group's net investment in the contract. Hire purchase receivable balances also include an allowance for estimated irrecoverable amounts by reference to past default experience

## 2 Significant accounting policies continued

### Financial assets continued

#### Cash and bank balances

Cash and bank balances comprise cash held by the Group, cash in the course of transmission and collection, and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### Financial liabilities including trade and other payables

##### Trade and other payables

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

Trade and other payables are short-term financial liabilities which do not carry any interest and are stated at nominal value, which approximates to the fair value because of their short maturities.

##### Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. They are subsequently held at amortised cost. Any difference between the amount on initial recognition and the redemption value is recognised in the income statement using the effective interest method.

Short-term financial liabilities, such as bank overdrafts, are measured at nominal value, which approximates to the fair value because of their short maturities.

##### Derivative financial instruments

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk. Further details of derivative financial instruments are disclosed in note 22 to the financial statements.

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

##### Hedge accounting

The Group designates hedging instruments, mainly interest rate and cross-currency swaps, as cash flow hedges. Hedges of interest rate risk on firm commitments are accounted for as cash flow hedges.

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

Note 22 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the fair value reserve (net of tax effects) are also detailed in the statement of changes in equity.

##### Cash flow hedge

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item is recognised in profit or loss. The gain/loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. Any gain or loss relating to the ineffective portion is recognised in the income statement as 'other gains/(losses)'.

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

## Notes to the 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 13

#### Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2012, if the future value of the net sale proceeds for our existing portfolio of operating leases were to (decrease)/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used car market), the effect would be to (decrease)/increase the depreciation on these vehicles by £38.9m (2011: £36.2m). This change in depreciation would be charged /credited to depreciation expense on operating leases over the remaining terms of the operating leases so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value

### 4 Revenue

An analysis of the Group's revenue is provided below

	2012 £m	2011 £m
Rentals receivable from operating leases	1,746.7	1,593.0
Proceeds from disposal of operating lease assets	1,367.8	1,258.4
Other income	6.5	1.1
Hire purchase earnings	4.6	7.2
Contingent rentals	0.5	0.5
Finance income	0.2	0.7
<b>Total revenue</b>	<b>3,126.3</b>	<b>2,860.9</b>

Contingent rentals relate to variable charges for excess mileage

## 5 Segmental analysis

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

## 6 Net operating costs

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

	2012 £m	2011 £m
Net book value of disposed operating lease assets	1,296.2	1,218.5
Fleet operating costs including insurance, maintenance and roadside assistance costs	475.0	409.2
Other operating costs	44.7	45.0
Employee costs	41.7	40.0
Other product costs including continuous mobility costs, adaptations support, communications	24.2	21.8
Legal and professional fees	14.4	12.9
Motability levy and rebates	10.2	7.3
Management fees	1.4	2.5
Bad debt charges and movement in bad debt provisions	1.3	7.6
Donation to the Motability Tenth Anniversary Trust	–	30.0
<b>Net operating costs before depreciation</b>	<b>1,909.1</b>	<b>1,794.8</b>
Depreciation on assets used in operating leases (*)	787.5	683.5
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	4.1	5.4
<b>Net operating costs</b>	<b>2,700.7</b>	<b>2,483.7</b>

(\*) The depreciation charge on assets used in operating leasing includes a £29.6m charge (2011: £21.4m release) relating to the change in estimate during the year of future residual values (see note 13).

## 7 Auditors' remuneration

	2012	2011
Auditors' remuneration – Audit fees for Group and Parent Company financial statements	£140,000	£140,000
<b>Total audit fees</b>	<b>£140,000</b>	<b>£140,000</b>
Audit fees paid on behalf of subsidiaries	£90,000	£95,000
Audit-related assurance services	£45,000	£45,000
Tax compliance services	£0	£0
Tax advisory services	£0	£0
Internal audit services	£0	£0
Other assurance services	£37,000	£35,000
Corporate finance services	£0	£0
<b>Total other fees payable to Auditors</b>	<b>£172,000</b>	<b>£175,000</b>

## Notes to the financial statements continued

### 8 Employee costs

The average monthly number of persons employed on a full time equivalent basis (including Executive Directors) was

#### Group

	2012	2011
Administrative staff	762	734

	2012 £m	2011 £m
The breakdown of staff costs is as follows		
Wages and salaries	34.4	33.4
Pensions and healthcare benefits	3.3	3.0
Social security costs	4.0	3.6
<b>Total employee costs</b>	<b>41.7</b>	<b>40.0</b>

### 9 Finance costs

	2012 £m	2011 £m
Interest and charges on bank loans and overdrafts	35.6	36.2
Interest on debt issued under the Euro Medium Term Note Programme	129.6	107.1
Preference dividends	0.7	0.7
<b>Total finance costs</b>	<b>165.9</b>	<b>144.0</b>

### 10 Taxation

The major components of the Group tax expense are

	2012 £m	2011 £m
<b>Current tax</b>		
Charge for the year	13.4	8.0
<b>Total</b>	<b>13.4</b>	<b>8.0</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	52.0	55.7
Impact of change in UK tax rate	(40.0)	(36.4)
<b>Total</b>	<b>12.0</b>	<b>19.3</b>
<b>Tax on surplus</b>	<b>25.4</b>	<b>27.3</b>

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

	2012 £m	2011 £m
Surplus before taxation	259.7	233.2
Tax calculated at appropriate tax rates applicable to surplus	65.0	63.0
Expenses not deductible for tax purposes	0.4	0.7
Adjustment relating to prior years deferred tax	-	(0.1)
Adjustments recognised in the current year in relation to the current tax of prior years	-	0.1
Re-measurement of deferred tax due to change in the UK corporation tax rate	(40.0)	(36.4)
<b>Total tax on surplus</b>	<b>25.4</b>	<b>27.3</b>

The weighted average applicable tax rate is 25% (2011 27%)

An analysis of the impact of the change in UK tax rates is disclosed in note 24

## 11 Intangible assets Group

	Acquired rights on lease contracts £m	Computer software £m	Total £m
<b>Cost</b>			
At 1 October 2010	-	7.6	7.6
Additions	1.4	2.5	3.9
Derecognition	(1.4)	-	(1.4)
At 1 October 2011	-	10.1	10.1
Additions	-	6.2	6.2
At 30 September 2012	-	16.3	16.3
<b>Accumulated amortisation and impairment</b>			
At 1 October 2010	-	4.2	4.2
Amortisation charge for the year	-	2.5	2.5
Impairment charge for the year	1.4	-	1.4
Derecognition	(1.4)	-	(1.4)
At 1 October 2011	-	6.7	6.7
Amortisation charge for the year	-	1.8	1.8
At 30 September 2012	-	8.5	8.5
<b>Carrying amount</b>			
At 1 October 2010	-	3.4	3.4
Additions	1.4	2.5	3.9
Amortisation	-	(2.5)	(2.5)
Impairment	(1.4)	-	(1.4)
At 1 October 2011	-	3.4	3.4
Additions	-	6.2	6.2
Amortisation	-	(1.8)	(1.8)
At 30 September 2012	-	7.8	7.8

The intangible assets relate to IT projects held by the Company's wholly-owned subsidiary Motability Operations Limited

Acquired rights on lease contracts arising from the acquisition of Route2mobility Limited held by the Company were derecognised in the year ending 30 September 2011

At 30 September 2012, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £nil (2011: £nil)

## Notes to the financial statements continued

### 12 Property, plant and equipment Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2010	1.7	5.4	6.1	13.2
Additions	0.9	1.6	2.3	4.8
Acquisition of subsidiary	0.1	-	0.1	0.2
Disposals	(0.8)	-	(0.1)	(0.9)
At 1 October 2011	1.9	7.0	8.4	17.3
Additions	0.8	8.1	3.1	12.0
Disposals	(0.8)	-	-	(0.8)
At 30 September 2012	1.9	15.1	11.5	28.5
<b>Accumulated depreciation</b>				
At 1 October 2010	0.7	4.0	5.4	10.1
Charge for the year	0.4	0.4	0.7	1.5
Acquisition of subsidiary	-	-	0.1	0.1
Eliminated on disposals	(0.5)	-	(0.1)	(0.6)
At 1 October 2011	0.6	4.4	6.1	11.1
Charge for the year	0.4	0.6	1.3	2.3
Eliminated on disposals	(0.4)	-	-	(0.4)
At 30 September 2012	0.6	5.0	7.4	13.0
<b>Carrying amount</b>				
At 1 October 2010	1.0	1.4	0.7	3.1
Additions	0.9	1.6	2.3	4.8
Acquisition of subsidiary	0.1	-	-	0.1
Disposals	(0.3)	-	-	(0.3)
Depreciation	(0.4)	(0.4)	(0.7)	(1.5)
At 1 October 2011	1.3	2.6	2.3	6.2
Additions	0.8	8.1	3.1	12.0
Disposals	(0.4)	-	-	(0.4)
Depreciation	(0.4)	(0.6)	(1.3)	(2.3)
At 30 September 2012	1.3	10.1	4.1	15.5

At 30 September 2012, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £11.8m (2011: £10.6m). These amounts relate to the premises improvement programme.



### 13 Assets held for use in operating leases Group

	Motor vehicle assets £m
<b>Cost</b>	
At 1 October 2010	5,226.1
Additions	2,608.0
Acquisition of subsidiary	20.0
Transfer to inventory	(1,813.4)
At 1 October 2011	6,040.7
Additions	2,427.6
Transfer to inventory	(1,844.3)
At 30 September 2012	6,624.0
<b>Accumulated depreciation</b>	
At 1 October 2010	960.0
Charge for the year	683.5
Acquisition of subsidiary	11.9
Eliminated on transfer to inventory	(591.3)
At 1 October 2011	1,064.1
Charge for the year	787.5
Eliminated on transfer to inventory	(540.2)
At 30 September 2012	1,311.4
<b>Carrying amount</b>	
At 1 October 2010	4,266.1
Additions	2,608.0
Acquisition of subsidiary	8.1
Depreciation	(683.5)
Transfer to inventory (note 14)	(1,222.1)
At 1 October 2011	4,976.6
Additions	2,427.6
Depreciation	(787.5)
Transfer to inventory (note 14)	(1,304.1)
At 30 September 2012	5,312.6

#### Residual values

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

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

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

#### Years in which unguaranteed residual values are recovered

	2012 £m	2011 £m
No later than one year	1,142.5	951.6
Later than one year and not later than two years	1,306.6	1,134.7
Later than two years and not later than five years	1,445.3	1,531.9
<b>Total exposure</b>	<b>3,894.4</b>	<b>3,618.2</b>

**Notes to the financial statements continued**
**13 Assets held for use in operating leases continued**

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

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

	2012 £m	2011 £m
Prior years	(20.0)	(0.1)
Current year	(29.6)	21.4
Amounts carried at 30 September	(49.6)	21.3
Amounts to be charged in future years	(72.1)	(34.6)
<b>Total effect of changes in estimated residual value</b>	<b>(121.7)</b>	<b>(13.3)</b>

**The Group and Company as lessor**

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

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
No later than one year	1,429.1	1,178.2	-	-
Later than one year and not later than two years	848.5	721.6	-	-
Later than two years and not later than five years	338.5	276.6	-	-
<b>Total</b>	<b>2,616.1</b>	<b>2,176.4</b>	<b>-</b>	<b>-</b>

**14 Inventories**

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Ex-operating lease assets held for sale	68.9	61.0	-	-
Provisions	(0.5)	(0.3)	-	-
<b>Ex-operating lease assets held for sale (net)</b>	<b>68.4</b>	<b>60.7</b>	<b>-</b>	<b>-</b>

Inventories represent the operating lease assets previously held for rental to others and which cease to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £0.5m has been provided against irrecoverable vehicles (2011: £0.3m).

The cost of inventories recognised as expense and included in net operating costs amounted to £1,296.2m (2011: £1,218.5m).

The movements of the inventories in 2012 and 2011 are as follows:

	£m
At 1 October 2010	57.4
Transfer from operating lease assets (note 13)	1,222.1
Disposals	(1,218.5)
At 1 October 2011	61.0
Transfer from operating lease assets (note 13)	1,304.1
Disposals	(1,296.2)
<b>At 30 September 2012</b>	<b>68.9</b>

## 15 Investment in subsidiaries

	2012 £m	2011 £m
Investments in subsidiaries at 30 September	12.6	12.6

The Company's subsidiaries are set out below

Directly owned	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Operations Limited	100%	Operation of the Scheme
Motability Leasing Limited	100%	Financing of Scheme contract hire agreements
Motability Hire Purchase Limited	100%	Financing of Scheme hire purchase agreements
Route2mobility Limited	100%	Financing of Scheme powered wheelchair and scooter agreements

All of the above subsidiaries are incorporated in Great Britain. The Directors consider the value of the investments to be supported by underlying assets.

### Loans to other Group companies

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Motability Leasing Limited	-	-	3,371.1	3,203.6
Motability Hire Purchase Limited	-	-	7.3	32.0
<b>Total</b>	-	-	<b>3,378.4</b>	<b>3,235.6</b>

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Loans to other Group companies – current	-	-	43.4	40.4
Loans to other Group companies – non-current	-	-	3,335.0	3,195.2
<b>Total</b>	-	-	<b>3,378.4</b>	<b>3,235.6</b>

The loans to other Group companies do not have a defined maturity. The current balance represents interest, charged on an arm's length basis.

## 16 Cash and bank balances

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Cleared balances	95.5	32.3	92.3	31.0
Cash in the course of collection	7.0	1.4	-	-
<b>Cash and bank balances</b>	<b>102.5</b>	<b>33.7</b>	<b>92.3</b>	<b>31.0</b>

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Cleared balances	-	-	-	-
Cash in the course of transmission	(43.2)	(41.5)	-	-
<b>Bank overdrafts</b>	<b>(43.2)</b>	<b>(41.5)</b>	<b>-</b>	<b>-</b>

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

For the purposes of the statements of cash flows, cash and cash equivalents are as follows

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Cash and bank balances	102.5	33.7	92.3	31.0
Bank overdrafts	(43.2)	(41.5)	-	-
<b>Total cash and cash equivalents</b>	<b>59.3</b>	<b>(7.8)</b>	<b>92.3</b>	<b>31.0</b>

**Notes to the financial statements continued**
**17 Hire purchase receivables**

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
<b>Gross repayments receivable</b>				
No later than one year	18 7	27 1	-	-
Later than one year and not later than five years	24 6	44 8	-	-
<b>Total</b>	<b>43 3</b>	<b>71 9</b>	<b>-</b>	<b>-</b>
<b>Unearned income receivable</b>				
No later than one year	(2 7)	(4 9)	-	-
Later than one year and not later than five years	(2 0)	(4 2)	-	-
<b>Total</b>	<b>(4 7)</b>	<b>(9 1)</b>	<b>-</b>	<b>-</b>
Net total within one year	16 0	22 2	-	-
Net total due in the second to fifth years inclusive	22 6	40 6	-	-
<b>Present value of minimum hire purchase receivables</b>	<b>38 6</b>	<b>62 8</b>	<b>-</b>	<b>-</b>

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

Hire purchase receivable balances are secured over the vehicles subject to hire purchase contracts. The Group is not permitted to sell or re-pledge the collateral in the absence of default by the customer

The interest rate inherent in hire purchase agreements is fixed at the contract date. The effective interest rate ranges between 8% and 10% per annum, and reflects provision for early termination losses and other costs (2011: 8% – 10%)

Hire purchase receivable balances include an allowance for estimated irrecoverable amounts of £0.1m (2011: £1.0m). This allowance has been made by reference to past default experience. There are no hire purchase receivables which are past due at the reporting date.

The fair value of the hire purchase receivables as at 30 September 2012 is estimated to be £38.7m (2011: £63.1m) using discount rates based on the market rate for similar consumer credit transactions.

**18 Trade and other receivables**

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Trade receivables	64 9	60 1	-	-
Other receivables	63 6	69 2	-	-
Prepayments and accrued income	103 9	81 1	18 5	10 5
<b>Total</b>	<b>232 4</b>	<b>210 4</b>	<b>18 5</b>	<b>10 5</b>
Included in current assets	218 9	210 4	18 5	10 5
Included in non-current assets	13 5	-	-	-
<b>Total</b>	<b>232 4</b>	<b>210 4</b>	<b>18 5</b>	<b>10 5</b>

Trade receivables include an allowance for estimated irrecoverable amounts of £4.2m (2011: £7.1m). This allowance has been made by reference to past default experience. The average receivable days period is four days (2011: three days).

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

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

Included in the Group's trade receivable balance are receivables with a carrying value of £11.3m (2011: £1.4m) which are past due at the reporting date. The Group has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances. The average past due period of these receivables is nine days (2011: ten days).

Ageing of past due but not impaired receivables

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Past due by 1-30 days	10 5	1 3	-	-
Past due by 31-60 days	0 6	-	-	-
Past due by 61-90 days	0 1	0 1	-	-
Past due by 91-120 days	-	-	-	-
Past due by more than 120 days	0 1	-	-	-
<b>Total</b>	<b>11 3</b>	<b>1 4</b>	<b>-</b>	<b>-</b>

## 19 Deferred income

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Customers' advance payments (*)	122.7	101.4	-	-
Vehicle maintenance income	20.5	13.7	-	-
End of contract bonus income	35.3	31.3	-	-
<b>Total current</b>	<b>178.5</b>	<b>146.4</b>	<b>-</b>	<b>-</b>
Customers' advance payments (*)	99.7	109.9	-	-
Vehicle maintenance income	44.1	44.5	-	-
End of contract bonus income	28.2	26.9	-	-
<b>Total non-current</b>	<b>172.0</b>	<b>181.3</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>350.5</b>	<b>327.7</b>	<b>-</b>	<b>-</b>

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

## 20 Trade and other payables

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Trade payables	64.7	50.7	-	-
Social security and other taxes	1.1	1.0	-	-
Accruals	76.3	74.4	-	-
Other payables	0.9	2.1	103.3	42.6
Advance payments received from DWP	2.0	3.9	-	-
<b>Total</b>	<b>145.0</b>	<b>132.1</b>	<b>103.3</b>	<b>42.6</b>

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

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2011: 30 days).

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

## Notes to the financial statements continued

### 21 Financial liabilities

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
<b>Current</b>				
Accrued interest and coupon	46 4	35 2	46 4	35 2
Bank overdrafts	43 2	41 5	-	-
Bank loans	0 1	3 5	-	-
<b>Total current</b>	<b>89 7</b>	<b>80 2</b>	<b>46 4</b>	<b>35 2</b>
<b>Non-current</b>				
Bank loans	498 1	1,120 1	498 1	1,120 0
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	2,763 7	2,063 7	2,763 7	2,063 7
Preference shares	10 0	10 0	10 0	10 0
<b>Total non-current</b>	<b>3,271 8</b>	<b>3,193 8</b>	<b>3,271 8</b>	<b>3,193 7</b>
<b>Total</b>	<b>3,361 5</b>	<b>3,274 0</b>	<b>3,318 2</b>	<b>3,228 9</b>

The financial liabilities are repayable as follows

On demand no later than one year	89 7	80 2	46 4	35 2
Later than one year and no later than two years	-	1,120 1	-	1,120 0
Later than two years and no later than five years	995 5	496 6	995 5	496 6
Later than five years	2,276 3	1,577 1	2,276 3	1,577 1
<b>Total</b>	<b>3,361 5</b>	<b>3,274 0</b>	<b>3,318 2</b>	<b>3,228 9</b>

All borrowings are denominated in (or swapped into) Sterling

#### Bank borrowings

All bank borrowings as at 30 September 2012 and 2011 are at floating rates

As at 30 September 2012 the Group has the following principal bank loans

- A three-year term loan of £0.5 billion taken out on 19 January 2012 (2011: £1 billion five-year term loan taken out on 26 June 2008). Loan repayment date is 19 January 2015.
- Five-year revolving credit facilities of £1.5 billion taken out on 19 January 2012 (2011: £0.9 billion five-year revolving credit facility taken out on 26 June 2008) of which £nil was drawn as at 30 September 2012 (2011: £120m). Facility repayment date is 19 January 2017.

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

#### Debt issued under the Euro Medium Term Note Programme

The Company has a £4 billion Euro Medium Term Note Programme with denominations of GBP 50,000. The bonds were admitted to trading on London Stock Exchange's regulated market and have been admitted to the Official List. The £4 billion Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by three subsidiaries, namely Motability Operations Limited, Motability Leasing Limited and Motability Hire Purchase Limited. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by these companies.

During the year, the Company issued two additional fixed-rate bonds under this programme: a Sterling bond with a semi-annual coupon of 4.375% and a nominal value of £300m, and a Euro-denominated bond with an annual coupon rate of 3.25% and a nominal value of €550m.

#### 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.

## 21 Financial liabilities continued

The weighted average interest rates on borrowings as at 30 September 2012 and 30 September 2011 were as follows

	2012 Group %	2011 Group %	2012 Company %	2011 Company %
Current bank loans and overdrafts	1.5	1.4	–	–
Non-current bank loans	1.8	1.5	1.8	1.5
Non-current debt issued under the Euro Medium Term Note Programme	5.0	5.4	5.0	5.4
Non-current preference shares	7.0	7.0	7.0	7.0

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

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Working capital facility	100.0	100.0	95.0 <sup>(*)</sup>	95.0 <sup>(*)</sup>
Revolving credit facility	1,500.0	780.0	1,500.0	780.0
<b>Total</b>	<b>1,600.0</b>	<b>880.0</b>	<b>1,595.0</b>	<b>875.0</b>

(\*) Working capital facilities of the Group are cross guaranteed between Group companies Motability Operations Limited and Motability Operations Group plc

Undrawn committed facilities expire as follows

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
No later than one year	5.0	5.0	–	–
Later than one year and no later than two years	–	780.0	–	780.0
Later than two years and no later than five years	1,595.0	95.0	1,595.0	95.0
<b>Total</b>	<b>1,600.0</b>	<b>880.0</b>	<b>1,595.0</b>	<b>875.0</b>

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

	2012 Group carrying amount £m	2012 Group fair value £m	2012 Company carrying amount £m	2012 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	89.7	89.7	46.4	46.4
Non-current debt issued under the Euro Medium Term Note Programme (*)	2,763.7	3,214.2	2,763.7	3,214.2
Non-current bank loans	498.1	498.1	498.1	498.1
Non-current preference shares	10.0	13.8	10.0	13.8
<b>Total</b>	<b>3,361.5</b>	<b>3,815.8</b>	<b>3,318.2</b>	<b>3,772.5</b>

(\*) Amounts are shown net of unamortised discount, fee and transaction costs

	2011 Group carrying amount £m	2011 Group fair value £m	2011 Company carrying amount £m	2011 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	80.2	80.2	35.2	35.2
Non-current debt issued under the Euro Medium Term Note Programme (*)	2,063.7	2,266.9	2,063.7	2,266.9
Non-current bank loans	1,120.1	1,120.1	1,120.0	1,120.0
Non-current preference shares	10.0	13.1	10.0	13.1
<b>Total</b>	<b>3,274.0</b>	<b>3,480.3</b>	<b>3,228.9</b>	<b>3,435.2</b>

(\*) Amounts are shown net of unamortised discount, fee and transaction costs

As at 30 September 2012, the fair value of current and non-current bank loans approximates to their carrying values, because all the bank loans carry floating interest rates. The fair value of preference shares for disclosure purposes is estimated by discounting the cash flows at a discount rate which is derived from the yield curve at the balance sheet date. The fair value of the debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on the market data at the balance sheet date.

## Notes to the financial statements continued

### 22 Derivative financial instruments

	Group 2012		Company 2012	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
<b>Cash flow hedges</b>				
Cross-currency swaps	(62.4)	885.0	(62.4)	885.0
Interest rate swaps	(0.6)	400.0	(0.6)	400.0
<b>Total</b>	<b>(63.0)</b>	<b>1,285.0</b>	<b>(63.0)</b>	<b>1,285.0</b>
Included in non-current liabilities	(62.4)	885.0	(62.4)	885.0
Included in current liabilities	(0.6)	400.0	(0.6)	400.0
<b>Derivative financial instrument liabilities</b>	<b>(63.0)</b>	<b>1,285.0</b>	<b>(63.0)</b>	<b>1,285.0</b>

	Group 2011		Company 2011	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
<b>Cash flow hedges</b>				
Cross-currency swaps	(7.2)	425.2	(7.2)	425.2
Interest rate swaps	(7.2)	900.0	(7.2)	900.0
<b>Total</b>	<b>(14.4)</b>	<b>1,325.2</b>	<b>(14.4)</b>	<b>1,325.2</b>
Included in non-current liabilities	(7.2)	425.2	(7.2)	425.2
Included in current liabilities	(7.2)	900.0	(7.2)	900.0
<b>Derivative financial instrument liabilities</b>	<b>(14.4)</b>	<b>1,325.2</b>	<b>(14.4)</b>	<b>1,325.2</b>

#### Cross-currency swaps

On 29 November 2010, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 3.75% is fully swapped into the GBP rate of 4.242%.

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

#### Interest rate swaps

At 30 September 2012, the fixed interest rates vary from 0.699% to 0.745% (2011: the fixed interest rates vary from 1.92% to 2.45%) 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 30 September 2012 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.

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
No later than one year	(4.6)	(9.2)	(4.6)	(9.2)
Later than one year and no later than two years	(7.9)	(4.2)	(7.9)	(4.2)
Later than two years and no later than five years	(8.2)	(4.2)	(8.2)	(4.2)
Later than five years	11.4	4.8	11.4	4.8
<b>Total</b>	<b>(9.3)</b>	<b>(12.8)</b>	<b>(9.3)</b>	<b>(12.8)</b>

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



## 23 Provision for other liabilities

	Group £m
At 1 October 2010	19
Additional provision in the year	02
At 1 October 2011	21
Additional provision in the year	-
At 30 September 2012	21
Included in current liabilities	21
Included in non-current liabilities	-
Total	21

The provision for other liabilities has been set up in respect of obligations arising due to dilapidations payable at the end of operating leases on the properties occupied by the Group. These provisions are expected to be fully utilised in the next financial year.

## 24 Deferred tax

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

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Total £m
Net at 1 October 2010	437.2	(1.3)	(3.2)	432.7
Charge to income	55.4	0.3	-	55.7
(Credit)/charge to income due to change in UK tax rate	(35.1)	0.1	-	(35.0)
Credit to equity	-	-	(1.9)	(1.9)
Charge to equity due to change in UK tax rate	-	-	0.3	0.3
Acquisition of subsidiary	1.0	(0.1)	-	0.9
Adjustment in respect of prior periods	(1.3)	-	-	(1.3)
Net at 1 October 2011	457.2	(1.0)	(4.8)	451.4
Charge to income	52.0	-	-	52.0
(Credit)/charge to income due to change in UK tax rate	(40.1)	0.1	-	(40.0)
Charge to equity	-	-	1.5	1.5
Charge to equity due to change in UK tax rate	-	-	0.2	0.2
Net at 30 September 2012	469.1	(0.9)	(3.1)	465.1

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (as the deferred taxes relate to the same fiscal authority). The presentation of the deferred tax on the balance sheet is as follows,

	2012 £m	2011 £m
Deferred tax asset	(5.8)	(7.3)
Deferred tax liabilities	470.9	458.7
Net at 30 September	465.1	451.4

During the year, as a result of the change in the UK corporation tax rate from 26% to 24% that was substantively enacted on 26 March 2012 (effective from 1 April 2012) and the subsequent change to 23% substantively enacted on 3 July 2012 (effective from 1 April 2013) the relevant deferred tax balances have been re-measured.

The Government has also announced its intention to reduce the main rate of corporation tax to 22% by 2014/15, with the additional 1% reduction to be substantively enacted in summer 2013. Had this further change been substantively enacted before 30 September 2012, a further £14.7m would have been credited to the tax charge for 2012.

**Notes to the financial statements continued**
**24 Deferred tax continued**

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Total £m
At 1 October 2010	-	-	(3 2)	(3 2)
Charge to income	-	-	-	-
Credit to equity	-	-	(1 9)	(1 9)
Charge to equity due to change in UK tax rate	-	-	0 3	0 3
At 1 October 2011	-	-	(4 8)	(4 8)
Charge to income	-	-	-	-
Charge to equity	-	-	1 5	1 5
Charge to equity due to change in UK tax rate	-	-	0 2	0 2
At 30 September 2012	-	-	(3 1)	(3 1)

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

**25 Share capital**

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

	2012	2011
Authorised		
100,000 Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid		
50,000 Ordinary shares of £1 each (2011 50,000 Ordinary shares of £1 each)	£50,000	£50,000

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

The Company has 10,900,000 authorised 7% redeemable cumulative preference shares of £1 each, classified as a liability, of which 9,950,000 are in issue. These shares do not carry voting rights. Further details are provided in note 21

**26 Cash used in operations**

Reconciliation of surplus to net cash flow from operating activities

	2012 Group £m	2011 Group £m	2012 Company £m	2011 Company £m
Surplus before tax	259 7	233 2	6 8	9 7
Adjustments for				
Depreciation charge on corporate assets	4 1	5 4	-	1 5
Depreciation charge on operating lease assets	787 5	683 5	-	-
Inventory write-down	-	-	-	-
Finance costs	165 9	144 0	(6 8)	(11 2)
Gains on disposal of operating lease assets	(71 6)	(39 9)	-	-
Gains on disposal of corporate assets	(0 1)	(0 2)	-	-
(Decrease)/increase in provisions	(3 6)	2 3	-	-
Operating cash flows before movements in working capital	1,141 9	1,028 3	-	-
Purchase of assets held for use in operating leases	(2,427 6)	(2,608 0)	-	-
Proceeds from sale of assets held for use in operating leases	1,367 8	1,258 4	-	-
Decrease in hire purchase receivables	24 9	14 0	-	-
(Increase)/decrease in other receivables	(15 8)	(63 7)	(5 3)	1 3
Increase in loans to and investment in subsidiaries	-	-	(139 8)	(470 2)
Increase in deferred income	22 8	33 1	-	-
Increase/(decrease) in payables	12 6	45 0	60 7	(9 6)
Cash generated from/(used in) operations	126 6	(292 9)	(84 4)	(478 5)

## 27 Analysis of changes in net debt

Group	At 1 October 2011 £m	Cash flows £m	Non-cash flows £m	At 30 September 2012 £m
Cash and bank balances	33 7	68 8	–	102 5
Borrowings due within one year	(80 2)	0 4	(9 9)	(89 7)
Borrowings due after one year	(1,120 1)	625 4	(3 4)	(498 1)
Debt issued under the Euro Medium Term Note Programme due after one year	(2,063 7)	(751 6)	51 6	(2,763 7)
Preference shares	(10 0)	–	–	(10 0)
<b>Total</b>	<b>(3,240 3)</b>	<b>(57 0)</b>	<b>38 3</b>	<b>(3,259 0)</b>

	At 1 October 2010 £m	Cash flows £m	Non-cash flows £m	At 30 September 2011 £m
Cash and bank balances	34 6	(0 9)	–	33 7
Borrowings due within one year	(53 4)	(1 6)	(25 2)	(80 2)
Borrowings due after one year	(1,375 0)	254 9	–	(1,120 1)
Debt issued under the Euro Medium Term Note Programme due after one year	(1,338 3)	(719 2)	(6 2)	(2,063 7)
Preference shares	(10 0)	–	–	(10 0)
<b>Total</b>	<b>(2,742 1)</b>	<b>(466 8)</b>	<b>(31 4)</b>	<b>(3,240 3)</b>

## 28 Operating lease arrangements

The Group as lessee

	2012 Group £m	2011 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	2 8	3 2

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

	2012 Group £m	2011 Group £m
No later than one year	1 7	3 0
Later than one year and no later than five years	13 3	11 9
Later than five years	25 4	24 5
<b>Total</b>	<b>40 4</b>	<b>39 4</b>

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

## 29 Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the year to 30 September 2012 amounted to £2,754,457 (2011 £2,522,816). Net contributions due at the balance sheet date were £2,587 (2011 £8,114).

### Notes to the financial statements continued

#### 30 Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note (see note 15 for the details of the intercompany transactions). The Group's corporate and finance structures are set out in the Finance Director's review on pages 18 and 19.

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

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

#### Transactions

During the year Motability charitable grants totalling £23.7m (2011: £20.5m) were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf. The Group also paid £6.7m (2011: £5.4m) relating to Motability administration costs (the 'Motability levy').

A further £2.9m (2011: £2.5m) was paid as rebates in respect of grant awards towards advance payments where customers terminated their hire agreements and rebates in respect of grants made where the Group-managed adaptations could not be processed.

In addition, £3.5m (2011: £1.9m) was paid as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair accessible vehicles. £5,113 (2011: £4,285) was donated to Motability's charitable funds during the year.

The funding of the Group and the Company through bank loans is provided by the shareholder banks on commercial terms as detailed in note 21 (see note 9 for details of financing costs on bank loans, £0.1m (2011: £0.2m) of bank charges were also paid during the year). Additionally, total fees of £1.4m (2011: £2.5m) were due to the shareholder banks in proportion to their shareholdings for management services. The reduction this year is because the banks have chosen to waive the advisory element of their fees.

During the year the Group made a donation of £nil (2011: £30m) to The Motability Tenth Anniversary Trust Limited. The principal objective of the Tenth Anniversary Trust is to promote and support the objectives of Motability by making grants and investing in research and special projects to facilitate mobility needs.

#### Remuneration of key management personnel

The remuneration of the key management personnel who are the Directors of the Group is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'.

	2012 £m	2011 £m
Short-term employee benefits	3.1	2.9
Post-employment benefits	0.1	0.2
Other long-term benefits	2.3	2.2
<b>Total</b>	<b>5.5</b>	<b>5.3</b>

### 31 Directors' remuneration

During the year there were five Directors (2011: five) accruing benefits under money purchase pension schemes as well as receiving payments in lieu of pension. The Chairman makes separate provision for pension from his aggregate emoluments.

	2012	2011
<b>Chairman</b>		
Salary	£174,500	£170,000
Benefits	£19,307	£18,535
Aggregate emoluments in respect of qualifying services	£193,807	£188,535
Pension contributions under money purchase pension schemes	£nil	£nil
	2012	2011
<b>Highest-paid Director</b>		
Salary	£487,525	£475,000
Performance related payments	£237,500	£237,500
Payments in lieu of pension (*)	£96,881	£48,958
Benefits	£24,295	£23,394
Aggregate emoluments in respect of qualifying services	£846,201	£784,852
Pension contributions under money purchase pension schemes	£25,000	£69,792
<b>All Directors</b>		
Salary	£1,950,157	£1,900,000
Performance related payments	£765,000	£765,000
Payments in lieu of pension (*)	£263,331	£151,923
Benefits	£109,800	£115,871
Aggregate emoluments in respect of qualifying services	£3,088,288	£2,932,794
Pension contributions under money purchase pension schemes	£128,296	£214,792

(\*) Payments in lieu of pension amounts relate to emoluments where the Remuneration Committee have agreed that Directors can opt to take taxable income instead of pension contribution entitlements under money purchase schemes.

### Long-Term Incentives

In addition to the above, Motability Operations Group plc operates long-term incentive arrangements.

#### Long-Term Incentive Plan (LTIP) A

Until the financial year ended 30 September 2008, the Executive Directors were able to invest a proportion of any awarded bonus into a Long-Term Incentive Plan. This plan was introduced to provide a retention mechanism for key senior individuals and to recognise the importance of long-term strategic objectives as well as short-term goals. The Company's ownership structure precluded the adoption of conventional long-term incentive schemes (principally share option schemes), so LTIP A was introduced as a cash-based scheme under which Directors could elect to deposit up to 50% of any awarded (and accounted) annual performance-related pay into a fund. At the discretion of the Remuneration Committee this fund can then be uplifted in each subsequent year on a basis linked to individual performance. Subject to satisfactory business and individual performance, this accumulated fund would then be released on the third anniversary of the deposit. This LTIP A is now closed and the last releases were in December 2010.

During the year to 30 September 2012, there was nothing remaining to be released of LTIP A (2011: £904,010 was released, including £274,219 in respect of the highest-paid Director).

**Notes to the financial statements continued****31 Directors' remuneration continued****Long-Term Incentive Plan (LTIP) B**

Following the restructuring of the business in June 2008, a revised Long-Term Incentive Plan was introduced for the Executive Directors. The new plan, effective from 1 October 2008, focuses on ensuring that any reward is linked to measurable long-term objectives. As is the case for the original LTIP A, due to the ownership structure of the business, the use of shares or share options is precluded. However, the new LTIP B specifically links any future cash payout with measures of sustained performance aligned to the Company's strategic objectives. LTIP B also takes into account external factors such as the credit rating of the business and is consistent with Financial Services Authority principles in respect of long-term incentives, with performance criteria designed so that units allocated into the plan can both increase and decrease in value. The main features of LTIP B are as follows:

- The Remuneration Committee determines annually, on a discretionary basis, whether LTIP B units should be allocated to any Director. The notional initial value of an allocated unit is £1,000, with the accumulated value varying (up or down) in subsequent years.
- Potential payouts are deferred for three years.
- The value of any potential payout is determined by annual assessment against specific performance requirements in respect of level of customer service, financial reserves adequacy and business culture.
- Potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the plan, the accumulated units can be converted into cash and released. During the reported year to 30 September 2012, in aggregate an allocation of 550 units was made into the plan. These units will not become eligible for possible cash conversion until 2014 (2011: 575 units eligible for release in 2013). In the annual accounts as at September 2011, the 2011 allocation was incorrectly stated as 550 units and should have read 575 units as stated above.

During the year to 30 September 2012, in aggregate £1,922,075 of LTIP B was released, including £570,913 in respect of the highest-paid Director (2011: nil).

**Long-Term Incentive Scheme (LTIS)**

A LTIS for the Chief Executive Officer was introduced effective from 1 October 2010. As regards any future value, the scheme mirrors the LTIP B except in the following respects:

- Any value attaching to units allocated at the discretion of the Remuneration Committee to be paid, subject to continued satisfactory performance and continuing employment, only after the fifth anniversary of the initial allocation and after audit sign off of the Annual Accounts for the year ended September 2015.
- The CEO can elect at the point of allocation that the value of any units be released in five years at the nominal allocation value, thereby forgoing any potential value enhancement but also avoiding the prospect of units having no value. Alternatively the CEO can elect that any allocated units be subject to the same valuation criterion as those applying to LTIP B. That is, the value of any potential payout is determined by annual assessment against specific performance requirements in respect of level of customer service, financial reserves adequacy and business culture. Also, any payout will be impacted by any movements in the Company's credit rating.
- Further allocations may be made at the discretion of the Remuneration Committee in 2013 but there is no opportunity for allocations in 2014 and 2015.
- The CEO has elected that any value attaching to further allocations be determined by reference to the same criteria as those applying to LTIP B.

During the reported year to 30 September 2012, an initial allocation of 87 units (2011: 72 units), each with a nominal value of £1,000, was made. The CEO has elected that these units be subject to the same valuation criteria as those applying to LTIP B. These allocated units will not become eligible for possible cash conversion until late 2015.

**32 Events after the reporting period**

There have been no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2012.

### 33 Funding and financial risk management

#### Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 21, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

The Group's debt funding is provided through the Company via bank loans and debt issuance.

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

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

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

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

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

	2012 £m	2011 £m
Actual capital (restricted reserves and equity share capital)	1,414	1,180
Economic Capital Requirement corridor (100% – 130%)	1,204 – 1,565	986 – 1,282

The Group is not subject to externally imposed regulatory capital requirements.

The Group's debt financing (bank loans) is subject to a customary loan covenant whereby the total Group assets: total net debt ratio is targeted to be no less than 1.25:1. At 30 September 2012 the ratio was 1.71:1, and the Group has complied with the terms of the covenant throughout the period. The covenant ratio is reported on a monthly basis and reviewed by the Directors to ensure there is no breach of the covenant and to take appropriate action if necessary.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

#### Significant accounting policies

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

#### Categories of financial instruments

	2012 Group carrying value £m	2011 Group carrying value £m	2012 Company carrying value £m	2011 Company carrying value £m
<b>Non-derivative financial assets</b>				
Hire purchase receivables	38.6	62.8	–	–
Trade and other receivables	65.0	60.5	–	–
Loans to other Group companies	–	–	3,378.4	3,235.6
Cash and bank balances	102.5	33.7	92.3	31.0
<b>Total non-derivative financial assets</b>	<b>206.1</b>	<b>157.0</b>	<b>3,470.7</b>	<b>3,266.6</b>
<b>Non-derivative financial liabilities</b>				
Trade and other payables	(145.0)	(132.1)	(103.3)	(42.6)
Financial liabilities	(3,361.5)	(3,274.0)	(3,318.2)	(3,228.9)
<b>Total non-derivative financial liabilities</b>	<b>(3,506.5)</b>	<b>(3,406.1)</b>	<b>(3,421.5)</b>	<b>(3,271.5)</b>
<b>Net non-derivative financial instruments</b>	<b>(3,300.4)</b>	<b>(3,249.1)</b>	<b>49.2</b>	<b>(4.9)</b>
<b>Derivative financial instruments</b>				
Interest rate swaps	(0.6)	(7.2)	(0.6)	(7.2)
Cross-currency swaps	(62.4)	(7.2)	(62.4)	(7.2)
<b>Total derivative financial instruments</b>	<b>(63.0)</b>	<b>(14.4)</b>	<b>(63.0)</b>	<b>(14.4)</b>
<b>Total financial instruments</b>	<b>(3,363.4)</b>	<b>(3,263.5)</b>	<b>(13.8)</b>	<b>(19.3)</b>

## Notes to the financial statements continued

### 33 Funding and financial risk management continued

#### Fair value of financial instruments

		2012 Group carrying value £m	2012 Group fair value £m	2011 Group carrying value £m	2011 Group fair value £m
Cash and bank balances	I	102 5	102 5	33 7	33 7
Trade and other receivables	II	65 0	65 0	60 5	60 5
Hire purchase receivables – current	III	16 0	16 8	22 2	23 5
Hire purchase receivables – non-current	III	22 6	21 9	40 6	39 6
Trade and other payables – current	II	(145 0)	(145 0)	(132 1)	(132 1)
Bank loans including bank overdrafts – current	IV	(89 7)	(89 7)	(80 2)	(80 2)
Bank loans – non-current	IV	(498 1)	(498 1)	(1,120 1)	(1,120 1)
Debt issued under the Euro Medium Term Note Programme (*)	III	(2,763 7)	(3,214 2)	(2,063 7)	(2,266 9)
Redeemable preference share liabilities	III	(10 0)	(13 8)	(10 0)	(13 1)
<b>Net non-derivative financial instruments</b>		<b>(3,300 4)</b>	<b>(3,754 6)</b>	<b>(3,249 1)</b>	<b>(3,455 1)</b>
Interest rate swap – cash flow hedge		(0 6)	(0 6)	(7 2)	(7 2)
Cross-currency swap – cash flow hedge		(62 4)	(62 4)	(7 2)	(7 2)
<b>Total</b>		<b>(3,363 4)</b>	<b>(3,817 6)</b>	<b>(3,263 5)</b>	<b>(3,469 5)</b>

(\*) 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

		2012 Company carrying value £m	2012 Company fair value £m	2011 Company carrying value £m	2011 Company fair value £m
Cash and bank balances	I	92 3	92 3	31 0	31 0
Loans to other Group companies	IV	3,378 4	3,378 4	3,235 6	3,395 4
Trade and other payables – current	II	(103 3)	(103 3)	(42 6)	(42 6)
Financial liabilities – current	IV	(46 4)	(46 4)	(35 2)	(35 2)
Bank loans – non-current	IV	(498 1)	(498 1)	(1,120 0)	(1,120 0)
Debt issued under the Euro Medium Term Note Programme (*)	III	(2,763 7)	(3,214 2)	(2,063 7)	(2,266 9)
Redeemable preference share liabilities	III	(10 0)	(13 8)	(10 0)	(13 1)
<b>Net non-derivative financial instruments</b>		<b>49 2</b>	<b>(405 1)</b>	<b>(4 9)</b>	<b>(51 4)</b>
Interest rate swap – cash flow hedge		(0 6)	(0 6)	(7 2)	(7 2)
Cross-currency swap – cash flow hedge		(62 4)	(62 4)	(7 2)	(7 2)
<b>Total</b>		<b>(13 8)</b>	<b>(468 1)</b>	<b>(19 3)</b>	<b>(65 8)</b>

(\*) 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

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

- The carrying value of cash and cash equivalents approximates to the carrying amount due to its short-term nature
- The carrying values less impairment provision of trade and other receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables
- The hire purchase receivables are interest bearing and the inherent interest rate is fixed at the contract date. The fair value of hire purchase receivables for disclosure purposes is estimated by a discount rate based on the market rate for similar consumer credit transactions
- The fair value of 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
- The fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date



### 33 Funding and financial risk management continued

#### Fair value of financial instruments continued

With effect from 1 January 2009, the Group and the Company adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements using the following hierarchy

- 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 liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The only financial instruments of the Group and the Company that are measured subsequent to initial recognition at fair value are interest rate and cross-currency swaps, grouped into level 2

#### Financial risk management objectives

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

The Group's treasury function, operating under the control of the Asset and Liability Management Committee, monitors and manages the financial risks relating to the funding and treasury operations, as well as co-ordinating access to the financial markets. The Treasury Policy of the Group and the principles set out by the Policy are endorsed by the Board and applied through delegated authority to the Chief Executive Officer operating through the Executive Committee and the Asset and Liability Management Committee. The Treasury Policy and treasury control framework are overseen by the Audit Committee.

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

The Group's debt funding is provided through the Company via bank loans and capital markets issuance. As with the capital risk management, the overall funding and financial risk management of the Company is integrated with the funding and financial risk management of the Group and is not managed separately. As with the Group, the Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk. The Company's exposure to these risks is disclosed separately in the related sections below.

#### Interest rate risk management

The Group's revenues arise primarily from operating lease rentals, proceeds from disposal of operating lease assets and hire purchase repayments that are fixed for the period of the contract – typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN programme, the Group and the Company's borrowings are subject to floating interest rates. Borrowings arranged at floating rates of interest expose the Group and Company to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group and Company to fair value interest rate risk.

The Group and the Company seek to minimise cash flow interest rate risk by entering into fixed interest rate swaps to hedge floating rate borrowings. Interest rate swaps are employed to fix the interest rate profile of the borrowings and align these borrowings to the repayment profile of the assets. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the total borrowings should be fixed in nature except where specific short-term dispensations are permitted (and commensurate with the overall funding policy). The Group only hedges the variable rate term borrowings, variable rate working capital facilities are not hedged.

Floating rate debt substantially swapped into fixed interest rates has a carrying value as at 30 September 2012 of £498m (2011 £1,120m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2012 of £2,764m (2011 £2,064m).

The Group and the Company have interest rate swaps of £400m maturing over the next year (2011 £900m, maturing over the next year). Under these swaps the Group and the Company pay an average fixed rate of 0.73% (2011 2.18%).

Funding derived from bonds issuance has increased during the year. Two bonds have been issued, one in Sterling for a nominal amount of £300m (maturing in 2027) and one in Euros for a nominal amount of €550m (maturing in 2018).

#### Foreign exchange risk

The Group is exposed to foreign exchange risk due to the issue of Euro-denominated fixed-rate bonds. This risk has been managed by use of a cross-currency swap to fix the exchange rate on all coupon and principal cash flows from the outset of the bond. In the event of any change in foreign exchange rates, there would be no material effect on the reserves of the Group and the Company.

#### Interest rate sensitivity analysis

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

In the event of any change in interest rates, there would be no material effect on the reserves of the Group and the Company. Although an increase in interest rates will lead to changes in interest payable on borrowings, this will be offset by a corresponding effect in either interest rate swaps or rental increases on new assets purchased during the year.

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax surplus decrease of approximately £1.7m as at 30 September 2012 (2011 £1.5m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

**Notes to the financial statements continued**
**33 Funding and financial risk management continued**
**Interest rate swap contracts**

Under interest rate swap contracts, the Group and the Company agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on future cash flows on the variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using a GBP market yield curve, the results are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

All interest rate swap contracts are designated as cash flow hedges in order to reduce the Group and the Company's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swaps and floating rate borrowings re-fix and settle on the same day each month thereby minimising interest rate exposure further. Interest rate swaps settle net on a monthly basis.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date.

	2012 Average contract fixed interest rate %	2011 Average contract fixed interest rate %	2012 Nominal principal amount £m	2011 Nominal principal amount £m	2012 Fair value £m	2011 Fair value £m
No later than one year	0.73	2.18	400.0	900.0	(0.6)	(7.2)
Later than one year and no later than two years	-	-	-	-	-	-
Later than two years and no later than five years	-	-	-	-	-	-
Later than five years	-	-	-	-	-	-
<b>Total</b>			<b>400.0</b>	<b>900.0</b>	<b>(0.6)</b>	<b>(7.2)</b>

**Cross-currency swap contract**

Under the cross-currency swap contract, the Group and the Company agree to exchange Euro and Sterling amounts of the principal and fixed interest amounts calculated on the principal. This contract enables the Group and the Company to eliminate the risk of changing exchange rates on future cash flows on the foreign currency debt issued. The fair value of the cross-currency swap at the reporting date is determined by discounting the future cash flows using foreign currency spot rates, the results are disclosed below.

The cross-currency swap contract is designated as a cash flow hedge and reduces the Group and the Company's cash flow exposure resulting from variable exchange rates on borrowings. The cross-currency swap eliminates all exchange rate risk by settling on the same day as foreign currency liabilities.

The following table details the notional principal amount and average interest rate of the swap contract outstanding at the reporting date.

	2012 Contract fixed GBP interest rate %	2011 Contract fixed GBP interest rate %	2012 Nominal principal amount £m	2011 Nominal principal amount £m	2012 Fair value £m	2011 Fair value £m
No later than one year	-	-	-	-	-	-
Later than one year and no later than two years	-	-	-	-	-	-
Later than two years and no later than five years	-	-	-	-	-	-
Later than five years	3.94	4.24	885.0	425.2	(62.4)	(7.2)
<b>Total</b>			<b>885.0</b>	<b>425.2</b>	<b>(62.4)</b>	<b>(7.2)</b>

### 33 Funding and financial risk management continued

#### Credit risk management

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

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

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

For the year under review the following figures represent the Group's and the Company's total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2012 and 2011 attributable to banks/financial institutions.

	2012 Total limit £m	2012 Maximum utilisation £m	Balance as at 30 September 2012 £m	2011 Total limit £m	2011 Maximum utilisation £m	Balance as at 30 September 2011 £m
Counterparty credit limit	200.0	147.6	108.7	160.0	316.9	42.5

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. During 2011 the credit limits were temporarily increased to £400m to accommodate temporary surplus liquidity arising from the November 2010 bond issues.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's and the Company's maximum exposure to credit risk. The limit and utilisation calculations consist of monies on deposit, asset fair value of derivatives and a calculated facility utilisation in respect of the interest rate swap notional principal amounts.

#### Liquidity risk management

The Group and the Company are exposed to changes in market conditions which in turn, and over time, could affect the provision of debt available to the Group.

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

The Group policy for managing liquidity risk is to maintain undrawn headroom on its committed banking facilities of at least 20% of borrowings plus one year's projected funding growth. The Group has a three-year bank term loan with 2.3 years until maturity and a five-year revolving credit facility with 4.3 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed rate bonds. The bonds, with average maturities of nine years, provide increased sustainability and diversity to the Group's funding profile.

The Group continuously monitors forecast and actual cash flows. Included in note 21 is a description of additional undrawn facilities that the Group has at its disposal.

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

#### Group

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Financial liabilities – bank loans – variable interest rate	1.83	(9.1)	(512.0)	–	–	(521.1)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.02	(142.4)	(284.8)	(758.9)	(2,903.9)	(4,090.0)
Financial liabilities – bank overdrafts and short-term borrowings	1.50	(43.2)	–	–	–	(43.2)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	–	(145.0)	–	–	–	(145.0)
<b>Total</b>		<b>(340.4)</b>	<b>(798.2)</b>	<b>(760.3)</b>	<b>(2,915.2)</b>	<b>(4,814.1)</b>

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

## Financial statements

### Notes to the financial statements continued

#### 33 Funding and financial risk management continued

##### Liquidity risk management continued

###### Group

	2011 Weighted average interest rate %	2011 Under 1 year £m	2011 Between 1-3 years £m	2011 Between 3-5 years £m	2011 Over 5 years £m	2011 Total £m
Financial liabilities – bank loans – variable interest rate	1.55	(20.7)	(1,133.2)	-	-	(1,153.9)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.42	(112.5)	(224.9)	(725.1)	(2,080.2)	(3,142.7)
Financial liabilities – bank overdrafts and short-term borrowings	1.50	(45.0)	-	-	-	(45.0)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	-	(132.1)	-	-	-	(132.1)
<b>Total</b>		<b>(311.0)</b>	<b>(1,359.5)</b>	<b>(726.5)</b>	<b>(2,091.5)</b>	<b>(4,488.5)</b>

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

###### Company

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Financial liabilities – bank loans – variable interest rate	1.83	(9.0)	(512.0)	-	-	(521.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.02	(142.4)	(284.8)	(758.9)	(2,903.9)	(4,090.0)
Financial liabilities – bank overdrafts and short-term borrowings	-	-	-	-	-	-
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	-	(103.3)	-	-	-	(103.3)
<b>Total</b>		<b>(255.4)</b>	<b>(798.2)</b>	<b>(760.3)</b>	<b>(2,915.2)</b>	<b>(4,729.1)</b>

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

###### Company

	2011 Weighted average interest rate %	2011 Under 1 year £m	2011 Between 1-3 years £m	2011 Between 3-5 years £m	2011 Over 5 years £m	2011 Total £m
Financial liabilities – bank loans – variable interest rate	1.55	(17.2)	(1,133.1)	-	-	(1,150.3)
Financial liabilities – debt issued under Euro Medium Term Note Programme – fixed interest rate	5.42	(112.5)	(224.9)	(725.1)	(2,080.2)	(3,142.7)
Financial liabilities – bank overdrafts and short-term borrowings	-	-	-	-	-	-
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	-	(42.6)	-	-	-	(42.6)
<b>Total</b>		<b>(173.0)</b>	<b>(1,359.4)</b>	<b>(726.5)</b>	<b>(2,091.5)</b>	<b>(4,350.4)</b>

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

### 33 Funding and financial risk management continued

#### Liquidity risk management continued

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

The table has been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities.

#### Group

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Interest rate swaps	0.73	(0.6)	-	-	-	(0.6)
Cross-currency swaps	3.94	(18.2)	(10.7)	(10.3)	(23.2)	(62.4)

#### Group

	2011 Weighted average interest rate %	2011 Under 1 year £m	2011 Between 1-3 years £m	2011 Between 3-5 years £m	2011 Over 5 years £m	2011 Total £m
Interest rate swaps	2.18	(7.2)	-	-	-	(7.2)
Cross-currency swaps	4.24	(9.2)	(3.4)	(3.3)	8.7	(7.2)

#### Company

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Interest rate swaps	0.73	(0.6)	-	-	-	(0.6)
Cross-currency swaps	3.94	(18.2)	(10.7)	(10.3)	(23.2)	(62.4)

#### Company

	2011 Weighted average interest rate %	2011 Under 1 year £m	2011 Between 1-3 years £m	2011 Between 3-5 years £m	2011 Over 5 years £m	2011 Total £m
Interest rate swaps	2.18	(7.2)	-	-	-	(7.2)
Cross-currency swaps	4.24	(9.2)	(3.4)	(3.3)	8.7	(7.2)

**Notes to the financial statements continued**
**33 Funding and financial risk management continued**
**Liquidity risk management continued**

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

**Group**

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Hire purchase receivables – fixed interest rate	9.4	18.8	20.9	3.7	0.1	43.5
Trade and other receivables – non-interest bearing	–	218.9	13.5	–	–	232.4
Cash and bank balances – non-interest bearing	–	102.5	–	–	–	102.5
<b>Total</b>		<b>340.2</b>	<b>34.4</b>	<b>3.7</b>	<b>0.1</b>	<b>378.4</b>

**Group**

	2011 Weighted average interest rate %	2011 Under 1 year £m	2011 Between 1-3 years £m	2011 Between 3-5 years £m	2011 Over 5 years £m	2011 Total £m
Hire purchase receivables – fixed interest rate	10.1	27.4	35.9	9.5	0.1	72.9
Trade and other receivables – non-interest bearing	–	60.5	–	–	–	60.5
Cash and bank balances – non-interest bearing	–	33.7	–	–	–	33.7
<b>Total</b>		<b>121.6</b>	<b>35.9</b>	<b>9.5</b>	<b>0.1</b>	<b>167.1</b>

**Company**

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Loans to other Group companies	4.93	172.9	341.6	328.1	3,632.9	4,475.5

**Company**

	2011 Weighted average interest rate %	2011 Under 1 year £m	2011 Between 1-3 years £m	2011 Between 3-5 years £m	2011 Over 5 years £m	2011 Total £m
Loans to other Group companies	4.86	159.8	311.7	315.8	3,492.7	4,280.0

## **Motability Operations Group plc**

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

**[www.motabilityoperations.co.uk](http://www.motabilityoperations.co.uk)**

Printed in the UK by Pureprint Group on Revive 50 silk  
and Soporset offset containing FSC® certified fibre

Pureprint Group is a carbon neutral company  
registered to EMAS, the Eco Management Audit  
Scheme and is certified to ISO 14001 Environmental  
Management System

Designed and produced by Black Sun Plc