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**Motability Operations
Group plc**

Annual Report and Accounts 2009

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Chairman's statement

Over the last 12 months we have demonstrated that we are a very stable business, capable of continuing to deliver strong performance on a considerable scale.

Over the past year following the completion of a period of reorganisation as a plc, we have grown up as a business. Already the biggest fleet in Europe, the largest supplier of used cars to the trade and a highly respected commercial operator, this period saw us reach a new stage of maturity.

The restructure turned out to be exceptionally timely. The new organisation helped keep us on an even keel through one of the most intensive periods of turmoil ever felt by the financial sector. Unquestionably the challenges of the year tested our management team and people in a very real way. In the event, despite the storms around us, the business continued to progress.

It was not only on the financial side that things advanced this year. We also continued to develop our service to customers, in fact achieving the highest ever levels of customer satisfaction. Focus was directed, not only into the professional delivery of key business objectives but also into our role as an influential part of the wider UK motor industry. Given the fluctuations in new car sales this year, we supported an increased proportion of the market, accounting for 10% of all new car registrations. Even a year ago, the roller

coaster nature of this year would have seemed totally incredible. Exchange rates have put additional pressure on new car pricing. That we have coped with all this and retained affordability for customers says much about the management capability and professionalism within the business.

Perhaps the most powerful demonstration of confidence in Motability Operations is that, despite the turmoil in financial markets, we not only maintained our excellent credit rating, but as a result have been able to raise sufficient further capital to assure the long-term viability of the business.

An enduring focus on our customers, indeed a passion for customer service is a fundamental part of our culture. Interaction with customers is about listening and reacting to customer needs and wishes in a planned and proficient way. An example of this in the past year has been the development and introduction of the nearly-new Wheelchair Accessible Vehicle (WAV) product, which enables customers to obtain the WAV they need at an affordable price.

As always a key strength of our business is our partnership with the Charity and more

than ever this year we have worked hand in hand with them in delivering high levels of customer satisfaction.

It has certainly been a challenging year, but also a highly successful one. I'd like to thank all our employees and the Board for their hard work and competence in delivering this excellent performance. I would also like to thank Lord Sterling and the Governors of the Charity for their support in helping steer us through the turbulent waters of this year.

Over the last 12 months we have demonstrated that we are a very stable business, capable of continuing to deliver strong performance on a considerable scale. Looking ahead, it is clear that the worldwide motor industry is not out of the woods yet. We expect the next 12 months to be as exciting as the last 12 have been, and we look forward to these challenges with confidence.



Neil Johnson OBE
Chairman

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Business overview: How we operate

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

Motability (the Charity)

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

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

Motability and Motability Operations are constitutionally and operationally separate entities.

Mobility allowance

There are currently over 1.9 million recipients of qualifying 'mobility' allowances. To take a vehicle on the Scheme, the individual must receive either the Higher Rate Mobility Component of the Disability Living Allowance (administered by the Department for Work and Pensions (DWP)); in Northern Ireland this is administered by the Social Security Agency and 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 a vehicle on the Scheme. Through its relationship with Motability, the DWP arranges for the allowance to be paid directly to us on behalf of those people who choose to use the Scheme.

Motability Operations

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

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

Our customer numbers have increased rapidly in recent years, and our fleet currently stands at over 520,000 vehicles. We bought circa 190,000 new cars and resold 162,000 into the used car marketplace during the financial year ended September 2009.

Underpinning this growth is our strong financial position. This reflects 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 motoring through a Contract Hire product including insurance, maintenance and servicing, tyre and windscreen replacement, breakdown assistance and a 60,000 mileage allowance over three years.
- Excellent brand choice with 38 manufacturers represented on the Scheme.
- Over 200 vehicles on the price list that are available by using the mobility allowance alone ('nil advance payment').
- A full range of adaptations and wheelchair accessible vehicles.

To achieve this we

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

Chief Executive's review

We have come through a difficult year with outstanding levels of performance. This has helped us achieve or exceed our business objectives in all key customer and financial areas.

Performance

We are delighted with this year's strong performance which was achieved in the challenging circumstances of the current economic climate. In these uncertain times it is ever more vital to us that we make sure our services remain as affordable as possible for our customers, and I am pleased that we were able to consistently offer more than 200 cars using only the mobility allowance and requiring no extra customer contribution. At the same time we were able to attain record levels of customer satisfaction – overall satisfaction with the scheme was independently measured at 97%.

During this challenging year we focused on the core of our business – providing high quality, affordable customer service. We tracked strongly against our Key Performance Indicators throughout 2008/2009.

Customer focus

I believe the truest and best test of our customer satisfaction is the number of people who renew their vehicle at the end of their contract, and this remained steady at over 92% during the year. This was an excellent result, achieved in an environment where our customers' decision to use their allowance to pay for a car can be a very difficult one.

It was particularly pleasing this year to see a sustained growth in customer numbers. This growth has been achieved through promoting greater awareness and understanding of the Scheme amongst our prospective customers. The benefits of our 'worry free' package, and the excellent choice and service we offer, are continuing to attract customers once they understand fully the benefits provided.

Our call centre performed at outstanding levels with over 84% of calls answered within 20 seconds. Average calls per customer are also reducing, and the number of complaints received is down.

A major part of the day-to-day contact our customers have with the Motability Scheme is through our partners and suppliers. Our high levels of customer satisfaction confirm the quality of support these partner organisations continue to deliver on our behalf. We foster excellent relationships with a wide range of suppliers, including manufacturers, dealers and in-life service providers.

Affordability

The increasing weakness of Sterling against the Euro put pressure on vehicle manufacturers and, in turn, put pressure on the affordability of our scheme vehicles. We have however kept a tight rein on costs and worked hard with our manufacturer partners to maintain an attractive range of affordable cars.

Instability and a continued lack of credit in the used car market tested our vehicle remarketing strengths. Throughout the year we continued to make steady sales of used cars at good prices. A number of new buyers were recruited to our 'mfdirect' sales channel, enabling us to increase the volumes of sales through this online route.

Other highlights

Other successes in the year included the launch of the nearly-new Wheelchair Accessible Vehicle (WAV) product, which enables customers to obtain a WAV at more affordable prices, and a number of community-focused dealer events providing the opportunity to find out more about Motability in a fun and relaxed setting.

As well as local dealer initiatives we ran four 'One Big Day' events where ranges of WAVs from different suppliers were showcased, these were successful in attracting more than 1,000 visitors for each day.

We firmly believe that high performance is delivered through the effective engagement of our people, and our measures of business culture remained high throughout the year.

We won awards for Employer of the Year (Automotive Magazine Awards) for IT Service and Support and an International Visual Communications Association Clarion Award for Inclusive Strategic Communication. We also came third out of 106 organisations in the 2009 Disability Standard Benchmark Survey (and first in our sector). This survey enables organisations to accurately measure their performance in relation to disability across every part of their business.

We are delighted that Motability has agreed that we should extend our product range to also supply powered wheelchairs and scooters through the Scheme from 1st July 2010. We will focus on bringing the benefit of our wide experience to this market, and we look forward to serving this important new customer segment.

Our strategy

The four strategic 'pillars'

We have developed a clear strategic agenda designed to satisfy our prime purpose of providing our customers with independence and mobility by offering a wide choice of vehicles at affordable prices. We aim to deliver first-class customer service, and believe that understanding 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.

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

Build our customer and disability expertise

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

Provide value and choice

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

Improve reach and awareness

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

Ensure long-term sustainability

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

Financial sustainability

We were successful during the year in obtaining funding via the issue of two bonds which secure the business for the long term and ensure that we can continue to grow. We retained our excellent credit ratings – a sign of real and objective confidence in the business.

Our key financial measures were met or exceeded and we remain a robust business capable of balancing our financial security with affordable prices for our customers.

During the year internal controls were maintained at a high standard. We increased our levels of confidence in our governance by obtaining external assurance on our Treasury function and Reserves Management policy.

Outlook

In summary, we have come through a difficult year with outstanding levels of performance. This has helped us achieve or exceed our business objectives in all key customer and financial areas.

We are particularly proud that in a market where in-life service costs are escalating and new car prices increasing, we have managed to keep a wide range of affordable cars available, offering real value to our customers.

We believe that the economic environment is likely to remain difficult for the foreseeable future. However we are confident that we are well placed to respond flexibly to these challenges and to go on offering our customers excellent service and affordable motoring into the long term.



Mike Betts
Chief Executive

97%

Overall customer satisfaction

92%

Customer renewal rate

Finance Director's review

Solid financial performance underpins our ability to provide sustained affordability and choice to customers. During the year ended September 2009 we met or exceeded our financial targets.

During the year ended September 2009 we met or exceeded our financial targets. Whilst there has been considerable volatility in both new and used car values during the year, our prudent residual value provisioning and the flexibility of our pricing model have allowed us to manage reserves within the target corridor – in doing so, protecting the long-term sustainability of the Scheme.

Financial performance

Targets met

Transfer to reserves, which are retained in the business for the benefit of our customers, was £204m and closing Balance Sheet reserves, at £772m, were in line with our Economic Capital Requirement. Whilst wider economic factors have resulted in a small reduction in the number of brand new customers joining the Scheme during the year, excellent customer satisfaction and affordability have contributed to the 4.5% growth in overall customer numbers. This increase in customer numbers resulted in total rental income growing by 10.3% year-on-year. As described in note 2 to the Financial Statements, we have early adopted the amendments to IAS 16. As a consequence, our turnover includes both rentals from customers and now also revenue from the sales of vehicles at the end of the lease contract. As a result, aggregate turnover for the year was £2,243m compared to restated turnover for the prior year of £2,089m – an increase of 7.4%.

Cost management

Our operating cost base has been tightly managed during the year through the application of effective cost management disciplines and via robust supplier management and procurement processes.

Assets and residual values

The net book value of our leased vehicle assets increased by £322m to £3,705m reflecting the fleet volume growth that we achieved during the year.

We carry out a quarterly reassessment of the residual value of our leased assets. At the financial period end, this revaluation can 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 has been externally validated, has consistently outperformed alternative external benchmarks, and remains less volatile and typically more conservative in outlook than other market views.

Given the circa 15% reduction in our used car values during the year to September 2008, and in anticipation of further market distress in the first quarter of the year ended September 2009, we made significant and prudent write-downs in the 2008 accounts. Consequently, as the market bottomed out during November and December 2008, disposal losses were minimised, with the impairment in value having been anticipated and accelerated into the previous year. This prudent write-down also enabled us to capitalise on improving demand in the subsequent three quarters, with a market recovery ahead of expectations, combined with effective remarketing strategies resulting in significant disposal gains.

As the market recovered, so the outlook for future residual values improved – consequently, additional depreciation in the reported year was minimised (with the majority of adjustment

having already been charged to previous periods).

Restructure and refinancing

Corporate restructure

This report covers the first full financial year of Motability Operations Group plc following the successful financial restructuring in June 2008. The key objectives of the restructure were to:

- Enable access to a wider range of market-based funding
- Deliver a flexible and enduring structure enabling Scheme sustainability and longevity
- Ensure continued retention of reserves for the benefit of our customers

The restructure involved changes to our ownership and funding arrangements, and precipitated the creation of Motability Operations Group plc. The restructure transaction involved repayment of all extant funding, and the transfer of assets and all accumulated reserves to the new Group companies. We used our newly negotiated banking facilities to achieve simultaneous refinancing.

Another critical feature of the new structure is that the Group continues to be 'not-for-profit'. Any surpluses that arise are reinvested back into the Scheme for the benefit of our customers. Banks, as owners, cannot access accumulated reserves. In implementing the restructure, we sought to minimise the impact on customers, suppliers and employees.

The diagram above right sets out the revised corporate structure. At the point of execution of the new structure, the shareholding was equalised across the then five banks with

each holding a 19.99% interest. Following Lloyds TSB's acquisition of HBOS, its interest is currently 39.98%.

Background and reasons for restructure

Until 2008, the main UK banks (Barclays, HBOS, HSBC, Lloyds TSB and RBS) had provided debt and equity financing for Motability Operations since the inception of the Scheme. Most of the Group's assets, liabilities and reserves were held within bank partnerships, with Motability Finance Ltd as the visible and prime contracting entity.

Under the revised financing structure, we have broken the link between ownership and funding. Through this process we secured A+/A2 credit ratings (stable outlook) from Standard & Poor's and Moody's respectively, which gives us the ability to access both long and short-term facilities from a diverse range of sources. The company's credit rating and outlook remained unchanged during the year.

Financing

Reserves management

We use an Economic Capital model to determine the level of reserves appropriate to protect the business from economic shocks. We have adopted a conservative approach, with a core underlying assumption that we need sufficient reserves (Economic Capital) to cover the loss that may arise from all but the most extreme risk events. We periodically review this model to ensure that it adequately reflects the current risk profile of the business. During 2009 the model and methodology were validated as part of an independent external review.

During the course of the financial year, this model has been seen to be robust. Despite the problems in the used car market, we have

maintained our reserves through proactive financial management. We have simultaneously been able to maintain affordable leased cars for customers. At the Balance Sheet date reserves stood within the target corridor, based on the Economic Capital Requirement.

Cash and funding

As part of the implementation of the restructure and refinancing programme in 2008 the Group raised debt through a competitive tender process in accordance with market-based terms and documentation. Aggregating £2.9bn, these new debt facilities comprised £2bn of term loans (£1bn three year and £1bn five year) and a £900m revolving credit facility – projected to provide sufficient scope for up to three years' growth.

With this new facility in place and headroom secured, the Group initiated the next phase of refinancing designed to introduce greater diversity and longevity into the Group's funding. This was facilitated through the launch of a A+/A2 rated £2bn European Medium Term Note (EMTN) programme in April 2009. During the year ended September 2009 the Group completed two issues under this programme. The successful debut issue of £450m 10 year Sterling in April 2009 was followed by a second issuance in September 2009 of £500m seven year Sterling. The proceeds of these issues have been used to settle all but £50m of the £1bn three year debt, well ahead of its maturity in June 2011. The success of the EMTN programme, in introducing greater diversity and longevity of funds, is an important step towards enhancing the long-term sustainability of the Scheme.

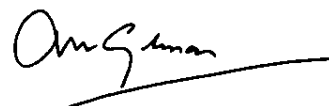
Following these bond issues, the aggregate Group facility remains at £2.9bn. It is the Group's policy to ensure that it has sufficient funding headroom in place to cover for at least twelve months of growth plus 10%. At 30 September 2009, we had drawn £2.4bn of this available facility. The undrawn balance provides sufficient headroom for growth in line with Group policy.

The Group targets a ratio of Total Group Assets Total Net Debt of not less than 1.25:1. At the Balance Sheet date this ratio was 1.63:1.

Treasury policy

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

We have established hedge accounting and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value is shown on the face of the Balance Sheet. The fair value of derivatives at 30 September 2009 was a liability of £31.2m pre-tax.



David Gilman
Finance Director

Directors' report

Business review: Our business model

4.5%

Increase in customer numbers

84%

Of calls answered within
20 seconds during the year

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

All that is required to access a vehicle on the Motability Car Scheme is to receive the qualifying Government allowance. This means that 19 million people currently in receipt of this allowance could seek to obtain a new car from Motability Operations. At present around 28% of this potential customer base participates in the Scheme. The number of people eligible has been growing at circa 3% a year since 2000, and is expected to grow further.

In choosing to take a vehicle on the Scheme, customers assign their mobility allowance to Motability Operations. In return we provide worry-free motoring in the form of a fully insured, maintained and serviced car, including tax, tyre and windscreen replacement, breakdown assistance and 60,000 miles mileage allowance over three years. We aim to offer customers a comprehensive range of affordable cars. Currently, 38 manufacturers are represented in the Scheme, representing 99% brand availability.

Business review: Operational overview

>200

Cars available at nil advance
payment throughout the year

61,000

New customers have joined
the scheme during the year

Motability Operations sustained a high level of performance in 2009 demonstrating the company's ability to provide stability and affordability through the economic cycle. Our fleet continued to grow against a backdrop of recessionary pressures, with 4.5% growth year-on-year. Renewal rates tracked in excess of 92% and overall customer satisfaction is at an all time high at 97%. We also exceeded our affordability targets in terms of the number of vehicles available without the need for customers to contribute any more than their mobility allowance. Furthermore we enjoyed the continued support of all our stakeholders, including Motability, disability groups, manufacturers, dealers and other key suppliers. Our vehicle remarketing department performed well in a volatile market place.

Customer awareness and advocacy of the Scheme

Better awareness and understanding of the key components of the Motability car 'package' enable customers to make informed decisions on whether to take a vehicle 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. Since the introduction of our successful 'Recommend a Friend' referral programme, over 21,000 new customers have joined the Scheme. In addition, a number of promotional programmes have enhanced customers' awareness, including our successful 'One Big Day' regional open days, various dealer events, and activities to increase the engagement of disability organisations.

A measure of our success in building greater understanding is the growth in the number of new customers. During the year 61,000 new customers chose to take a vehicle on the Scheme. Whilst this is a reduction on 2008 reflecting the impact of the wider economic pressures, the level of new business is consistent with that seen in 2007. This, combined with sustained renewal rates of 92% among existing customers (a product of high customer satisfaction – 97% – and sustained affordability) has precipitated continued growth during the financial year. Our total fleet increased by 4.5% (22,500 vehicles) year-on-year, closing at 523,836 vehicles. In 2009 we registered nearly 186,000 vehicles representing over 10% of all UK new car registrations.

This business is well equipped to accommodate further growth. In addition to our fully scalable business model, our robust financial and operational platform has enabled us to respond positively to recent expansion. With diversified funding lines in place and headroom secured, the business has the necessary liquidity to support growth.

Product offering

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

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 an additional contribution, 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 45% 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. 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 both to our renewing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail marketplace. During the financial year, we offered vehicles from up to 38 manufacturers with over 4,100 vehicle derivatives on the price list.

The volatility in the new and used car markets has clearly had an impact through the year. However, our robust financial position, combined with a business model that largely insulates us from customer default and a flexible pricing engine, enables us to absorb market fluctuations without having to raise prices.

Customer experience

We focus on providing customers with a seamless, worry-free experience. Vehicle 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 biannual customer surveys since 2003. These surveys cover all the key customer contact points on the Scheme. The latest results showed an overall customer satisfaction level of 97%, indicating first-class levels of customer service. The survey continues to provide valuable feedback on our customer proposition.

Complaints in 2009 were at an all-time low. Our goal now is to maintain these excellent overall levels of satisfaction while continuing to investigate and address any pockets where there is dissatisfaction.

Initiatives designed to support and enhance the customer experience include:

- Ensuring we continue to provide industry-leading call answering speed and quality through a simplified Interactive Voice Recognition (IVR) system. There has been a continued focus on increasing the efficiency of call answering, and we now have 84% of calls answered within 20 seconds.
- Operating an innovative online 'Lingobot' called 'Ask Mo', which provides an additional method for customers to resolve their questions. Enabling customers to 'chat' through their queues in ordinary language, this service has proved very popular and answered over 500,000 questions during the year.
- The launch of a redesigned Scheme application guide, with a new simplified structure and layout. An improved renewal guide was also published, aimed at increasing 'readability' and enhancing customer understanding.
- The application process has been improved, with a removal of the need for customers to make multiple visits to their local DWP office. This has been achieved through a more streamlined application process and improved links between the DWP and Motability Operations.
- The use of a web-based 'Dealer Locator' tool that enables customers to find their local showroom, and search under a range of criteria including accessibility features such as ramps, lifts and hearing loops.
- Running business seminars attended by over 2,700 customer-facing staff from our partner dealerships, which provide an opportunity to brief dealers on up-to-date Scheme news as well as provide a forum for feedback and discussion.
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one.
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

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

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

- Displaying vehicle accessibility information on our website.
- Producing award-winning publications such as The Rough Guide To Accessible Britain which achieved a top IVCA Clarion Award in 2009 for Inclusive Strategic Communication.
- The availability of targeted specialist publications including the new Wheelchair Accessible Vehicle (WAV) Guide, Adaptations Guide and Guide to Choosing Your Car.
- The launch of a 'nearly-new' WAV product.
- The Car Price Guide has been further enhanced to include images of cars with accessibility considerations, an 'automatics' column and, for the first time, images to help customers visualise the types of cars available.
- Receiving a Diamond Award for vision and commitment on disability from the Employers' Forum on Disability.
- Achieving third place (of 106 companies) in the Employers' Forum on Disability's 'Standard Benchmark Survey' with an overall score of 96% placing us first in our sector.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 99% brand availability based on market share, with 38 manufacturers currently on the Scheme. This now provides our customers with access to over 4,100 different vehicle derivatives, delivered through a network of over 4,800 car dealerships. During the year we accounted for over 10% 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 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 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 dealerships. The programme has been independently recognised with an 'Industry Excellence Award' at the Motor Trader Industry Awards for its contribution towards raising professionalism within the motor trade.

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. In particular, visibility of Motability (through banners, flags and decals) was enhanced on many showroom forecourts, with orders for Motability point of sale materials increasing by over 70%.

Directors' report continued**Business review. Operational overview continued**

During the year the difficult economic climate caused a number of dealership closures. Any closure can cause some short-term disruption to our customers, however, we have a well-tested means of minimising this by finding an alternative dealership for 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 2009, we sold 162,000 cars into the used trade. We have developed an innovative multi-channel disposal strategy to manage these volumes. This is centred around 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.

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

Our online sales channel, mfindirect, provides a competitive purchasing environment and ensures that we both maximise our sales return and minimise disposal costs. Campaigns to increase the number of purchasing dealers delivered 21% growth during the year, with

the 2,900 dealers who purchased from the site during the year accounting for 50% of all disposals. Cars that do not sell online are usually routed to auction and sold in one of our branded events.

Whilst the used car market in the first quarter of the financial year ended September 2009 was characterised by falling values and weak demand, our remarketing team successfully managed the throughput of vehicles and contained stock levels. The prudent write-down of values in previous periods minimised any adverse impact in the reported year. Since January demand has recovered, with record online conversion rates and buoyant conditions at auction, resulting in significant gains versus our adjusted residual value.

Business developments

During 2009 it was agreed that Motability Operations would also offer powered wheelchairs and scooters. This will be effective from July 2010, with the run-off of the existing portfolio being managed by the incumbent provider, Route2mobility (R2M). These products are governed by Motability (the Charity) in the same way that it oversees the Car Scheme. Customers, in electing to take a scooter or powered wheelchair on the Scheme, assign their mobility allowance directly to the operator, in exactly the same way the Car Scheme works. There are currently over 8,000 powered wheelchair and scooter customers accessing the Scheme.

Environment

Environmental issues continue to feature prominently on the political and economic agenda. The European Commission published its proposal for a regulation on mandatory CO₂ emissions in December 2007. This confirmed that by 2012 every manufacturer must achieve average CO₂ emissions equivalent to 130g/km for all passenger vehicles registered in the European Union.

Our customers have limited mobility, and public transport is, for them, rarely a viable option. However, we know that customers are keen to look for greener choices (this typically involves a lower MPG vehicle choice, which in turn is more cost effective for our customers). We continued to take a proactive approach to managing our CO₂ emissions agenda during the year, introducing a number of initiatives that provide information and choice for our customers. These included:

- Introducing alternative vehicles with lower CO₂ emissions, including hybrids, combined fuel and new technology products
- Making attractive, low CO₂ cars available in all vehicle categories on the Scheme (the price list highlights at least two low CO₂ vehicles in each vehicle category)
- Featuring green choices (low CO₂ vehicles) in all our promotional mailings
- Providing practical advice to help lower motoring costs and CO₂ emissions in our customer publications, our annual customer newsletters and through our website

Corporate Social Responsibility

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

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

Charitable and political donations

During the year the Company made charitable donations of £19,731 (2008: £20,961) to support and sponsor local initiatives through our 'mycommunity' programme.

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

Proposed dividend

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

Directors' indemnity

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

Business review: Strategy and performance

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

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

Strategy

We have a strategic framework with four pillars that will help us to deliver our objectives. Our people, positioning principles, culture and values form the bedrock that underpins the delivery of these objectives.

Build our customer and disability expertise

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

Provide value and choice

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

Improve reach and awareness

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

Ensure long-term sustainability

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

Performance

Our Corporate Key Performance Indicator (KPI) framework is constructed to provide 'line of sight' between strategy and performance metrics. The following pages include a selection of these KPIs.

People and principles

We are committed to employing and retaining excellent people, ensuring an engaged culture and to working within our positioning principles, which are embedded within our Company.

Directors' report continued

Business review: Strategy and performance continued

Strategy

Build our customer and disability expertise

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

Our goals and objectives

Understanding our customers is critical to our success. By listening and responding to their feedback, we are able to adapt our proposition and focus our resources on 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

- Aligning customer experience to an equivalent retail market proposition
- Delivering best practice customer service through our call centre
- Ensuring that the services deployed through our key suppliers are at a standard commensurate with our internal targets
- Building our adaptations and conversion expertise to ensure that customers have a seamless experience and that we are

- recognised for the excellence of our one-stop-shop service
- Providing our customers with the information and tools they need to select a suitable car from the wide range available
- Providing information to support decision-making to meet customers' mobility needs
- Working with disability organisations for guidance and support

Key Performance Indicators (KPIs)

KPI	Results	How we achieved it
Overall customer satisfaction	97% overall satisfaction for the third successive survey	We deliver by listening to our customers and ensuring that we meet their requirements
Call answering	84% of calls answered inside 20 seconds	We have simplified our processes to ensure calls are answered effectively and efficiently while minimising waiting time. We have successfully met our target of answering 80% of calls within 20 seconds for 30 consecutive months
Wheelchair accessible vehicle fleet	25% growth in the year to a fleet of 14,767	Providing a range of vehicles which meet customers' needs remains a prime focus. We have successfully improved both affordability and choice in this area by working closely with manufacturers and suppliers.
Disability standard benchmark survey	96% overall score placing us third overall and first in our sector	By regularly benchmarking our performance on disability across every aspect of our business we ensure that we remain best-in-class in our approach to disability
Continuous mobility	Average response time for roadside assistance below 41 minutes	Our customers need to know that in the event of a breakdown they will receive priority assistance. During the year our service provider (RAC) attended over 135,000 incidents

Strategy

Our goals and objectives

Provide value and choice

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

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

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

Key Performance Indicators (KPIs)

KPI	Results	How we achieved it
Relative affordability	45% cheaper than equivalent commercial contract hire quotations	We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale and operational efficiencies deliver the majority of this differential.
Effectiveness of vehicle resale activities	82% conversion rate of vehicles published online 83,600 total online sales	Our online sales channel, 'mfdirect', provides an effective low-cost, route to market which facilitates the management of our high volume of disposals. This provides a competitive sales environment through which we seek to maximise our net return.
Affordable choice	Between 211 and 302 cars available at 'nil advance payment' during the year	We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. Effective cost management and a stable reserves position provide the foundation to sustain this affordability through the economic cycle.
National coverage of deal partners	4,802 approved dealers across the UK	The extensive dealership network of the 38 manufacturers available on the Scheme provides national coverage. We have given our customers the ability to search easily for their local showroom online by introducing the 'Dealer Locator' tool on our website.

Directors' report continued

Business review: Strategy and performance continued

Strategy

Improve reach and awareness

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

Our goals and objectives

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

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

Key Performance Indicators (KPIs)

KPI	Results	How we achieved it
Growth in customers	4.5% growth in customer numbers year on year	There were over 520 000 vehicles on the Scheme in September, with growth driven by improved awareness and understanding amongst recipients combined with sustained levels of customer renewals
Volume of new customers	61,000 brand new customers joined the Scheme during the year	New business levels were supported through customer mailings, our 'Recommend a Friend' programme, the excellent publicity we received from our award-winning publication 'The Rough Guide To Accessible Britain' and our investment in joint dealer marketing campaigns
Renewal rate	Renewal rate above 92%	Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year this was maintained at all time high levels
Understanding of the Scheme	18% increase in understanding of the main components of the Scheme since 2007	Research shows that once potential customers fully understand the Scheme proposition they are much more likely to apply for a vehicle. We have targeted an increase in understanding through our literature, marketing material and informative website

Strategy

Our goals and objectives

Ensure long-term sustainability

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

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

- Maintaining a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events
- Creating opportunities to access wider sources of competitive funding. We aim to maintain our credit rating, enabling us to secure the most appropriate funding at competitive rates
- Continuing to nurture effective partnerships with key stakeholders
- Maintaining a forward-looking environmental policy, ensuring availability of a range of low-emission vehicles, but balancing our customers' needs with CO₂ considerations
- Ensuring that our premises and Information Technology infrastructure are robust and future-proof
- Attracting and retaining quality people

Key Performance Indicators (KPIs)

KPI	Results	How we achieved it
Revenue	7.4% growth in revenue year on year	Customer growth is the primary driver of the increase, supplemented by index-linked lease payments. It is pleasing that this growth has continued through the difficult economic climate.
Credit rating	A+/A2 (stable outlook) credit rating	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.
Reserves sufficiency ratio	115% of risk capital requirement	Our Economic Capital model determines our reserves sufficiency requirement in the context of our risk profile. We aim to keep this ratio between 100% and 130% to protect the longevity of the Scheme.
Culture survey results	Employee engagement 8% above high-performing organisations benchmark	We participate in an independent annual review of business culture, where we have significantly outperformed the high-performing organisations benchmark.

Directors' report continued**Business review: 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 two 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 12-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 attrition levels are low, we manage the risk of losing key individuals through detailed succession planning. Our Nomination Committee reviews the plans for Directors and divisional senior managers.

Principles

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

- Compete on value and 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

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 Members' of the Employers' Forum on Disability's president's club, and were third in the forum's Standard Benchmark Survey. We are accredited by Jobcentre Plus to use the Disability, 'two ticks' symbol (positive about disabled people).

Employee involvement

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

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

Business review: Risk management

At Motability Operations we recognise that sound risk management is fundamental to the successful and sustainable operation of the business. It is a core commitment that our approach protects the 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 to determine and manage our reserves position.

Risk identification and monitoring

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

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

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

Directors' report continued**Business review Risk management continued****Key risks and mitigations****Residual values**

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

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

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

We manage this 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 broader spread of models and manufacturers now represented in our diversified fleet than in any previous period.

Supplier failure

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

We have specifically assessed the risk of failure of one or more of our key manufacturers. Such a failure would probably lead to impaired residual values, invalid warranties, non-availability of parts and maintenance providers, and the potential withdrawal or renegotiation of discounts. We seek to manage this risk through routinely monitoring manufacturer-related news and by diversifying our portfolio to minimise our exposure to the default of any one manufacturer. We have also developed

scenarios to stress-test our durability in the face of such a failure, and are confident that our economic capital approach means that we have assigned sufficient risk capital to withstand such an event.

Credit risk

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

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

Treasury risk

The availability of sustainable funding and liquidity is critical to our ongoing operation. This has been brought into sharpened focus during the credit crunch, with scarcity of competitive funding affecting many businesses. Risks include those associated with exposure to interest movements, liquidity, funding, counterparty and operational risk. We manage these risks through a properly defined Treasury Policy, the operation of which is overseen by the Asset and Liability Management Committee – a sub-committee of the Executive Committee. We maintain a risk-averse stance and continue to develop a diversified portfolio of funding maturities, seeking to lock the majority of funding onto fixed rates. Our policy is also to avoid exotic treasury products. Through our robust financial management and governance, we seek to maintain a credit rating that allows us access to a range of debt markets on competitive terms. 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 10% headroom.

Economic Capital

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

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

We then apply the estimated ECR per vehicle to our current and projected contract hire fleet size. This gives us an overall current and projected ECR for the full contract hire fleet. We periodically refresh the EC model to reflect changes to the risk profiling and refinements in the modelling. Following a review this year, and in light of recent volatility in residual value risk (both index and performance), the ECR per vehicle has been revised upwards by circa 15%. This process is governed by the Risk Management Committee.

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.

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

Residual values

Unexpected movements in used car values, failure to achieve market value on disposal

Potential impact

- Volatility in profitability, reserves and pricing Potential impact on affordability and choice

Mitigation

- Sophisticated in-house residual value setting and forecasting process
- Risk Capital management for asset risk using Economic Capital principles
- Market-leading remarketing approach

Supplier failure

Failure of key manufacturer or other key Scheme supplier

- Compromised customer service provision and potential financial impact of securing alternative supplier
- In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties

- Active monitoring of credit ratings and market announcements
- Strong supplier relationships and communication
- Diversified portfolio

Credit

Risk of default of key income-streams and exposure to bad debt

- Potential impact on cash inflows and consequent write-off to Income statement

- Principal income stream directly from DWP – therefore minimal credit risk
- Residual credit risks are managed through credit assessments and an effective credit control function

Treasury

Exposure to interest movements, liquidity, funding, counterparty and operational risk

- Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth funding

- Majority of funding on fixed rates or fixed through interest rate swaps
- Balanced portfolio of funding maturities and diversification into bond market
- Maintenance of good credit rating
- Good treasury system, controls and governance

Directors' report continued

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

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

John Bishop

Independent Non-Executive Director

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

John Callender

Independent Non-Executive Director

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

Nigel Clibbens

Non-Executive Director

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

Anne Downey

HR Director

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

Frank Gardner OBE

Independent Non-Executive Director

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

David Gilman

Finance Director

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

Ian Goswell

Commercial Services Director

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

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

Mike Russell-Brown

Non-Executive Director

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

Nigel Stead

Non-Executive Director

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

Ian Stuart

Non-Executive Director

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

Ashley Sylvester

Operations Director

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

Jo Pentland

Company Secretary

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

Other statutory information

Statement of Directors' responsibilities

In preparing these financial statements the Directors are required to

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

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

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

Going concern

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

Auditors

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

Directors

Neil Johnson, Mike Betts, John Bishop, John Callender, Nigel Clibbens, Anne Downey, David Gilman, Ian Goswell, Joe Hennessy, Mike Russell-Brown, Nigel Stead, Ian Stuart and Ashley Sylvester served as Directors throughout the year.

Malcolm Brookes, Peter Lord and Duncan Rowberry served as alternate directors throughout the year.

Frank Gardner was appointed as a director on 10 December 2008.

Christopher Lendrum was appointed as a director on 10 June 2009.

George Grant and his alternate Simon Cotton resigned as directors on 21 April 2009.

Jeff Smyth resigned as a director on 14 August 2009.

Directors' interests

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

Signed by order of the Board



Jo Pentland
Company Secretary
9 December 2009

Governance

Corporate governance

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

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

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

The Board's responsibilities

Matters reserved for the Board include:

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

Roles of the Chairman and Chief Executive

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

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

Non-Executive Directors

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

Executive Committee

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

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

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

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. John Bishop as chair stepped down in September 2009 but remains as a member. The committee is now chaired by Christopher Lendrum and the other members include John Bishop, John Callender, Nigel Clibbens, Mike Russell-Brown, Nigel Stead and Ian Stuart.

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

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

Nomination Committee

Following the decision to separate the Remuneration and Nomination Committee, the Nomination Committee was established in June 2009. The Nomination Committee comprises the Non-Executive Chairman and two Independent Non-Executive Directors. It is chaired by Neil Johnson and the other members include John Callender and Christopher Lendrum.

The Committee meets biannually and has the delegated authority from the Board to:

- Review the succession 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

The Committee reports biannually to the main Board.

Remuneration Committee

The Remuneration Committee comprises the Non-Executive Chairman, three Independent Non-Executive Directors and one Non-Executive Director. It is chaired by John Callender, and the other members are John Bishop, Neil Johnson, Christopher Lendrum and Nigel Stead.

The committee meets biannually and has the delegated authority from the Board which includes to

- Review the terms conditions and remuneration for the Directors
- Review the terms and eligibility of any long-term incentive programme
- Review the framework of the broad policy for the remuneration of all employees

The Committee reports biannually to the main Board. The Remuneration report is set out below

Remuneration report

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

Other elements of Directors' remuneration comprise benefits and pension contributions. Details of the Directors' remuneration are set out in note 32 on page 46 of the Financial Statements.

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

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

The main features of the LTIP are as follows

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

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

We have audited the Group and Parent Company financial statements (the 'financial statements') of Motability Operations Group plc for the year ended 30 September 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. 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 Directors' Responsibilities Statement set out on page 21, 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 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 Sections 495 and 496 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.

The maintenance and integrity of the Motability Operations Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 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.

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 2009 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.

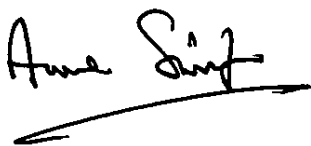
Opinion on other matters prescribed by the Companies Act 2006

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
9 December 2009

Income statement

For the year ended 30 September 2009

	Note	2009 Group £'000	Restated (*) 2008 Group £'000
Revenue	4	2,243,041	2,088,561
Net operating costs	6	(1,808,694)	(1,908,078)
Total surplus from operations		434,347	180,483
Finance costs	9	(151,074)	(147,529)
Surplus before tax		283,273	32,954
Taxation	10	(79,506)	19,851
Surplus for the year		203,767	52,805

(*) The presentation of the income statement changed as a result of early adoption of the amendment to IAS 16 Property Plant and Equipment. Details of the changes are presented in note 2.

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

Under section 408 of the Companies Act 2006, the Group has elected to take the exemption with regard to disclosing the Company Income statement. The Company's net surplus for the year was £5.3m (2008: £2.7m).

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

Statements of recognised income and expense

For the year ended 30 September 2009

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Recognised income and expense in the year				
Gains/(losses) on cash flow hedges	(34,278)	3,094	(34,278)	3,094
Tax on items taken directly to equity	9,598	(866)	9,598	(866)
Net surplus/(deficit) recognised directly in equity	(24,680)	2,228	(24,680)	2,228
Surplus for the year	203,767	52,805	5,330	2,655
Total recognised income and expense for the year attributable to equity	179,087	55,033	(19,350)	4,883

Balance sheets

As at 30 September 2009

	Note	2009 Group £'000	Restated (*) 2008 Group £'000	2009 Company £'000	2008 Company £'000
Assets					
Non-current assets					
Intangible assets	11	5,929	4,477	–	–
Property, plant and equipment	12	3,675	4,288	–	–
Assets held for use in operating leases	13	3,704,716	3,382,628	–	–
Deferred tax asset	24	10,935	–	8,732	–
Investment in subsidiaries	15	–	–	10,000	10,000
Loan to other Group companies	15	–	–	2,402,500	2,324,573
Hire purchase receivables	17	50,423	44,958	–	–
Derivative financial instruments	22	–	3,094	–	3,094
		3,775,678	3,439,445	2,421,232	2,337,667
Current assets					
Trade and other receivables	18	144,454	430,212	6,349	10,510
Hire purchase receivables	17	22,029	21,640	–	–
Inventories	14	52,912	61,659	–	–
Loan to other Group companies	15	–	–	41,750	44,211
Cash and bank balances	16	57	7,525	–	–
		219,452	521,036	48,099	54,721
Total assets		3,995,130	3,960,481	2,469,331	2,392,388
Current liabilities					
Deferred income	19	(116,579)	(96,101)	–	–
Trade and other payables	20	(99,033)	(415,478)	(33,740)	(580)
Corporation tax payable		–	(231)	–	–
Derivative financial instruments	22	(31,098)	–	(31,098)	–
Financial liabilities	21	(95,968)	(23,377)	(66,709)	(1,059)
		(342,678)	(535,187)	(131,547)	(1,639)
Net current liabilities		(123,226)	(14,151)	(83,448)	53,082
Non-current liabilities					
Deferred income	19	(132,795)	(133,041)	–	–
Derivative financial instruments	22	(86)	–	(86)	–
Financial liabilities	21	(2,352,115)	(2,384,950)	(2,352,115)	(2,384,950)
Deferred tax liabilities	24	(416,259)	(335,408)	–	(866)
Long-term provisions	23	(1,645)	(1,430)	–	–
		(2,902,900)	(2,854,829)	(2,352,201)	(2,385,816)
Total liabilities		(3,245,578)	(3,390,016)	(2,483,748)	(2,387,455)
Net assets		749,552	570,465	(14,417)	4,933
Equity					
Share capital	25	50	50	50	50
Fair value reserve	26	(22,452)	2,228	(22,452)	2,228
Retained reserves (**)	26	771,954	568,187	7,985	2,655
Issued share capital and reserves		749,552	570,465	(14,417)	4,933

(*) The presentation of the balance sheet changed as a result of early adoption of the amendment to IAS 16 'Property, Plant and Equipment'. See note 2.

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

These financial statements were approved by the Board of Directors on 9 December 2009



Mike Betts
Chief Executive

The notes on pages 28 to 55 form part of these financial statements

Cash flow statements

For the year ended 30 September 2009

	Note	2009 Group £'000	Restated (*) 2008 Group £'000	2009 Company £'000	2008 Company £'000
Cash flows from operating activities	27	(30,089)	(339,208)	(19,537)	(2,385,000)
Cash flows from investing activities					
Purchase of corporate property plant and equipment and intangible assets		(4,333)	(6,451)	–	–
Proceeds from sale of corporate property, plant and equipment		475	447	–	–
Net cash used in investing activities		(3,858)	(6,004)	–	–
Financing activities					
Issue of preference shares		–	9,950	–	9,950
Issue of ordinary shares		–	49	–	50
New loans raised		944,537	2,375,000	944,537	2,375,000
Bank loans repaid		(925,000)	(2,016,352)	(925,000)	–
Net cash generated from financing activities		19,537	368,647	19,537	2,385,000
Net increase/(decrease) in cash and cash equivalents		(14,410)	23,435	–	–
Cash and cash equivalents at beginning of year		(14,792)	(38,227)	–	–
Cash and cash equivalents at end of year	16	(29,202)	(14,792)	–	–

(*) The presentation of the statement of cash flows changed as a result of early adoption of the amendment to IAS 16 Property Plant and Equipment. Details of the changes are presented in note 2.

Notes to the financial statements

1 General information

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

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

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

Accounting convention

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

2 Significant accounting policies

Basis of preparation

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

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

The policies set out below have been consistently applied to the years 2009 and 2008.

Note 33 details the corporate restructure of the Motability Scheme which took place in June 2008. It explains the basis of preparation of the 2008 accounts using predecessor accounting.

Adoption of new or revised standards

(a) Standards and amendments early adopted by the Group

An amendment to IAS 16, 'Property, Plant and Equipment' (which is effective for annual reporting periods beginning on or after 1 January 2009) was early adopted by the Group in 2009. As part of the improvement to IFRSs released in May 2008, this amendment requires entities whose ordinary activities comprise renting and subsequently selling assets to present proceeds from the sale of those assets as revenue. The carrying amount of the asset is transferred to inventories when the asset becomes held for sale. Although the application of the amendment has not changed the net operating results of the Group, the presentation of revenue and net operating costs has changed. The early adoption of the amendment has resulted in an increase in revenue and net operating costs by the amount of sale proceeds. Comparatives for 2008 have been restated.

A consequential amendment to IAS 7 'Statement of Cash Flows' states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities and comparatives for 2008 cash flows have been restated accordingly.

The following table summarises the effect of the related restatements in 2008 Group accounts.

Income statements

	Previously reported £'000	Restated £'000	Presentation difference £'000
Revenue	1,214,427	2,088,561	874,134
Net operating cost	(1,033,944)	(1,908,078)	(874,134)
Surplus for the year	52,805	52,805	–

Statement of Cash Flows

	Previously reported £'000	Restated £'000	Presentation difference £'000
Net cash flows from operating activities	605,117	(339,208)	944,325
Net cash used in investing activities	(950,329)	(6,004)	(944,325)

2 Significant accounting policies continued

(a) Standards and amendments early adopted by the Group continued

Balance sheet

	Previously reported £'000	Restated £'000	Presentation difference £'000
Assets held for use in operating leases	3,444,537	3,382,628	(61,909)
Inventories	–	61,909	61,909

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

As at the date of authorisation of these financial statements, the following standards, interpretations and amendments to existing standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not been adopted by the EU)

Revised Standards

IFRS 1 (amended) / IAS 27 (amended) '*Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate*'

IFRS 1 (amended), '*First-time Adoption of International Financial Reporting Standards*' – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease

IFRS 2 (amended), '*Share-based payment – Vesting Conditions and Cancellations*'

IFRS 3 (revised 2008), '*Business Combinations*' – Comprehensive revision on applying the acquisition method

IFRS 7 (revised March 2009), '*Financial Instruments – Disclosures*' – Amendments enhancing disclosures about fair value and liquidity risk

IFRS 8 '*Operating segments*'

IAS 1 (revised), '*Presentation of financial statements*' – Comprehensive revision including requiring a statement of comprehensive income, amendments relating to disclosure of puttable instruments and obligations arising on liquidation

IAS 23 (revised), '*Borrowing costs*' – borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009

IAS 27 '*Consolidated and separate financial statements*' – Consequential amendments arising from amendments to IFRS 3

IAS 28 '*Investments in Associates*' – Consequential amendments arising from amendments to IFRS 3

IAS 31 '*Interests in Joint Ventures*' – Consequential amendments arising from amendments to IFRS 3

IAS 32 '*Financial Instruments Presentation*' – Amendments relating to puttable instruments and obligations arising on liquidation

IAS 39 '*Financial Instruments Recognition and Measurement*' – Hedging of portions of financial instruments – amendment to section 'Eligible hedged items' and amendments for embedded derivatives when reclassifying financial instruments

IFRIC 15 '*Agreements for the Construction of Real Estate*'

IFRIC 17 '*Distributions of Non-cash Assets to Owners*'

IFRIC 18 '*Transfers of Assets from Customers*'

Amendments resulting from annual improvements to IFRSs in May 2008 and April 2009

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

Basis of consolidation

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

Intangible assets

Intangible assets represent computer software costs. In accordance with IAS 38, computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software and includes capitalised internal labour where appropriate. These costs 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. The carrying values of all other tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

Notes to the financial statements continued

2 Significant accounting policies continued

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 the 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 their 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 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 to the extent that it is expected to be repaid to lessees for returning leased assets in good condition, having made no insurance claims for which an insurance excess applied. See note 19.

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 overheads. An analysis is provided in note 6.

Finance costs

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

Retirement benefit costs

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

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 substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities for reporting purposes and the amounts charged or credited for tax purposes. Deferred tax is calculated at the rate of tax expected to apply when the liability is settled or the asset is realised using tax rates enacted or substantially 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.

Dilapidation provision

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

Share capital

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

Financial instruments

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

2 Significant accounting policies continued

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 as reduced by appropriate allowances for estimated irrecoverable amounts.

Hire purchase debtors

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

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

Cash and bank balances

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

Financial liabilities

Trade and other payables

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

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

Debt and preference shares

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

Derecognition of financial liabilities

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

Derivative financial instruments

The Group enters into derivative financial instruments, mainly interest rate swaps, to manage its exposures to interest rate risk. Further details of derivative financial instruments are disclosed in note 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 swaps, as cash flow hedges. Hedges of interest rate risk on firm commitment are accounted for as cash flow hedges.

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

Note 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 reconciliation of changes in equity in note 26.

Cash flow hedge

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

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

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

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. 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).

Derivatives

As described in note 22, the Directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on the quoted market rates adjusted for the specific features of the instruments.

4 Revenue

An analysis of the Group's revenue is provided below

	2009 £'000	Restated (*) 2008 £'000
Rentals receivable	1,328,121	1,204,403
Proceeds from disposal of operating lease assets	906,153	874,134
Contingent rentals	223	(749)
Hire purchase earnings	7,359	8,548
Other income	1,185	2,225
Total revenue	2,243,041	2,088,561

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

(*) The presentation of the income statement changed as a result of early adoption of the amendment to IAS 16 'Property, Plant and Equipment'. Details of the changes are presented in note 2.

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

	2009 £'000	Restated (*) 2008 £'000
Net book value of disposed operating lease assets	827,972	925,367
Fleet operating costs including insurance, maintenance and roadside assistance costs	362,219	300,924
Other product costs including continuous mobility costs, adaptations support, communications	15,815	18,029
Employee costs	33,219	30,996
Other operating costs	19,582	26,498
Legal and professional fees	3,550	4,480
Inventory write-down	—	5,924
Bad debt charges and movement in bad debt provisions	6,040	(3,846)
Management fees	2,500	1,150
Motability levy and rebates	5,038	4,262
Net operating costs before depreciation	1,275,935	1,313,784
Depreciation on assets used in operating leases (**)	529,709	593,475
Depreciation on property, plant and equipment and intangible assets	3,050	819
Net operating costs	1,808,694	1,908,078

(*) The presentation of the income statement changed as a result of early adoption of the amendment to IAS 16 'Property, Plant and Equipment'. Details of the changes are presented in note 2.

(**) The depreciation charge on assets used in operating leasing includes a £27.4m release (2008: £112.4m charge) relating to the change in estimate during the year of future residual value (see note 13).

7 Surplus from operations

Surplus from operations is stated after charging/(crediting)

	2009 £'000	2008 £'000
Depreciation	532,759	594,294
Bank charges	288	264
Employee costs	33,219	30,996
Auditors' remuneration		
Audit fees	120	110
Audit fees paid on behalf of subsidiaries	60	60
Total audit fees	180	170
Taxation advice, predominantly regarding the restructure	52	344
Other	90	4
Total non-audit fees payable to auditor	142	348

8 Employee costs

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

	2009	2008
Administrative staff	662	631

	2009 £'000	2008 £'000
The breakdown of staff costs is as follows		
Wages and salaries	27,097	25,225
Pensions and healthcare benefits	3,025	2,661
Social security costs	3,097	3,110
Total employee costs	33,219	30,996

9 Finance costs

	2009 £'000	2008 £'000
Interest and charges on bank loans and overdrafts	131,217	146,328
Interest on debt issued under the medium term note programme	12,822	—
Interest receivable	(52)	(203)
Amortisation of fees relating to financing	6,390	1,229
Preference dividends	697	175
Total finance costs	151,074	147,529

Notes to the financial statements continued

10 Tax

The major components of the Group tax expense are

	2009 £'000	2008 £'000
Current tax		
Charge for the year	–	92,481
Total	–	92,481
Deferred tax		
Origination and reversal of temporary differences	79,506	(82,098)
Impact of change in UK tax rate	–	(30,234)
Total	79,506	(112,332)
Tax on surplus from continuing operations	79,506	(19,851)

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

	2009 £'000	2008 £'000
Surplus before taxation from continuing operations	283,273	32,954
Tax calculated at appropriate tax rates applicable to surplus	79,315	9,790
Expenses not deductible for tax purposes	200	59
Utilisation of previously unrecognised tax losses	–	(996)
Tax losses for which no deferred tax asset was recognised	–	1,530
Adjustments recognised in the current year in relation to the current tax of prior years	(9)	–
Re-measurement of deferred tax due to change in the UK corporation tax rate	–	(30,234)
Total tax on surplus from continuing operations	79,506	(19,851)

The weighted average applicable tax rate was 28% (2008 28.67%). The decrease is caused by the change in the UK corporation tax rate from 30% to 28% during 2008.

11 Intangible assets

Cost	£'000
At 1 October 2007	–
Additions	4,477
At 1 October 2008	4,477
Additions	3,107
At 30 September 2009	7,584
Amortisation	
At 1 October 2007	–
Charge for the year	–
At 1 October 2008	–
Charge for the year	1,655
At 30 September 2009	1,655
Carrying amount	
At 30 September 2009	5,929
At 30 September 2008	4,477

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

The assets relate to an IT software project, the first phase of which was put into business use during February 2009

12 Property, plant and equipment

	Motor vehicles £'000	Leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost				
At 1 October 2007	1,845	5,177	11,928	18,950
Additions	901	109	964	1,974
Disposals	(920)	(1)	(7,561)	(8,482)
At 1 October 2008	1,826	5,285	5,331	12,442
Additions	883	92	251	1,226
Disposals	(983)	—	—	(983)
At 30 September 2009	1,726	5,377	5,582	12,685
Accumulated depreciation and impairment				
At 1 October 2007	797	3,134	11,485	15,416
Charge for the year	334	184	301	819
Eliminated on disposals	(521)	(1)	(7,559)	(8,081)
At 1 October 2008	610	3,317	4,227	8,154
Charge for the year	453	366	576	1,395
Eliminated on disposals	(539)	—	—	(539)
At 30 September 2009	524	3,683	4,803	9,010
Carrying amount				
At 30 September 2009	1,202	1,694	779	3,675
At 30 September 2008	1,216	1,968	1,104	4,288

13 Assets held for use in operating leases

	Restated (*) Motor vehicle assets £'000
Cost	
At 1 October 2007	3,765,953
Additions	1,818,012
Transfer to inventory (note 14)	(1,333,185)
At 1 October 2008	4,250,780
Additions	1,671,129
Transfer to inventory (note 14)	(1,242,670)
At 30 September 2009	4,679,239
Accumulated depreciation	
At 1 October 2007	676,475
Charge for the year	593,475
Eliminated on transfer to inventory (note 14)	(401,798)
At 1 October 2008	868,152
Charge for the year	529,709
Eliminated on transfer to inventory (note 14)	(423,338)
At 30 September 2009	974,523
Carrying amount	
At 30 September 2009	3,704,716
At 30 September 2008	3,382,628

(*) The presentation of the movement of assets held for use in operating leases changed as a result of early adoption of the amendment to IAS 16 Property, Plant and Equipment. See note 2.

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.

Notes to the financial statements continued

13 Assets held for use in operating leases continued

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

	2009 £'000	Restated (*) 2008 £'000
Within 1 year	796,063	585,974
Between 1-2 years	983,109	741,739
Between 2-5 years	936,221	1,135,811
Total exposure	2,715,393	2,463,524

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

	2009 £'000	Restated (*) 2008 £'000
Prior years	(39,471)	(13,549)
Current year	27,386	(112,607)
Amounts carried at 30 September	(12,085)	(126,156)
Amounts to be charged in future years	(44,145)	(54,587)
Total effect of changes in estimated residual value	(56,230)	(180,743)

The Group and Company as lessor

The rentals receivable are determined by the Disability Allowances and as such include income in respect of services and insurance

The future rental receivable under non-cancellable operating leases with customers, in total, for each of the following three periods after the balance sheet date are

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Within one year	1,070,552	988,642	–	–
In the second to fifth years inclusive	857,210	873,872	–	–
After five years	–	–	–	–
	1,927,762	1,862,514	–	–

14 Inventories

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Ex-operating lease assets held for sale	53,269	61,909	–	–
Provisions	(357)	(250)	–	–
Ex-operating lease assets held for sale (net)	52,912	61,659	–	–

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, £357k has been provided against irrecoverable vehicles (2008 £250k)

The cost of inventories recognised as expense and included in net operating costs amounted to £827,972 (2008 £925,367)

The movements of the inventories in 2008 and 2009 are as follows

	£'000
At 1 October 2007	61,813
Transfer from operating lease assets (note 13)	931,387
Inventory write-down	(5,924)
Disposals	(925,367)
At 1 October 2008	61,909
Transfer from operating lease assets (note 13)	819,332
Inventory write-down	–
Disposals	(827,972)
At 30 September 2009	53,269

15 Investment in subsidiaries

	2009 £'000	2008 £'000
Investments in subsidiaries at 30 September	10,000	10,000

The Company's subsidiaries are set out below

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

All of the above subsidiaries are incorporated in Great Britain

Loans to other Group companies

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Motability Leasing Limited	–	–	2,397,292	2,317,052
Motability Hire Purchase Limited	–	–	46,958	51,732
Total	–	–	2,444,250	2,368,784

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Loan to other Group companies – current	–	–	41,750	44,211
Loan to other Group companies – non-current	–	–	2,402,500	2,324,573
Total	–	–	2,444,250	2,368,784

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

16 Cash and bank balances

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Cash and bank balances	57	7,525	–	–

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

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

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Cash and bank balances	57	7,525	–	–
Bank overdrafts (see note 21) (*)	(29,259)	(22,317)	–	–
Total	(29,202)	(14,792)	–	–

(*) Includes uncleared cash transactions in the last two business days

Notes to the financial statements continued

17 Hire purchase receivables

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Gross repayments receivable				
Within one year	28,615	27,448	–	–
In the second to fifth years inclusive	57,511	51,629	–	–
Total	86,126	79,077	–	–
Unearned income receivable				
Within one year	(6,586)	(5,808)	–	–
In the second to fifth years inclusive	(7,088)	(6,671)	–	–
Total	(13,674)	(12,479)	–	–
Net total within one year	22,029	21,640	–	–
Net total due in the second to fifth years inclusive	50,423	44,958	–	–
Present value of minimum hire purchase receivables	72,452	66,598	–	–

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

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

The interest rate inherent in hire purchase agreements is fixed at the contract date. The effective interest rate ranges between 10% and 12% per annum, and reflects provision for early termination losses and other costs (2008 10% – 16%).

Hire purchase receivable balances include an allowance for estimated irrecoverable amounts of £11 m (2008 £15 m). 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 2009 is estimated to be £75.7m (2008 £67.0m) using discount rates based on the market rate for similar consumer credit transactions.

18 Trade and other receivables

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Trade debtors	52,556	72,855	–	–
Other debtors	36,359	43,412	–	–
Consortium relief debtors	–	242,021	–	–
Prepayments and accrued income	55,539	71,924	6,349	10,510
Total	144,454	430,212	6,349	10,510

Trade debtors include an allowance for estimated irrecoverable amounts of £6.3m (2008 £8.2m). This allowance has been made by reference to past default experience. The average debtor days period is 1 day (2008 6 days).

The consortium relief debtor in the prior year represents amounts from the shareholders as a result of the tax effects of the corporate restructure described in note 33 and which was received in the current year.

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 to be very low by the Directors. A small residual credit risk arises from miscellaneous customer billings, monies due from dealers, auction houses and vehicle manufacturers. The Group's management carries out regular credit assessments of the limits set for auction houses, manufacturers and dealers.

Included in the Group's trade receivable balance are debtors with a carrying value of £3.7m (2008 £6.3m) 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 11 days (2008 9 days).

18 Trade and other receivables continued
Ageing of past due but not impaired receivables

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Past due by 1-30 days	3,180	6,135	—	—
Past due by 31-60 days	523	—	—	—
Past due by 61-90 days	2	44	—	—
Past due by 91-120 days	1	—	—	—
Past due by more than 120 days	17	129	—	—
Total	3,723	6,308	—	—

19 Deferred income

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Customers' advance payments (*)	96,793	82,661	—	—
Vehicle maintenance income	8,748	(350)	—	—
Vehicle good condition bonus income	11,038	9,223	—	—
Deferred funding break costs benefits	—	4,567	—	—
Total current	116,579	96,101	—	—
Customers' advance payments (*)	87,269	80,838	—	—
Vehicle maintenance income	34,076	42,958	—	—
Vehicle good condition bonus income	11,450	9,245	—	—
Total non-current	132,795	133,041	—	—
Total	249,374	229,142	—	—

(*) 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

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Trade payables and accruals	77,998	82,951	—	—
Other payables	14,910	15,586	33,740	580
Advance payments received from DWP	6,125	—	—	—
Deferred consideration for partnership assets	—	316,941	—	—
Total	99,033	415,478	33,740	580

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

The deferred consideration balance in the prior year represents amounts due to the former partners as a result of the tax effects of the restructure described in note 33 which was paid in the current year.

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 (2008: 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

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Current bank loans	52,500	–	52,500	–
Accrued interest and coupon	14,209	1,060	14,209	1,059
Bank overdrafts	29,259	22,317	–	–
Total current	95,968	23,377	66,709	1,059
Non-current				
Bank loans	1,400,000	2,375,000	1,400,000	2,375,000
Debt issued under the Medium Term Note Programme (less unamortised discount and transaction costs)	942,165	–	942,165	–
Preference shares	9,950	9,950	9,950	9,950
Total non-current	2,352,115	2,384,950	2,352,115	2,384,950
Total	2,448,083	2,408,327	2,418,824	2,386,009

The financial liabilities are repayable as follows

On demand or due within one year	95,968	23,377	66,709	1,059
Due within two years	–	–	–	–
Due within two to five years	1,400,000	2,375,000	1,400,000	2,375,000
Due in more than five years	952,115	9,950	952,115	9,950
Total	2,448,083	2,408,327	2,418,824	2,386,009

All borrowings are denominated in Sterling

Bank borrowings

All bank borrowings as at 30 September 2009 and 2008 are at floating rates

As at 30 September 2009 and 2008 the Group has three principal bank loans

- A five year Term Loan of £1bn (2008 £1bn) taken out 26 June 2008. Loan repayment date is 26 June 2013
- A three year Term Loan of £0.05bn (2008 £1bn) taken out 26 June 2008. Loan repayment date is 24 June 2011 but being repaid early on 28 October 2009
- A five year Revolving Credit Facility of £900m (2008 £900m) taken out 26 June 2008 of which £400m drawn as at 30 September 2009 (2008 £375m). Facility repayment date is 24 June 2013

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

Debt issued under the Euro Medium Term Note Programme

During the year, the Company issued two fixed rate bonds. The first issue on 30 April 2009 had a nominal value of £450m with a semi-annual coupon of 6.625%. These bonds mature on 10 December 2019. The second bond was issued on 28 September 2009 for £500m with a semi-annual coupon of 5.25%. This is due to mature 28 September 2016. Both bonds were issued under the £2bn Euro Medium Term Bond Programme of the Company 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 £2bn Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by the Group companies, namely Motability Operations Limited, Motability Leasing Limited and Motability Hire Purchase Limited. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by these companies.

Preference shares

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

The weighted average interest rates on borrowings as at 30 September 2009 and 30 September 2008 were as follows

	2009 Group %	2008 Group %	2009 Company %	2008 Company %
Current bank loans and overdrafts	18	55	18	–
Non-current bank loans	14	63	14	63
Non-current debt issued under the Medium Term Note Programme	59	–	59	–
Non-current preference shares	70	70	70	70

21 Financial liabilities continued

At 30 September 2009 and 30 September 2008, the Group had the following undrawn committed borrowing facilities

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Working capital facility	97,500	68,500	92,500(*)	63,500
Revolving credit facility	500,000	525,000	500,000	525,000
Total	597,500	593,500	592,500	588,500

(*) 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

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Within 1 year	97,500	68,500	92,500	63,500
Within 1-2 years	—	—	—	—
Within 2-5 years	500,000	525,000	500,000	525,000
Total	597,500	593,500	592,500	588,500

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

	2009 Group carrying amount £'000	2009 Group fair value £'000	2009 Company carrying amount £'000	2009 Company fair value £'000
Current financial liabilities (including accrued interest and coupon)	95,968	95,968	66,709	66,709
Non-current debt issued under the Medium Term Note Programme (*)	942,165	986,430	942,165	986,430
Non-current bank loans	1,400,000	1,400,000	1,400,000	1,400,000
Non-current preference shares	9,950	12,043	9,950	12,043
Total	2,448,083	2,494,441	2,418,824	2,465,182

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

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

As at 30 September 2009, 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 purpose is estimated by discounting the cash flows at discount rate which is derived from the yield curve at the balance sheet date. The fair value of the debt issued under the 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 2009		Company 2009	
	Fair value £'000	Notional amounts £'000	Fair value £'000	Notional amounts £'000
Cash flow hedges				
Interest rate swaps	(31,184)	1,325,000	(31,184)	1,325,000
Included in non-current liabilities	(86)	100,000	(86)	100,000
Included in current liabilities	(31,098)	1,225,000	(31,098)	1,225,000
Derivative financial instrument liabilities	(31,184)	1,325,000	(31,184)	1,325,000

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

At 30 September 2009 the fixed interest rates vary from 6.0% to 1.62% (2008 the fixed interest rates vary from 6.0% to 4.8%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity (note 26) on interest rate swap contracts as of 30 September 2009 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

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

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Within one year	(32,020)	10,919	(32,020)	10,919
Due within three years	477	(7,630)	477	(7,630)
Due within three to five years	—	—	—	—
Due in more than five years	—	—	—	—
Total	(31,543)	3,289	(31,543)	3,289

Further details of derivative financial instruments are provided in note 34.

23 Provisions

	Group £'000
At 1 October 2007	820
Additional provision in the year	610
Utilisation/release of provision	—
At 1 October 2008	1,430
Additional provision in the year	215
Utilisation/release of provision	—
At 30 September 2009	1,645
Included in current liabilities	—
Included in non-current liabilities	1,645
Total	1,645

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

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 £'000	Short-term timing differences £'000	Derivatives £'000	Tax losses £'000	Total £'000
Net at 1 October 2007 (*)	448,013	(1,139)	—	—	446,874
Charge/(credit) to income	(48,041)	(197)	—	(64,094)	(112,332)
Charge/(credit) to equity	—	—	866	—	866
Net at 1 October 2008	399,972	(1,336)	866	(64,094)	335,408
Charge/(credit) to income	26,744	111	—	—	26,855
Charge/(credit) to equity	—	—	(9,598)	—	(9,598)
Utilisation of previously recognised tax losses	—	—	—	48,887	48,887
Losses surrendered as group relief	—	—	—	3,772	3,772
Net at 30 September 2009	426,716	(1,225)	(8,732)	(11,435)	405,324

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

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,

	2009 £'000	2008 £'000
Deferred tax asset	(10,935)	—
Deferred tax liabilities	416,259	335,408
Net at 30 September	405,324	335,408

Company	Accelerated tax depreciation £'000	Short-term timing differences £'000	Derivatives £'000	Tax losses £'000	Total £'000
At 1 October 2007	—	—	—	—	—
Charge/(credit) to income	—	—	—	—	—
Charge/(credit) to equity	—	—	866	—	866
At 1 October 2008	—	—	866	—	866
Charge/(credit) to income	—	—	—	—	—
Charge/(credit) to equity	—	—	(9,598)	—	(9,598)
At 30 September 2009	—	—	(8,732)	—	(8,732)

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

	2009	2008
Authorised		
100,000 Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid		
50,000 Ordinary shares of £1 each (2008: 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). These shares do not carry voting rights. Further details are provided in note 21

Notes to the financial statements continued

26 Reconciliation of changes in equity

Group	Share capital £'000	Fair Value reserve £'000	Retained reserves £'000	Total £'000
At 1 October 2007	1	–	515,382	515,383
Issue of share capital	49	–	–	49
Change in fair value of hedging derivatives (net of tax)	–	2,228	–	2,228
Transfer to reserves for the year	–	–	52,805	52,805
At 30 September 2008	50	2,228	568,187	570,465
Issue of share capital	–	–	–	–
Change in fair value of hedging derivatives (net of tax)	–	(24,680)	–	(24,680)
Transfer to reserves for the year	–	–	203,767	203,767
At 30 September 2009	50	(22,452)	771,954	749,552

Company	Share capital £'000	Fair Value reserve £'000	Retained reserves £'000	Total £'000
At 1 October 2007	–	–	–	–
Issue of share capital	50	–	–	50
Change in fair value of hedging derivatives (net of tax)	–	2,228	–	2,228
Transfer to reserves for the year	–	–	2,655	2,655
At 30 September 2008	50	2,228	2,655	4,933
Issue of share capital	–	–	–	–
Change in fair value of hedging derivatives (net of tax)	–	(24,680)	–	(24,680)
Transfer to reserves for the year	–	–	5,330	5,330
At 30 September 2009	50	(22,452)	7,985	(14,417)

27 Notes to the cash flow statement

Reconciliation of surplus to net cash flow from operating activities

	2009 Group £'000	Restated (*) 2008 Group £'000	2009 Company £'000	2008 Company £'000
Operating surplus from operations	434,347	180,483	–	–
Adjustments for				
Depreciation charge on corporate assets	3,050	819	–	–
Depreciation charge on operating lease assets	529,709	593,475	–	–
Inventory write-down	–	5,924	–	–
(Gains)/losses on disposal of operating lease assets	(78,181)	51,233	–	–
(Gains)/losses on disposal of corporate assets	(31)	(46)	–	–
Increase/ (decrease) in provisions	(2,147)	610	–	–
Operating cash flows before movements in working capital	886,747	832,498	–	–
Purchase of assets held for use in operating leases	(1,671,129)	(1,818,012)	–	–
Proceeds from sale of assets held for use in operating leases	906,153	874,134	–	–
Decrease/(Increase) in receivables	40,349	(29,289)	4,161	(54,721)
(Increase) in loans to and investment in subsidiaries	–	–	(77,927)	(2,334,573)
Increase in deferred income	24,799	24,988	–	–
Increase in creditors	498	6,469	33,160	580
Cash generated from operations	187,417	(109,212)	(40,606)	(2,388,714)
Net interest (paid)/received	(142,365)	(211,550)	23,413	3,714
Income taxes (paid)/received	(75,141)	(18,446)	(2,344)	–
Net cash flows from operating activities	(30,089)	(339,208)	(19,537)	(2,385,000)

(*) The presentation of the cash flow statement changed as a result of early adoption of the amendment to IAS 16 'Property, Plant and Equipment'. See note 2

28 Analysis of changes in net debt

	At 1 October 2008 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2009 £'000
Cash and bank balances	7,525	(7,468)	—	57
Borrowings due within one year	(23,377)	(58,382)	(14,209)	(95,968)
Borrowings due after one year	(2,375,000)	975,000	—	(1,400,000)
Debt issued under the Medium Term Note Programme due after one year	—	(942,037)	(128)	(942,165)
Preference shares	(9,950)	—	—	(9,950)
	(2,400,802)	(32,887)	(14,337)	(2,448,026)

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

29 Operating lease arrangements

The Group and Company as lessee

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Minimum lease payments under operating leases recognised in the income statement in the year	2,911	2,773	—	—

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

	2009 Group £'000	2008 Group £'000	2009 Company £'000	2008 Company £'000
Within one year	2,903	2,505	—	—
In the second to fifth year inclusive	10,698	8,589	—	—
After five years	1,693	—	—	—
Total	15,294	11,094	—	—

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

30 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 2009 amounted to £3,025,378 (2008 £2,240,719). Net contributions due at the balance sheet date were £839 (2008 £203,448).

Notes to the financial statements continued

31 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 transactions between the Company and its subsidiaries)

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

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

Transactions

During the year Motability charitable grants totalling £19.7m were awarded to customers and paid to the Company to enable vehicles to be purchased on their behalf (2008: £14.1m). The Company also paid £2,789,790 relating to Motability administration costs (2008: £3,595,575). A further £1,845,572 (2008: £1,307,746) 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 Company managed adaptations could not be processed. In addition, £2,247,800 was paid as a rebate negotiated with Motability which effectively removes the risk pricing from vehicle acquired with charitable grants (2008: £666,000). £918 was donated to Motability's charitable funds during the year (2008: £1,912).

The funding of the Group 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). Additionally, total fees of £2.5m (2008: £115m) were due to the Shareholder Banks in equal proportions for management and advisory services.

Remuneration of key management personnel

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

	2009 £'000	2008 £'000
Short-term employee benefits	2,570	2,580
Post-employment benefits	391	391
Other long-term benefits	1,198	1,287
Termination benefits	–	345
	4,159	4,603

32 Directors' remuneration

During the year there were six Directors (2008: seven) accruing benefits under money purchase pension schemes. The Chairman makes separate provision for pension from his aggregate emoluments.

	2009	2008
Chairman		
Salary	£170,000	£157,000
Benefits	£18,472	£26,516
Aggregate emoluments in respect of qualifying services	£188,472	£183,516
Pension contributions under money purchase pension schemes	£nil	£nil

	2009	Restated (*) 2008
Highest-paid Director		
Salary	£475,000	£334,000
Bonuses	£168,500	£195,000
Benefits	£39,122	£43,891
Aggregate emoluments in respect of qualifying services	£682,622	£572,891
Pension contributions under money purchase pension schemes	£140,417	£61,233
All Directors		
Salary	£2,066,917	£1,621,001
Bonuses	£646,725	£733,400
Benefits	£176,934	£204,319
Aggregate emoluments in respect of qualifying services	£2,890,576	£2,558,720
Pension contributions under money purchase pension schemes	£585,611	£798,002
Compensation for loss of office	–	£345,000

(*) Previously, where directors have elected to convert benefits entitlements (such as healthcare) into cash, these amounts have been presented within 'salary'. Such entitlements are now presented within 'benefits' in order to better reflect their true nature, and the 2008 figures have been re-classified accordingly.

32. Directors' remuneration continued

Long-Term Incentive Plan (LTIP)

In addition to the above, Motability Operations Group plc operates a Long-Term Incentive Plan

Long-Term Incentive Plan (LTIP) A

Until the financial year ended 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 bonus 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 plan A is now closed and the last potential releases will be in 2010.

During the year to September 2009, in aggregate £1,480,646 was released of LTIP A, including £353,125 in respect of the highest-paid Director (2008: £871,945, including £320,625 in respect of the highest-paid Director).

Long-Term Incentive Plan (LTIP) B

Following the restructuring of the business in June 2008, a revised Long-Term Incentive Plan has been introduced. The new plan, effective from 1 October 2008, focuses on ensuring that any reward is linked to measureable long-term objectives. As was the case for the original LTIP A plan, due to the ownership structure of the business, the use of shares or share options is precluded. However, the new LTIP B plan 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 then 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 September 2009, in aggregate an initial allocation of 505 units was made into the plan. These units will not become eligible for possible cash conversion until 2011.

33 Group restructuring note

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

Under IFRS 3 (Business Combinations) the combination of businesses is normally accounted for with one party being recognised as the acquirer of the other. However, the combination of businesses under common control is excluded from the scope of IFRS 3 and the transaction is reflected as the restructuring of an existing business, consequently the assets and liabilities of MCL and MHP are transferred at book values. Furthermore, the business pre and post the corporate restructure is regarded as a continuing business with the financial statements in 2008 being prepared on the 'predecessor' accounting basis.

Notes to the financial statements continued

34 Funding and financial risk management

Capital risk management

The capital structure of the Group 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 and preference share capital and retained reserves and loss reserves excluding the fair value reserves relating to interest rate swaps.

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

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

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

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

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:

	2009 £million	2008 £million
Actual capital (reserves, share capital and preference shares)	782	578
Economic Capital Requirement corridor (100% – 130%)	678 – 882	556 – 723

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 and the Group has complied with the terms of the covenant throughout the period.

Significant accounting policies

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

Categories of financial instruments

	2009 Group carrying value £'000	2008 Group carrying value £'000	2009 Company carrying value £'000	2008 Company carrying value £'000
Non-derivative financial assets				
Hire purchase receivables	72,452	66,598	–	–
Trade and other receivables	52,137	315,125	–	–
Loan to other group companies	–	–	2,444,250	2,368,784
Cash and bank balances	57	7,525	–	–
Total non-derivative financial assets	124,646	389,248	2,444,250	2,368,784
Non-derivative financial liabilities				
Trade and other payables	(99,033)	(415,478)	(33,740)	(580)
Financial liabilities	(2,448,083)	(2,408,327)	(2,418,824)	(2,386,009)
Total non-derivative financial liabilities	(2,547,116)	(2,823,805)	(2,452,564)	(2,386,589)
Net non-derivative financial liabilities	(2,422,470)	(2,434,557)	(8,314)	(17,805)
Derivative financial instruments				
Interest rate swaps	(31,184)	3,094	(31,184)	3,094
Total	(2,453,654)	(2,431,463)	(39,498)	(14,711)

34 Funding and financial risk management continued
Fair value of financial instruments

		2009 Group carrying value £'000	2009 Group fair value £'000	2008 Group carrying value £'000	2008 Group fair value £'000
Cash and bank balances	****	57	57	7,525	7,525
Trade and other receivables	***	52,137	52,137	315,125	315,125
Hire purchase receivables – current	*	22,029	28,018	21,640	23,637
Hire purchase receivables – non-current	*	50,423	47,727	44,958	43,401
Trade and other payables – current	***	(99,033)	(99,033)	(415,478)	(415,478)
Bank loans including bank overdrafts – current	**	(95,968)	(95,968)	(23,377)	(23,377)
Bank loans – non-current	**	(1,400,000)	(1,400,000)	(2,375,000)	(2,375,000)
Debt issued under the Medium Term Note Programme (*)	*	(942,165)	(986,430)	–	–
Redeemable preference share liabilities	*	(9,950)	(12,043)	(9,950)	(9,950)
Net non-derivative financial liabilities		(2,422,470)	(2,465,535)	(2,434,557)	(2,434,117)
Interest rate swap – cash flow hedge		(31,184)	(31,184)	3,094	3,094
		(2,453,654)	(2,496,719)	(2,431,463)	(2,431,023)

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

* Bearing interest at fixed rate

** Bearing interest at floating rate

*** Non-interest bearing

**** Interest bearing portion of the cash and cash equivalents consists of overnight deposits

		2009 Company carrying value £'000	2009 Company fair value £'000	2008 Company carrying value £'000	2008 Company fair value £'000
Loan to other group companies	**	2,444,250	2,477,949	2,368,784	2,368,784
Trade and other payables – current	***	(33,740)	(33,740)	(580)	(580)
Financial liabilities – current	**	(66,709)	(66,709)	(1,059)	(1,059)
Bank loans – non-current	**	(1,400,000)	(1,400,000)	(2,375,000)	(2,375,000)
Debt issued under the Medium Term Note Programme (*)	*	(942,165)	(986,430)	–	–
Redeemable preference share liabilities	*	(9,950)	(12,043)	(9,950)	(9,950)
Net non-derivative financial liabilities		(8,314)	(20,973)	(17,805)	(17,805)
Interest rate swap – cash flow hedge		(31,184)	(31,184)	3,094	3,094
		(39,498)	(52,157)	(14,711)	(14,711)

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

* Bearing interest at fixed rate

** Bearing interest at floating rate

*** Non-interest bearing

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:

- The carrying value of cash and cash equivalents approximates to the carrying amount due to its short-term nature.
- The carrying value 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 and loan to other group companies for disclosure purposes is estimated by discounting the cash flows using the market data at the balance sheet date.
- The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the current market data at the reporting date.
- The fair value of debt issued under the Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date.

Notes to the financial statements continued

34 Funding and financial risk management continued**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 financial risk 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 periodically by the Audit Committee.

The risks of the Group arising from its funding activities include interest rate risk, credit risk and liquidity risk. The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into interest rate swaps 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.

Interest rate risk management

The Group's revenues primarily arise from operating lease rentals and hire purchase repayments that are fixed for the period of the contract, typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN programme, the Group's borrowings are subject to floating interest rates. The Group seeks to minimise this interest rate risk by entering into fixed interest rate swaps to hedge these 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 must be fixed in nature. The Group only hedges the variable rate term borrowings, variable rate working capital facilities are not hedged.

Floating rate debt, with a carrying value of £1,400m as at 30 September 2009, is substantially swapped into fixed interest rates thereby reducing interest rate risk and exposes the Group to fair value interest rate risk. Notes with a carrying value of £942m as at 30 September 2009 were subject to fixed interest rates and exposes the Group to fair value interest rate risk. (2008 Debt with a carrying value of £2,375m as at 30 September 2008 is subject to floating interest rates and substantially swapped into fixed interest rates and exposes the Group to fair value interest rate risk).

The Group has interest rate swaps of £1,325m (2008 £2,350m, maturing over the next three years) maturing over the next two years. Under these swaps the Group pays an average fixed rate of 4.21% (2008 5.76%).

Interest rate sensitivity analysis

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

In the event of any change in interest rates, there would be no material effect in the reserves of the Group. Although 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 a 1% increase in interest rates were applied to the financial instruments (all other variables are held constant as at 30 September 2009 and excluding interest rate swaps) which carry interest at floating rates this would have resulted, over a period of one year, in a pre-tax surplus (and equity) decrease of approximately £14.9m (2008 £23.9m).

For interest rate derivatives held on 30 September 2009 a 1% increase in interest rates, used to hedge the interest rate risk of the Group, would result in an equity increase of approximately £9.9m (2008 £20.6m).

34 Funding and financial risk management continued

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on 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, these 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'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.

	2009 Average contract fixed interest rate %	2008 Average contract fixed interest rate %	2009 Nominal principal amount £'000	2008 Nominal principal amount £'000	2009 Fair value £'000	2008 Fair value £'000
Under one year	4.41	—	1,225,000	—	(31,098)	—
Between one to three years	1.65	5.76	100,000	2,350,000	(86)	3,094
Between three to five years	—	—	—	—	—	—
Over 5 years	—	—	—	—	—	—
			1,325,000	2,350,000	(31,184)	3,094

Fixed-rate bond issuance

During the financial year, the Group has issued two fixed-rate Sterling bonds under its EMTN programme. Bond issuance is an integral part of long-term funding strategy to secure long-term, sustainable, cost effective fixed-rate funding. Bonds proceeds diversify the funding base and also reduce the risk attributable to changes in interest rates. The fixed-rate nature of the bonds reduces the reliance on hedging interest rate swaps leading to decline in the nominal amount employed during the year. Bond proceeds have been used to replace floating rate borrowings.

Bonds issued during the year have maturities of 2016 and 2019 with coupons of 5.25% and 6.625% respectively.

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 total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2009 and 2008 attributable to banks/financial institutions.

	2009 Total limit £'000	2009 Maximum utilisation £'000	Balance as at 30 September 2009 £'000	2008 Total limit £'000	2008 Maximum utilisation £'000	Balance as at 30 September 2008 £'000
Counterparty credit limit	130,000	86,500	7,625	110,000	88,500	28,344

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

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

Notes to the financial statements continued

34 Funding and financial risk management continued

Liquidity risk management

The Group is 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'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 10% of borrowings. The Group has three and five year bank term loans with 175 and 375 years until maturity in addition to a five year revolving credit facility with 375 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed rate bonds during the year. The bonds, with maturities of seven and 10 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 table details the contractual maturity of the Group's non-derivative financial liabilities. The table has been drawn up based on the undiscounted amounts of the Group's financial liabilities based on the earliest dates on which the Group can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

Group

	2009 Weighted average interest rate %	2009 Under 1 year £'000	2009 Between 1-3 years £'000	2009 Between 3-5 years £'000	2009 Over 5 years £'000	2009 Total £'000
Financial liabilities – bank loans variable interest rate	3.6	77,184	113,098	1,453,134	–	1,643,416
Financial liabilities – debt issued under medium-term bond programme fixed interest rate	5.9	59,411	112,270	112,051	1,166,456	1,450,188
Financial liabilities – bank overdrafts and short-term borrowings	2.5	31,759	–	–	–	31,759
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	697	1,393	1,393	11,343	14,826
Trade and other payables – non-interest bearing	–	99,033	–	–	–	99,033
		268,084	226,761	1,566,578	1,177,799	3,239,222

(*) 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.

Group

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

34 Funding and financial risk management continued
Liquidity risk management continued

Company

	2009 Weighted average interest rate %	2009 Under 1 year £'000	2009 Between 1-3 years £'000	2009 Between 3-5 years £'000	2009 Over 5 years £'000	2009 Total £'000
Financial liabilities – bank loans variable interest rate	3.6	77,184	113,098	1,453,134	–	1,643,416
Financial liabilities – debt issued under medium-term bond programme fixed interest rate	5.9	59,411	112,270	112,051	1,166,456	1,450,188
Financial liabilities – bank overdrafts and short-term borrowings	1.8	2,500	–	–	–	2,500
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7	697	1,393	1,393	11,343	14,826
Trade and other payables – non-interest bearing	–	33,740	–	–	–	33,740
		173,532	226,761	1,566,578	1,177,799	3,144,670

Company

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Financial liabilities – bank loans variable interest rate	5.8	151,408	1,242,127	1,516,978	–	2,910,513
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	697	1,393	1,393	11,343	14,826
Trade and other payables – non-interest bearing	–	580	–	–	–	580
		152,685	1,243,520	1,518,371	11,343	2,925,919

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

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

Group

	2009 Weighted average interest rate %	2009 Under 1 year £'000	2009 Between 1-3 years £'000	2009 Between 3-5 years £'000	2009 Over 5 years £'000	2009 Total £'000
Interest rate swaps	4.21	(32,020)	477	–	–	(31,543)

Group

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

Notes to the financial statements continued

34 Funding and financial risk management continued

Liquidity risk management continued

Company

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

	2009 Weighted average interest rate %	2009 Under 1 year £'000	2009 Between 1-3 years £'000	2009 Between 3-5 years £'000	2009 Over 5 years £'000	2009 Total £'000
Interest rate swaps	4.21	(32,020)	477	–	–	(31,543)

Company

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

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

Group

	2009 Weighted average interest rate %	2009 Under 1 year £'000	2009 Between 1-3 years £'000	2009 Between 3-5 years £'000	2009 Over 5 years £'000	2009 Total £'000
Hire purchase receivables – fixed interest rate	11.1	28,969	42,347	15,528	348	87,192
Trade and other receivables – non-interest bearing	–	52,137	–	–	–	52,137
Cash and bank balances – non-interest bearing	–	57	–	–	–	57
		81,163	42,347	15,528	348	139,386

Group

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

34 Funding and financial risk management continued
Liquidity risk management continued

Company

	2009 Weighted average interest rate %	2009 Under 1 year £'000	2009 Between 1-3 years £'000	2009 Between 3-5 years £'000	2009 Over 5 years £'000	2009 Total £'000
Loan to other Group companies	5.7	130,638	258,012	293,734	2,701,387	3,383,771
		130,638	258,012	293,734	2,701,387	3,383,771

Company

	2008 Weighted average interest rate %	2008 Under 1 year £'000	2008 Between 1-3 years £'000	2008 Between 3-5 years £'000	2008 Over 5 years £'000	2008 Total £'000
Loan to other Group companies	7.6	176,668	353,335	353,335	2,677,908	3,561,246
		176,668	353,335	353,335	2,677,908	3,561,246