Cattles plc

Annual Report and
Financial Statements
2008

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INTRODUCTION AND OVERVIEW OF EVENTS DURING 2009

I am obviously very disappointed to have to report our 2008 audited loss before tax of £745.2 million (2007 restated: loss before tax £96.5 million) which gives a loss per share of 156.38p (2007 restated: loss per share 23.56p).

On 20 February 2009, we announced a delay in the release of the Group's 2008 Preliminary Results. This announcement marked the beginning of a process, including an Impairment Review and a Forensic Review, which led us to the discovery of a very significant shortfall in the Group's impairment provisions. As a result of the circumstances surrounding this very material shortfall in the level of impairment provisions, on 30 June 2009 we dismissed a number of Cattles plc (Cattles) executive directors and other Welcome Financial Services Limited (WFS) senior executives. At the same time, the Chairman and Chief Executive resigned. It was at this point that I became Executive Chairman of a restructured Board.

The events which unfolded after 20 February led us to the conclusion that we were in breach of covenants under our borrowing arrangements. Our financial creditors therefore had the right to demand immediate repayment of their loans. We decided not to continue lending to our Welcome Finance (Welcome) customers (other than on a minimal renewal basis) during 2009. Instead, we had to devote a great deal of our time and energy to stabilising the Group so that we could negotiate and obtain a standstill agreement with our key financial creditors.

As part of the process of obtaining our creditors' agreement to the standstill, we were required to put out an announcement of our 2008 results on 25 November 2009. These numbers, which were unaudited and described as being subject to material change, showed a very substantial loss for the year ended 31 December 2008. This announcement represented the Board's best estimate of the likely result at that time and reflected the impact of the Impairment Review, which is described in more detail below.

During the second half of 2009, we undertook a thorough analysis of the Group's businesses. This analysis led us to recommend that there should be no further lending in Welcome and that instead the book should be collected out. This conclusion was announced to shareholders on 16 December 2009.

In the same period, given the accounting issues faced by the Group, the Board also considered the issue of whether it was appropriate for PricewaterhouseCoopers LLP (PwC) to audit the Company's and subsidiaries' 2008 financial statements. In November 2009, the Board concluded that it was not appropriate and therefore asked PwC to resign as auditor.

Shortly afterwards, Grant Thornton UK LLP (Grant Thornton) was appointed as the Group's statutory auditor. Grant Thornton started work on the audit of the 2008 financial statements in December 2009. Following completion of Grant Thornton's audit, we were finally able to announce audited results.

These results are different from the unaudited results previously published in November 2009. The discussions we have had with our new auditor have resulted in a further increase in impairment provisions, and in the need to make certain other provisions as at 31 December 2008 and in respect of prior years.

THE IMPAIRMENT REVIEW

In February 2009, as soon as it became clear that there was an issue with the Group's impairment provision, the Audit Committee commissioned Deloitte LLP (Deloitte) to conduct an independent review of the Group's impairment policies and their application in the Company's accounts (the Impairment Review). Deloitte were instructed to assist the Audit Committee in order to establish the quantum of the impairment provision. Deloitte's principal finding was that, as a result of a breakdown in internal controls, our impairment policies had been incorrectly applied. This resulted in impairment provisions being materially understated and profit materially overstated. Further details of the financial impact of Deloitte's findings are set out in the Business and Financial Review.

THE FORENSIC REVIEW

In addition to the Impairment Review, the Audit Committee commissioned an independent forensic review (the Forensic Review) which was carried out by Freshfields Bruckhaus Deringer LLP (Freshfields) with the assistance of Deloitte. The predominant reason for the Forensic Review was to enable the Audit Committee to assess and take legal advice on liability and related issues. The Audit Committee also thought the Forensic Review was important for a number of other reasons:

- to enable the Company to understand what happened and to take steps to ensure it could not happen again;
- to enable the Company to identify any individuals who either posed a risk to the Company or who were otherwise culpable in what had happened, and to determine what action should be taken against individual employees; and
- to be able to give an independent account of the matter to the Financial Services Authority (FSA) and any other interested regulatory bodies.

RESULTS OF THE FORENSIC REVIEW

The Forensic Review demonstrated that certain of the former executive directors of Cattles and certain of the former senior executives of WFS, over a period of time, had provided incomplete and misleading information and documents and/or failed to escalate matters of concern relating to impairment to the full Board and Audit Committee. The provision of such incomplete and misleading information and documents to the full Board and Audit Committee, in conjunction with the withholding of certain other information and documents, combined to mask the true state of Welcome's loan book and, in particular, the correct level of arrears within that book.

Notwithstanding the Group's reported strong record of growth with stable credit quality and strong earnings performance, the non-executive directors had regularly challenged certain executives about key matters such as the level of cash being generated by the business, the quality of the rapidly expanding loan book and the adequacy of the loan loss provision.

In response to these challenges, certain executives had provided a range of presentations, documents and verbal reassurances to the non-executive directors that everything was entirely as it should have been and that there was no reason for concern. In addition to this robust and consistent reassurance from such executives, the Audit Committee regularly sought and received reassurances on a number of matters, including specific assurance about the adequacy of the loan provision, from the external auditors to the Company's accounts at that time.

ACTION TAKEN IMMEDIATELY FOLLOWING THE CONCLUSION OF THE FORENSIC REVIEW

As a result of the Forensic Review, as we announced on 1 July 2009, the employment of each of the six senior executives who had been suspended pending the final outcome of the review was terminated with immediate effect and the Group Treasury & Risk director left the Company, also with immediate effect. None of the departing executives received any compensation for loss of office.

We also made the following changes to the operating structure of the Group and to the composition of both the Board and the board of WFS:

- I was appointed Executive Chairman of Cattles with immediate effect, supported in this role by Robert East our Chief Restructuring Officer, who leads our discussions with our key financial creditors and James Drummond Smith, who had become our Finance Director in April 2009;
- the board of WFS was also restructured, with the appointment of Laura Barlow as Executive Chairman in an interim capacity and Paul Mackin as Managing Director. The Risk and Compliance function was strengthened with a number of external senior appointments. Laura Barlow left the business at the end of January 2010 at which time I also became Executive Chairman of WFS and David Lovett joined that board on 25 February 2010; and
- we focused on a programme of action to stabilise the Group's financial position including a controlled process of debt recovery and cash collection and the simplification of the Group's operating model to reduce costs.

OTHER BOARD CHANGES WHICH TOOK PLACE ON 30 JUNE 2009

There were two other changes in the composition of the Board on 30 June 2009 to enable the new Board structure described above to be put in place. Norman Broadhurst stepped down as Chairman and as a director of Cattles (the Board having previously announced that Norman Broadhurst would not seek re-election at the forthcoming Annual General Meeting of the Company, either as Chairman or as a director of Cattles). David Postings stepped down as Chief Executive and as a director of Cattles and left the Group with immediate effect.

MANAGEMENT OF THE GROUP AND ITS OPERATIONS SINCE 1 JULY 2009

Following the changes to the Board described above, we have taken a number of steps to ensure that the Executive Board members have an appropriate level of information and control over the activities and operations of the business and to ensure that the whole Board has sufficient visibility of these matters. The Board's Executive Directors, together with the Group Risk and Compliance Director and the Managing Director of WFS (together referred to as the Executive Team), have a formal weekly meeting to review management and operational information, and to discuss and approve all significant operating and other decisions. This meeting also receives and reviews a report on risk and compliance issues that may have arisen in the previous week. The same group meets monthly to consider risk and compliance issues and internal control issues and to review progress in the resolution of these issues. The full Board receives copies of the minutes of all these meetings.

The Audit Committee and the Group Risk Committee have met frequently since 1 July 2009. A particular area of focus for both of these committees has been the results of a thorough review of key controls which was carried out by Deloitte in the second half of 2009 on the instruction of the Executive Team. The committees have carefully monitored the Executive Team's progress in dealing with the issues raised by this review and this has created a good framework for the timely resolution of many of these issues. The Board has met even more frequently than these committees and has also reviewed a full management information pack at these meetings. The non-executive directors continue to provide a very valuable insight and challenge on the many difficult issues we have had to address during this period.

BUSINESS UNIT PERFORMANCE

WFS

WFS is Cattles' principal operating subsidiary. During 2008, WFS comprised Welcome and Shopacheck, the Group's non-standard consumer lending businesses, and Welcome Car Finance, our car retail operation. Pre-tax loss was £746.4 million (2007 restated: pre-tax loss £95.0 million). Total net receivables were £2.3 billion (2007 restated: £2.3 billion).

Welcome

As noted above, the key feature of the 2008 results is the significant increase in loan loss provisions, which has been the main cause of the large loss reported. The loan loss charge increased to £737.3 million (2007 restated: £368.0 million). Total net receivables were £2.2 billion (2007 restated: £2.2 billion). Our current estimate of the fair value of Welcome's loans and receivables is £1.4 billion at 31 December 2008, which is calculated by discounting expected future cash flows from the loans and receivables. Loans and receivables have continued to impair post year end as the business is in run-off.

Shopacheck Financial Services (Shopacheck)

Shopacheck, our home collected credit business, reduced its net receivables to £79.8 million (2007: £101.3 million). As part of the review of impairment provisions noted above and subsequent review work, we also increased the loan loss charge in Shopacheck by an additional £9.2 million to £54.5 million (2007: £45.3 million).

Welcome Car Finance

Income from Welcome Car Finance grew by 3.9% to £110.2 million (2007: £106.1 million) as it increased unit sales by 5.1% to 14,461 vehicles (2007: 13,763). Welcome Car Finance was closed in April 2009 as a result of funding constraints.

The Lewis Group

The Lewis Group reported a pre-tax loss in 2008 of £5.2 million (2007: pre-tax profit £10.2 million). This reflected a reduction in cash collections as well as a more cautious view on the outlook for the UK economy and the housing market in particular, which led to a devaluation of the debt portfolios owned by The Lewis Group of £14.1 million (2007: upwards revaluation of £4.5 million). Debt purchases during the year totalled £75.5 million (2007: £74.3 million). The Lewis Group will refocus its strategy on contingent debt collection and by the end of 2010 its commitments to acquire further debt will have been completed.

Cattles Invoice Finance

Income grew 11.3% to £23.7 million (2007: £21.3 million), and client numbers remained steady at 727 (2007: 725). Pre-tax profit reduced by 8.0% to £2.3 million (2007: £2.5 million) largely as a result of further provisions on three specific accounts noted in 2007. The loan loss charge was £2.5 million (2007: £2.5 million). On 14 September 2009, the Group sold this business for a cash consideration of £70.4 million.

More detailed information on the performance of our businesses can be found in the Business and Financial Review.

DIVIDENDS

During 2008 an interim dividend of 6.51p per share (2007: 6.20p per share) was paid. As a result of the losses for the year, no final dividend will be declared (2007: 13.10p per share).

RESTRUCTURING

On 25 November 2009, we announced that Cattles had agreed a Standstill and Equalisation Agreement (SEA) with its key financial creditors, and that this should improve the likelihood of us achieving our restructuring objectives, namely:

- to stabilise the financial position of the Company and its subsidiaries; and
- against this background, to continue discussions with the Company's key financial creditors with a view to agreeing a consensual restructuring of the Group.

On 16 December 2009 at the General Meeting called to consider Cattles' serious loss of capital and the actions taken by the Board, I confirmed that, since the SEA announcement, we had met with representatives of our financial creditors to update them on the Group's recent financial performance and to review with them a range of strategic options. These meetings followed extensive strategic, operational and financial analysis of the Group's businesses. Based on this analysis and against the background of the significant losses incurred to date by Welcome, the directors were unable to recommend a business plan to financial creditors which would allow Welcome to lend to existing or new customers.

The Board therefore recommended a plan which would focus on collecting out Welcome's customer loans. It is envisaged that the collection of the Welcome loan book could take two to three years and, during this period, the Group's cost base will contract to reflect the reducing size of the book.

The Group's smaller businesses, Shopacheck and The Lewis Group, will carry on trading as normal. We continue to explore the scope to develop these businesses further.

We are engaged in ongoing discussions with representatives of our key financial creditors in order to progress proposals for a consensual restructuring. Those discussions have been constructive and demonstrate continuing progress towards a consensual restructuring. On this basis, we have concluded that there is a reasonable expectation that the Company will continue to be able to pay its operational debts as they fall due for the foreseeable future and that we have a reasonable prospect of achieving a consensual restructuring. We therefore continue to adopt the going concern basis in preparing the financial statements.

We intend to announce our results for 2009 in the near future. Shareholders should be aware that again we will be reporting a significant loss for the year ended 31 December 2009 and a negative value for shareholders' funds. As we stated on 16 December 2009, the shares are likely to have little or no value. The cash collection performance of Welcome's loan book has been as forecast for the first quarter of 2010. Shopacheck and The Lewis Group have made satisfactory starts to 2010.

LISTING

The filing of the 2008 Annual Report and Financial Statements with Companies House does not affect the current suspension of the listing of the Company's securities, which was imposed at the Company's request in April 2009. Any lifting of the suspension would require the approval of the UK Listing Authority and could not, in any event, take place before the publication of the 2009 Annual Report and Financial Statements.

SHAREHOLDERS

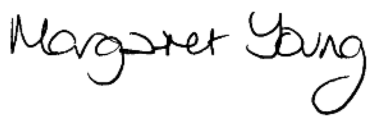
As I said in my introduction to this statement, I am very disappointed to have to report audited losses for 2008, particularly on the scale shown in this annual report and financial statements.

I know that some of our shareholders had a substantial proportion of their savings invested in Cattles' shares. Many of you have lost money that you have told me you could ill afford to lose. These facts make it all the more painful for me to present this annual report.

I share your anger about what has happened. Like you, I feel very let down by certain former executives. I also share your frustration about the time that it is taking to establish responsibility for the problems which we have experienced. However, these matters are extremely complex and cannot be resolved quickly. I can only assure you that the current Board continues to co-operate as fully as possible with all interested regulators and to consider with our legal advisers all possible avenues for potential claims against third parties in relation to the impairment problems which finally came to light in February 2009.

PEOPLE

The events that unfolded during 2009 have been extremely difficult for the Group and its employees. As part of our programme to simplify the Group's operations we have had to release a significant number of people during 2009 and again in the first quarter of 2010. Furthermore, at the end of 2009 we had to inform the Welcome employees that we intend to pursue a strategy of collecting out the customer loans over the next two to three years, as a result of which they are unlikely to have a long-term future with the business. I have been impressed with the professionalism and dedication of our employees in very difficult circumstances and, on behalf of the Board, I wish to thank them for their continuing contribution to the business.



Margaret Young

Executive Chairman

11 May 2010

OVERVIEW OF THE GROUP AND ITS BUSINESSES

Cattles is a financial services group specialising in providing consumer credit to non-standard customers in the UK.

The Group's principal subsidiary is WFS, which comprised three businesses during 2008: Welcome, Shopacheck and Welcome Car Finance.

- Welcome, the principal lending business in 2008, served more than 500,000 customers, providing direct repayment loans from 182 branches across the UK. Its product range in 2008 included unsecured personal loans, second charge secured loans and hire purchase for cars. Further details surrounding the issues in Welcome which have come to light since 31 December 2008 are set out below.
- Shopacheck provided short-term home collected loans to some 235,000 customers through 52 branches.
- Welcome Car Finance sold around 14,000 used cars a year from 11 sites and was the largest introducer of hire purchase business to Welcome. Due to funding constraints the business was closed on 30 April 2009.

The Group also provides debt recovery services to external clients and its own consumer credit business through The Lewis Group. The Lewis Group is a UK leader in debt recovery and investigation services, servicing both external clients and WFS. During 2008, The Lewis Group purchased £75.5 million of debt portfolios (2007: £74.3 million). TLG will refocus its strategy on contingent debt collection and by the end of 2010 its commitments to acquire further debt will have been completed.

During 2008, the Group also provided working capital finance for small and medium sized businesses in its Cattles Invoice Finance business. The business was sold on 14 September 2009.

BACKGROUND TO THE ISSUES RESULTING IN THE DELAY OF THE 2008 RESULTS AND THE RESTATEMENT OF THE 2007 RESULTS

As explained in the Executive Chairman's Statement, on 20 February 2009, the Company announced a delay in the release of its 2008 Preliminary Results Announcement pending the completion of a review of the adequacy of its impairment provisions. Subsequently, the Impairment Review commissioned by the Audit Committee, and conducted by Deloitte, confirmed the Board's belief that there had been a breakdown of internal controls which resulted in the Group's impairment policies being applied incorrectly. Six senior executives of the Group, including two directors of Cattles, were suspended pending the final outcome of the Forensic Review.

The Board reported on 10 March 2009 that, based on information received to that date, and subject to completion of its external audit, it believed that the Group had incurred a significant loss before tax for the year ended 31 December 2008, and that it would be necessary to restate the Group's financial statements for the year ended 31 December 2007. The Board also reported on 10 March 2009 that it believed Cattles was in breach of covenants under its borrowing arrangements.

On 1 April 2009, the Company announced that a report by Deloitte estimated that the Group would need to make a provision of around £700 million in excess of that originally anticipated with respect to the value of customer loans held as at 31 December 2008. At that date, the amount of this provision that should be reflected in the profit and loss account for the year ended 31 December 2008 versus earlier years remained to be determined. However, the Board believed that such a provision would result in the Group reporting a significant loss before tax for the year ended 31 December 2008 and in a requirement to restate the Group's financial statements for the year ended 31 December 2007.

On 1 April 2009, the Board also reported that it was considering whether to include an additional incurred but not reported (IBNR) provision consistent with accounting standard IAS39. The work carried out to 1 April 2009 indicated that an additional provision of £150 million would be required if such a policy were to be adopted. The Board has now decided to adopt such a policy. As a result, the financial statements from pages 37 to 90 include an IBNR impairment provision of £150 million as at 31 December 2008.

On 23 April 2009, Cattles announced it was not in a position to publish its report and accounts for the year ended 31 December 2008 by 30 April 2009 as required by Disclosure and Transparency Rule (DTR) 4.1.3. In those circumstances, the Company believed that the FSA would ordinarily require the suspension of trading of the Company's shares and bonds with effect from 1 May 2009. Therefore, in order to avoid a disorderly market and to protect investors, Cattles requested an immediate suspension of trading in its securities pending publication of its audited report and accounts for the year ended 31 December 2008, which was granted.

Once the Board had reported on 10 March 2009 that it believed Cattles was in breach of covenants under its borrowing arrangements, Cattles entered into constructive discussions with its debt providers with a view to obtaining a formal standstill agreement. The Board's focus was on working closely with the Company's debt providers to secure their support for the Group's programme of action to stabilise its financial position. The core actions included:

- restructuring the Board and senior management team as explained in the Executive Chairman's Statement;
- the consideration of selected disposals of businesses and assets including the sale of Cattles Invoice Finance;
- a controlled process of debt recovery and cash collection; and
- the simplification of the Group's operating model to reduce costs.

As explained in the Executive Chairman's Statement, on 25 November 2009, Cattles announced that it had agreed the Standstill and Equalisation Agreement (SEA) with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives.

On 16 December 2009 at the General Meeting of Cattles, called to consider Cattles' serious loss of capital and the actions taken by the Board, it was stated that, since the SEA announcement, Cattles had met with representatives of its financial creditors to update them on its recent financial performance and to review with them a range of strategic options. These meetings followed extensive strategic, operational and financial analysis of the Group's businesses. Based on this analysis and against the background of the significant losses incurred to date by Welcome, the Group's principal business, the directors were unable to recommend a business plan to financial creditors which would allow Welcome to lend to existing or new customers.

The Board therefore recommended a plan which would focus on collecting out Welcome's customer loans. It is envisaged that the collection of the Welcome loan book could take two to three years and, during this period, the Group's cost base will contract to reflect the reducing size of the book. The Group's smaller businesses, Shopacheck and The Lewis Group, will continue to trade as normal. The Board continues to explore the scope to develop these businesses further.

PwC commenced the audit of the financial statements for the year ended 31 December 2008. However, on 20 February 2009 after the Company announced a delay in the release of its preliminary results announcement for the year ended 31 December 2008 pending the completion of the Impairment Review, PwC's work on the audit of the financial statements for the year ended 31 December 2008 was put on hold by the Audit Committee. Following the agreement of the SEA on 25 November 2009, the Board asked PwC to resign as auditor as, given the accounting issues faced by the Company, the Board did not consider it appropriate for PwC to audit the Company's 2008 accounts. The directors subsequently appointed Grant Thornton as auditor to audit the 2008 accounts.

PERFORMANCE REVIEW

WFS

WFS' pre-tax loss was £746.4 million (2007 restated pre tax loss: £95.0 million). The losses reported in WFS are largely as a result of the significant additional loan loss charges made, as explained in the Executive Chairman's Statement.

Welcome

The number of Welcome's customers increased by 66,000 to 579,000 (2007: 513,000), representing growth of 12.8% (2007: 25.7%). The number of new agreements written during 2008 fell by 64,000 to 154,000 (2007: 218,000) and resulted in a reduction in total loan volumes of 18.5% to £1.1 billion (2007: £1.4 billion).

There was also a reduction in the number of its customers settling their agreements early. This fell by 11,000 to 23,000 (2007: 34,000), reducing the early settlement ratio to 4.5% (2007: 8.3%).

There was no significant change in the value of average advances to new customers across each product: unsecured personal loans £2,400 (2007: £2,100), hire purchase for cars sold by Welcome Car Finance £9,500 (2007: £9,600) and secured loans £9,300 (2007: £9,300).

• Unsecured personal loans

Mainstream lenders continued to tighten their underwriting criteria during 2008, or withdrew from segments of the unsecured personal loans market altogether, as they continued to experience deteriorating credit quality. Welcome's unsecured personal loan volumes reduced by 18.0% to £458.1 million (2007: £558.8 million).

• Hire purchase

In April 2008, Welcome ceased writing any third party hire purchase business largely as a result of the risk and returns not matching the criteria set by the Board at the time. Welcome continued to write hire purchase business for its own distribution channel, Welcome Car Finance. As a result hire purchase volumes fell by 35.3% to £269.2 million (2007: £415.8 million).

• Secured loans

Welcome reduced its secured lending volumes by 3.1% to £420.5 million (2007: £434.0 million) during 2008 as the business attempted to conserve borrowings during the difficult funding conditions in the year.

Welcome Car Finance

Welcome Car Finance remained the Group's largest introducer of hire purchase customers. It increased its total unit sales for the year by 5.1% to 14,461 (2007: 13,763). During 2008, Welcome Car Finance closed one site and at 31 December 2008 operated from 11 sites. Welcome Car Finance was closed in April 2009 as a result of funding constraints.

Shopacheck

During 2008, the Group continued with its strategy at the time of withdrawing from uneconomic sectors of the home collected credit market. Total advances by Shopacheck reduced by 3.1% to £115.1 million (2007: £118.8 million) and the number of its customers decreased to 235,000 (2007: 266,000). Average advance to customers amounted to £269 (2007: £274).

The Lewis Group

The Lewis Group incurred a pre-tax loss of £5.2 million (2007: pre-tax profit £10.2 million) during 2008. This reflected a reduction in cash collections as well as a more cautious view on the outlook for the UK economy and housing market in particular and a devaluation of £14.1 million (2007: revaluation of £4.5 million) arising on the debt portfolios purchased by The Lewis Group. Debt purchases during the year totalled £75.5 million (2007: £74.3 million). TLG will refocus its strategy on contingent debt collection and by the end of 2010 its commitments to acquire further debt will have been completed.

The Lewis Group's commission on third-party debt collection declined 11.1% to £6.4 million (2007: £7.2 million). Turnover from commission clients fell reflecting the increasing trend in 2008 for clients to sell debt rather than placing debt on a contingent basis.

The net interest margin earned by The Lewis Group reduced to 3.0% (2007: 15.9%) as a result of the revaluation of debt portfolios referred to above.

Cattles Invoice Finance

Cattles Invoice Finance's client base at 31 December 2008 was stable at 727 (2007: 725). Its net receivables fell by 12.9% to £86.6 million (2007: £99.4 million) as the business managed its clients' facilities within reduced cash targets set by the Group. Cattles Invoice Finance's income increased by 11.3% to £23.7 million (2007: £21.3 million) and its net interest margin fell to 3.4% (2007: 4.3%).

Cattles Invoice Finance's pre-tax profit fell to £2.3 million (2007: £2.5 million), reflecting additional provisions of £0.8 million taken on three specific accounts. The loan loss charge was £2.5 million (2007: £2.5 million) and its loan loss ratio rose to 2.9% (2007: 2.2%).

Cattles Invoice Finance was sold on 14 September 2009 for £70.4 million.

FINANCIAL REVIEW

A review of the Group's performance during 2008 is summarised in the Executive Chairman's Statement.

INCOME STATEMENT

Revenue fell by 7.1% to £847.0 million (2007: £912.2 million). Net interest income (after deducting interest expense) fell by 37.7% to £290.6 million (2007 restated: £466.3 million), largely as a result of the adjustments arising from the increased loan loss provisions. Non-interest income decreased by 12.4% to £270.1 million (2007: £308.3 million), largely due to a significant reduction in fee income in Welcome Finance.

Purchase of goods, primarily relating to the cost of vehicles sold by Welcome Car Finance, remained constant at £67.1 million (2007 restated: £68.0 million).

The loan loss charge has increased significantly to £794.3 million (2007 restated: £415.8 million) largely as a result of the correction of the misapplication of Group accounting policies identified in the Impairment Review and described in more detail in the Executive Chairman's Statement.

INCOME STATEMENT continued

Operating expenses, including staff costs, at £444.5 million, increased by 14.8% (2007 restated: £387.3 million), following an increase in provisions and administrative expenses partially offset by intangible asset impairment charges made in 2007 and not recurring in 2008. Administrative expenses include legal and professional costs as a result of the application for a banking licence and discussions regarding a possible acquisition of a substantial consumer finance business, both of which did not take place.

The loss before tax of £745.2 million (2007 restated: £96.5 million) reflected the significant increase in the loan loss charge plus other consequential adjustments. Basic loss per share, adjusted for the 2008 rights issue, increased to a loss of 156.38p (2007 restated: loss 23.56p), based on an effective tax rate of 28.5% (2007: 30.0%).

INCOME

• Interest income

Demand for Welcome's products remained high during 2008, although the business tightened credit and affordability criteria to new applications, taking account of the pressure on household budgets. This led to a planned lower acceptance rate of 5.1% (2007: 6.3%) and reduced volumes compared to previous years. New business volumes reduced by 18.5% to £1.1 billion (2007: £1.4 billion) whilst customer numbers increased by 12.7% to 578,000 (2007: 513,000).

Interest income from the Group's weekly home collected credit business, Shopacheck, decreased to £92.0 million (2007: £97.9 million) reflecting the continuing strategy in 2008 of disengagement from uneconomic sectors of the market and the consequent reduction in the receivables book.

In The Lewis Group, the Group's debt recovery business, interest income fell by 38.3% to £14.5 million (2007: £23.5 million) as a result of a devaluation of their purchased debt portfolios of £14.1 million (2007: revaluation of £4.5 million) arising on the debt portfolios purchased by The Lewis Group reflecting reduced cash collections and a more cautious view on the outlook for the UK economy and the housing market in particular.

Cattles Invoice Finance generated a 4.8% increase in interest income from £8.3 million to £8.7 million, driven by a 10.0% increase in the value of invoices factored.

Interest income for the Group as a whole, therefore, at £576.9 million, fell by 4.5% (2007 restated: £603.9 million).

Net interest income (after deducting £286.3 million interest expense) for the Group, at £290.6 million, reduced by 37.7% from £466.3 million in 2007. The number of customers settling their loan agreement early fell to 23,000 (2007: 36,000), largely as a consequence of the reducing availability of alternative finance in the market.

The Group's average cost of borrowing (excluding amortisation of facility fees) fell slightly from 6.86% to 6.64%.

• Non-interest income

Fee and related income, at £151.8 million (2007 restated: £179.4 million), fell by 15.4% due principally to a reduction in commission income.

Revenue from sale of goods remained steady at £110.2 million (2007: £110.5 million). This includes revenue from the sale of vehicles by Welcome Car Finance. Vehicle sales increased by 5.1% to 14,461 vehicles (2007: 13,763). Revenue from sale of goods also includes other retail sales at Shopacheck, which fell by 72.5% to £1.4 million (2007: £5.1 million) as this activity was terminated in early 2008.

Commission earned by The Lewis Group for collecting other lenders' debt and providing investigation services, at £11.2 million (2007: £10.4 million), increased marginally as the business continued to pursue its strategy of investing resources in the purchased debt market.

In 2007, the Group earned £3.3 million brokerage commission from its Welcome Mortgages business which was not repeated in 2008, following the withdrawal from this market at the end of 2007.

The Group's accounting policies relating to revenue recognition are set out in the notes to the accounts on pages 42 to 49.

COSTS

• Purchase of goods

A 5.1% growth in unit sales volumes at Welcome Car Finance, offset by a change in customers' buying patterns altering the mix of vehicles sold to smaller more fuel efficient cars, resulted in the cost of purchasing goods remaining broadly similar at £67.1 million (2007: £68.0 million).

• Loan loss charge

The Welcome loan loss charge increased by £369.3 million in the year to £737.3 million (2007 restated: £368.0 million). As described in the Executive Chairman's Statement, during 2009 we commissioned the Impairment Review which found that the Group's impairment policies had been incorrectly applied. This resulted in impairments being materially understated and profits materially overstated.

Shopacheck's loan loss charge increased by £9.2 million in the year to £54.5 million (2007: £45.3 million), as a result of additional charges arising from the Impairment Review and a subsequent review of loan loss provisioning by the Board.

The loan loss charge at Cattles Invoice Finance, at £2.5 million (2007: £2.5 million), remained constant. The loan loss ratio increased from 2.2% to 2.7%.

The Group's accounting policy in relation to loan loss provisioning is set out in the notes to the accounts on pages 42 to 49. Application of this policy is subject to the estimation of future cash flows associated with impaired loans as described in note 3 to the financial statements.

• Operating expenses (including staff costs)

Total operating expenses (including staff costs) increased by 14.8% to £444.5 million (2007 restated: £387.3 million).

Staff costs were 6.8% higher in 2008, rising from £145.3 million to £155.2 million. The average monthly number of people employed by the Group during the year was 5,183 compared to 4,719 during 2007, an increase of 9.8%.

Other operating expenses increased by 19.5% from £242.0 million (restated) to £289.3 million mainly as a result the reduction in impairment costs previously charged in 2007 offset by increases in provisions and administrative expenses.

TAXATION

The Group's total tax charge for the year of £8.4 million (2007 restated: £1.2 million) represents an effective tax rate of 1.1% (2007 restated: 1.2%). The tax charge for the year primarily reflects adjustments in respect of previous years.

Prior to becoming aware, in February 2009, of issues with the Group's impairment provision, the Group had continued to pay normal quarterly payments on account in respect of corporation tax, based on its anticipated taxable profits.

Since the extent of the adjustments to the 2008 and prior results became apparent, the Group has been able to secure certain repayments from HM Revenue & Customs (HMRC) of corporation tax previously paid in respect of 2008 and prior years.

In addition, during 2009, discussions took place with HMRC to reach a settlement in relation to the Group's historic tax exposures. These discussions were successfully concluded, resulting in the closure of tax computations for all Group companies up to and including the accounting period ended 31 December 2006.

In total, net tax repayments of £94 million were received from HMRC during 2009.

BALANCE SHEET

The Group balance sheet shows a deficiency of shareholders' equity at the year end of £411.4 million (2007 restated: surplus of £234.3 million). This is as a result of the significant additional loan loss impairment charges and other adjustments required to impair other assets because of the loss making position of the Group.

Goodwill and intangibles fell by £4.5 million to £1.6 million (2007 restated: £6.1 million). As a result of the loss making position of the Group in 2007, goodwill and other intangible assets have been impaired in the restated 2007 balance sheet. The total impairment charge in 2007 was £91.1 million. Goodwill and the Group's investment in Siebel (its customer relationship management IT system), included in intangibles, have been impaired down to zero. The remaining intangibles balance of £1.6 million, being software licences, is being amortised over a period of five to seven years.

Other assets (excluding loans and receivables) amounted to £156.4 million at 31 December 2008 (2007 restated: £185.1 million).

The relatively small increase in the retirement benefit obligation from £14.1 million at 31 December 2007 to £15.0 million at 31 December 2008 was due to a reduction in the fair value of the pension fund's assets (despite additional lump sum contributions of £7.9 million being made during 2008) impacting slightly more than a reduction in the present value of the fund's liabilities. Further details of the movement in the year are set out in note 27 to the financial statements.

All other liabilities, excluding borrowings, deferred income and provisions, amounted to £154.4 million at 31 December 2008 (2007 restated: £100.8 million). The increase reflects the higher derivative financial instruments balance arising from the increase in liabilities arising from an adverse movement in the Group's exposure to foreign currencies.

- **Loans and receivables**

Group net loans and receivables fell by 2.1% over the year from £2.6 billion to £2.5 billion.

Welcome, which accounted for 94% of Group gross loans and receivables, increased its gross receivables by 18.6% to £3.4 billion (2007 restated: £2.9 billion) although the loan loss provision increased to £1.2 billion (2007 restated: £0.7 billion).

Shopacheck reduced its gross loans and receivables by 10.0% to £134.3 million (2007: £149.3 million) as the division maintained the Group's strategy in 2008 of disengaging from customers that were considered uneconomic to serve.

The Lewis Group increased its purchased debt book in the year by 15.8% from £132.9 million to £153.9 million. This reflected the continuing investment in forward flow debt portfolios from existing contracts and additional purchases of new debt portfolios partly offset by a downwards revaluation in the portfolios. Debt purchases in 2008 totalled £75.5 million (2007: £74.3 million). In 2008 there was a downwards revaluation of the portfolios of £14.1 million (2007: upwards revaluation of £4.5 million) reflecting reduced cash collections and a more cautious view on the outlook for the UK economy and the housing market in particular.

Cattles Invoice Finance managed its gross receivables down by 14.1% from £102.3 million to £87.9 million in the year, as the focus switched to improving gross margin and controlling lending within tighter cash constraints.

- **Credit quality**

Loans neither past due nor impaired fell by 9.7% to £1.5 billion (2007 restated: £1.7 billion) representing 40.1% (2007 restated: 50.9%) of the outstanding customer balances. Loans that are past due, increased to £0.9 billion (2007 restated: £0.7 billion) and represent 22.7% (2007 restated: 20.2%) of outstanding customer loans. Impaired loans have increased by 47.3% to £1.4 billion (2007 restated: £1.0 billion) and represented 37.2% (2007 restated: 28.9%) of outstanding customer loans. The main increase in the proportion of past due and impaired loans reflect the fact the business is not making any new loans.

In accordance with IFRS 7 'Financial instruments: Disclosures', the Group sets out its processes for the management of credit risk on page 10.

- **Borrowings**

Details of the Group's funding during 2008 is set out in the Funding section on page 8.

CASH FLOW

The Group's net operating cash outflow during 2008 was £434.0 million (2007 restated: £537.4 million). This principally reflected a reduced level of investment in loans and advances during 2008.

PREVIOUSLY PUBLISHED UNAUDITED FINANCIAL INFORMATION

The class 1 circular to shareholders dated 10 August 2009 (the Circular) in respect of the proposed disposal of Cattles Invoice Finance Limited (together with its subsidiary Cattles Invoice Finance (Oxford) Limited) (referred to as the CIF Group) included the unaudited income statements and balance sheets of the CIF Group, prepared under IFRS and extracted from the consolidation schedules which support the unaudited interim financial statements of Cattles for the six months ended 30 June 2008 and the consolidation schedules which support the audited financial statements of Cattles for the years ended 31 December 2007, 2006 and 2005.

As required by Listing Rule 9.2.18 (2) (a), the unaudited financial information extracted from the Circular is reproduced below. There is no difference between that unaudited financial information and the actual figures for the same period, as required to be disclosed under LR 9.2.18 (2) (b).

Cattles Invoice Finance: Unaudited Previously Published Financial Information Extracted from the Circular Dated 10 August 2009

	Six months to 30 June 2008 £m	2007 £m	Year ended 31 December 2006 £m	2005 £m
Interest income	4.5	8.3	5.7	5.1
Interest expense	(2.7)	(4.4)	(2.9)	(2.6)
Net interest income	**1.8**	**3.9**	**2.8**	**2.5**
Fees and related income	7.2	13.1	11.9	11.5
Total income	**9.0**	**17.0**	**14.7**	**14.0**
Loan loss charge	(1.3)	(2.5)	(1.0)	(0.4)
Staff costs	(4.1)	(7.5)	(6.4)	(6.1)
Other operating expenses	(2.6)	(4.7)	(4.8)	(3.4)
Profit before taxation	**1.0**	**2.3**	**2.5**	**4.1**
Tax on profit on ordinary activities	(0.3)	(0.7)	(0.8)	(1.2)
Profit for the year attributable to equity holders	**0.7**	**1.6**	**1.7**	**2.9**

	30 June 2008 £m	31 December 2007 £m
ASSETS		
Non-current assets		
Intangible assets	0.2	0.1
Property, plant and equipment	0.9	1.0
Deferred tax assets	0.1	0.1
	1.2	1.2
Current assets		
Loans and receivables	103.7	99.4
Trade and other receivables	1.0	0.8
Cash and cash equivalents	–	6.8
	104.7	107.0
Total assets	**105.9**	**108.2**
LIABILITIES		
Current liabilities		
Borrowings	(85.2)	(88.6)
Current tax liabilities	(0.3)	–
Trade and other payables	(4.8)	(4.4)
	(90.3)	(93.0)
Non-current liabilities		
Borrowings	(0.3)	(0.4)
Trade and other payables	(3.4)	(3.0)
	(3.7)	(3.4)
Total liabilities	**(94.0)**	**(96.4)**
Net assets	**11.9**	**11.8**
SHAREHOLDERS' EQUITY		
Share capital	0.3	0.3
Retained earnings	11.6	11.5
	11.9	**11.8**

The Circular also stated that, on 7 January 2009, Cattles had announced a range of other cost saving measures which would be adopted to conserve further cash. Annualised pre-tax cost savings were estimated at £40 million and the pre-tax implementation costs were expected to be £20 million. Actual annualised cost savings are £39 million and the pre-tax implementation costs were £14 million, which was lower than original expectations as these prudently included an element of contingency.

Also included in the Circular was the statement on 28 April 2009 in which Cattles announced its proposal to close its direct distribution car retailer, Welcome Car Finance. Consultation with the majority of employees had been completed and approximately 130 jobs within the Group had been removed. The costs of closure were estimated at £7.8 million. Costs of closure are now estimated at £8.5 million.

On 25 November 2009, before our new auditor, Grant Thornton, had started work on the audit, the Group announced an unaudited loss before tax for 2008 of £555.3 million. As well as being described as unaudited, these numbers were also stated to be subject to material change. Discussions with Grant Thornton resulted in a number of adjustments including a further increase in impairment provisions as well as certain other provisions as at 31 December 2008 and in respect of prior years. The revised audited loss before taxation for 2008 amounts to £745.2 million. The adjustments which have been made to the previously reported numbers are summarised below:

	2008 £m	2007 £m
Unaudited (loss)/profit before taxation	**(555.3)**	22.7
Further additional loan impairments	**(42.6)**	(19.0)
Additional accruals and provisions for liabilities and charges	**(101.6)**	(4.1)
Impairment of goodwill and other intangibles	**74.5**	(91.1)
Cash flow hedges recycled and reported in net profit	**(74.8)**	(5.0)
Increase in financial liabilities following step up in interest	**(45.4)**	–
Audited loss before taxation	**(745.2)**	(96.5)

FUNDING

During 2008, the Group saw opportunities for growth in both its consumer lending and purchased debt recovery businesses. However, the ability to benefit from these opportunities was constrained by the Group's ability to raise funds in market conditions of almost unprecedented severity. Until early 2008, Cattles had operated in circumstances where wholesale funding of its business was readily available but where it faced significant competition in the consumer finance market. However, in 2008, competitive conditions improved considerably in the UK consumer finance market as other providers reduced their lending or left the market altogether.

In April 2008, a syndicate of eight of the Group's existing bank lenders and one new participant enabled the Group to raise £350 million in the marketplace.

On 23 October 2008, the Group announced that it had planned to raise £100 million of new debt funding in Q4 2008. However, market conditions did not allow this transaction to be completed.

In April 2008, the Group had announced plans to diversify its funding by obtaining a banking licence and raising retail deposits later in 2008 or early in 2009. In April 2008, the Group announced a rights issue which raised £196.2 million, net of expenses. The aim of the rights issue was at the time to create a capital and funding structure to support the Group's long-term organic growth prospects. In addition, the Board believed that the rights issue would provide the Group with the appropriate capital strength to support its application to the FSA for a banking licence. However, on 26 January 2009, Cattles announced that it had withdrawn its application to the FSA for permission to take retail deposits on the grounds that it had become clear that permission was unlikely to be forthcoming until the unprecedented turmoil in the financial markets had stabilised and the terms of the Group's renegotiation of £635 million of its bank facilities due for renewal in 2009 were known.

During 2008, the Group's total gross receivables increased by £505 million to £3.6 billion and borrowings increased over the year by £422 million to £2.7 billion.

In 2008, the Board refined its long-established treasury strategy of hedging exposure to interest rate volatility; in the light of falling interest rates worldwide, it gradually reduced the percentage of borrowings that were hedged. At the year end, some 79% (2007: 85%) of the Group's £2.7 billion total borrowings were protected against future interest rate volatility, for an average period of around five years. Despite significant volatility in short-term LIBOR rates, the Group's average cost of funding fell marginally in 2008 to 6.6% (2007: 6.9%).

At the end of 2008, the Group had available headroom of £73 million (2007: £226 million) within funding facilities existing at that date, which prior to the breach of covenants noted above had an average maturity of around four years. One of these facilities, a £500 million syndicated bank facility, was due to mature in July 2009, with a further bilateral bank facility of £135 million due to mature in December 2009.

A number of downgrades to the Group's credit rating by Fitch were made both before and after the 2008 year end. On 12 December 2008, Fitch downgraded Cattles' Long-term Issuer Default Rating and senior unsecured debt rating to BB+ from BBB.

As a consequence of this fall below investment grade (BBB-), there was a step-up in the interest rate payable on the Group's public bond and US private placement funding. A 1% increase in the coupon rate of each of these debt instruments took effect from 19 January 2009, adding £7.5 million to the annual interest payable on the bonds and around £1.9 million to the private placements. An increase in financial liabilities of £45 million has been included as at 31 December 2008, in accordance with IAS39 'Financial Instruments: Recognition and Measurement' (AG8), following the ratings downgrade on 12 December 2008.

In January 2009, the Group's credit rating was further downgraded by Fitch to 'B+' on negative watch. The downgrade reflected Fitch's view of the refinancing risk facing the Group in respect of the £500 million syndicated bank facility which matured in July 2009.

More recently, following confirmation by Cattles that it would not pay the coupon on its £400 million bonds that fell due on 5 July 2009, there was a downgrade by Fitch on 8 July 2009 of Cattles' Long-term and Short-term Issuer Default Ratings to RD. An 'RD', or 'Restricted Default' rating indicates an issuer that in Fitch Ratings' opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business.

Standstill and Equalisation Agreement (SEA)
On 25 November 2009, Cattles announced that it had agreed a formal SEA with its key financial creditors. At the same time, the Company also agreed certain modifications to the terms of its bank facilities, private placement notes and, subsequently, its bonds.

The signing of the SEA and these modifications was expected to improve the likelihood of the Company achieving its restructuring objectives, namely:

- to stabilise the financial position of the Company and its subsidiaries; and
- against this background, to continue discussions with the Company's key financial creditors with a view to agreeing a consensual restructuring of the Group.

The SEA was signed by the Company, WFS, certain other members of the Group and, among others, lenders of certain syndicated and bilateral facilities to the Company (Banks), certain guaranteed hedging counterparties (Guaranteed Hedging Counterparties), certain unguaranteed hedging counterparties (Unguaranteed Hedging Counterparties) and holders of certain private placement notes issued by the Company (Noteholders).

The SEA became effective on 17 December 2009 (the Effective Date) following the formal approval of the amendments to the bonds by holders of the 2014 and 2017 bonds (Bondholders).

The key provisions of the SEA include:

- **Standstill:** A formal agreement by the key financial creditors to 'stand still' and therefore agree not to take enforcement action against the Company, WFS or other members of the Group for a limited period of time (see below).
- **Cash distributions:** Obligations on WFS to distribute the majority of cash generated by the Group to the key financial creditors, subject to the right of WFS to forecast and retain a provision for working capital requirements and other contingencies. The SEA expressly provides that this forecast will be prepared on a conservative basis to provide ongoing liquidity.
- **Cash management:** Obligations on the Company, WFS and other members of the Group to ensure that the majority of cash generated by the Group, which is currently subject to rights of set off in favour of certain key financial creditors, continues to be maintained in bank accounts that are subject to such rights of set off in favour of such key financial creditors.

The period of standstill is linked to the litigation process relating to certain intra Group subordination arrangements (as set out in the Company's announcement of 11 August 2009) (the Litigation). The Banks, the Noteholders and the Guaranteed Hedging Counterparties are required to stand still during an initial standstill period from (and including) the Effective Date and ending on the earlier of:

(i) 30 June 2011;

(ii) the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant; and

(iii) the occurrence of the date on which the SEA is terminated, unless the Banks and the Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and the Guaranteed Hedging Counterparties against the Group and the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group decide that the standstill applicable to the Banks and the Guaranteed Hedging Counterparties and the Noteholders should be terminated.

During the period after 30 June 2011 or after the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant, the standstill can be terminated (i) in the case of the standstill applicable to the Banks and Guaranteed Hedging Counterparties, by the Banks and Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and Guaranteed Hedging Counterparties against the Group; and (ii) in the case of the Noteholders, by the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group.
With respect to the Bondholders and the Unguaranteed Hedging Counterparties, the initial standstill period has been

FUNDING continued

extended following the appeal of the first instance judgement to the Court of Appeal. The Court of Appeal hearing is presently listed for 12 or 13 May 2010. There will be a further automatic extension of such standstill period following any appeal of the Court of Appeal judgement, provided that a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties agree that WFS shall fund the legal costs of any appeal (up to a maximum amount of £1,500,000). The standstill period for the Bondholders and the Unguaranteed Hedging Counterparties shall terminate where: (i) a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties do not agree that WFS shall fund such costs; or (ii) the SEA is terminated.

REGULATION

The Group's consumer lending businesses are licensed under the Consumer Credit Act 2006. Welcome and Welcome Car Finance sold general insurance products during the period which are regulated by the FSA. The sale of Payment Protection Insurance (PPI) has been regulated by the FSA since January 2005.

In February 2009, the FSA wrote to all firms instructing them in effect to cease selling single premium PPI by May 2009. WFS took the decision to cease selling PPI in February 2009. The Group stopped selling all insurance products in April 2009.

RISKS

This part of the Business and Financial Review highlights the key risks to the Group which the Board of Cattles considered to be relevant during 2008 and how the Board sought to deal with such risks as it understood them at that time.

Risk appetite
Cattles works within the Group risk appetite as set by the Board. Appetite is set for the key risk areas and includes both qualitative and quantitative measures.

Risk management policy
The Board aims to maintain and further develop an 'enterprise-wide' risk management framework to try to ensure that risks to the achievement of the Group's strategies, business plans and objectives are identified, assessed and monitored at an appropriate level, and to seek to ensure that risk management is embedded into the Group's day-to-day management and governance processes. This framework continues to be developed and refined to reflect the present business model.

Material risk categories
In 2008 Cattles identified the following risk categories as being most relevant and material to its business:

- Credit risk
- Operational risk
- Liquidity risk
- Market risk
- Strategic risk
- Regulatory and legal risk
- Pensions risk
- Capital risk

These were adjusted in 2009 to ensure that the risk categories remained as those most relevant and material to the business. Market and Liquidity risk categories have merged and Capital risk has been removed. An Accounting and Tax risk category has been added.

Credit risk
This is the risk to earnings or capital arising from a counterparty's failure to meet the terms of a contract with one of the Group's businesses where funds have been advanced to them. The main exposure to credit risk relates to the Group's portfolios of loans and receivables.

The Group acknowledges that the risk arising from changes in credit quality and the recoverability of loans is inherent in the nature of its business. In Welcome, the principal protections against credit risk are its credit scoring processes and underwriting policies.

The Board sets standards for credit risk management throughout the Group. This is achieved through a combination of governance structures, credit risk policies and credit systems and processes. The Group Board delegates authority for implementing credit policy to executive management.

Further to the internal control breakdown that was identified in relation to impairment provisioning, the credit risk management framework was strengthened, with increased monitoring of compliance with credit risk and impairment policies and changes to the provisioning methodologies to reflect changes in the business model.

During 2008, Cattles had an exposure to its counterparties arising from treasury activities. Management of counterparty credit risk included ensuring that derivative counterparties and other counterparties that held the Group's funds on deposit or credit balances on bank accounts carried a Fitch rating of at least AA-, or equivalent.

In addition, interest rate and cross-currency derivatives with any single counterparty were, under normal circumstances, limited to 25% of the Group's total interest rate derivatives.

The Group was careful to avoid building a concentration of facilities with a relatively small group of funding partners. In order to avoid such a concentration, the Group established funding in the bank, public bond and US private placement markets. In 2008, bank facilities included a syndicate of over 30 banking partners. It was the Group's intention that funding with any individual counterparty should not normally exceed 20% of total Group funding.

Operational risk
Cattles defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. For the purposes of managing operational risk, this risk is broken down into the following categories:

- Operations and processes
- Financial crime
- Systems
- External events
- People

Cattles has developed an operational risk management framework, including standard operating procedures which are in use within the business areas.

The Impairment Review identified that, as a result of a breakdown in internal controls, the Group's loan impairment policy had been incorrectly applied in respect of Welcome. Further details are set out in the Executive Chairman's Statement.

Liquidity risk
This is the risk to earnings or capital arising from an inability to meet obligations when they become due, without incurring unexpected or unacceptable losses. It includes the risk of inability to manage unplanned decreases or changes in funding sources and also any failure to recognise and address changes in market conditions that could affect the Group's ability to liquidate assets quickly, with minimum value loss, if necessary.

In 2008, there was a risk that new funding may not be available or may prove expensive, particularly given the restricted liquidity in the funding markets at that time. The Group recognised that a failure in its capital planning framework or the absence of appropriate funding opportunities could have resulted in the Group lacking sufficient capital to support current and anticipated business activity and impact adversely on capital repayment and dividend payment. To manage these risks during 2008, the Treasury & Risk Director and his team forecast funding headroom, monitored the funding markets and sought to increase headroom ahead of need, wherever possible.

In 2008, the Group sought to maintain a mixture of long and short-term committed facilities designed to help ensure that it had sufficient available funds for current and planned operations. The Group funded its businesses through syndicated and bilateral facilities with major UK and international banks and through private and public debt offerings. In 2008, the syndicated and bilateral facilities had original maturities of up to six years. In order to fund its receivables, the Group typically sought to renew and/or increase these facilities on their termination.

In April 2008 the Group announced a rights issue which raised £196.2 million, net of expenses. In April 2008, a syndicate of eight of the Group's existing bank lenders and one new participant enabled the Group to raise £350 million in the marketplace.

Since 31 December 2008, as described above, the Group believed it had breached its banking covenants and as such all its borrowings would have fallen due immediately. During 2009 Cattles was in constructive discussions with its debt providers with a view to obtaining a formal standstill agreement and the Board's focus was on working closely with the Company's debt providers to secure their support for the Group's programme of action to stabilise its financial position. On 25 November 2009, Cattles announced that it had agreed the SEA with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives. Since then, Cattles has been in discussions with its financial creditors with a view to achieving a consensual restructuring.

Market risk
The Group does not have a trading book so market risk comprises interest rate and currency risks as described below. The Group's risk management programme aims to limit adverse external impacts on financial performance by using financial instruments, such as interest rate and cross-currency swaps to fix interest rates and hedge foreign currency denominated borrowings. Throughout 2008, the Board delegated responsibility for the Group's treasury risk management policies, within limits, to the Treasury & Risk Director.

• *Interest rate risk*
During 2008, the Group had minimal risk to income from changes in market interest rates as almost all customer lending was at rates of interest which were fixed over the term of the contract, or variable only by the lender. The Group was exposed to interest rate risk through its use of wholesale funding, made up of a mixture of fixed and floating rate facilities. Changes in LIBOR could lead to variability in the Group's interest rate expense, to the extent that such facilities were not fixed or hedged. In 2008, the Group managed this risk by the use of appropriate financial hedging instruments, primarily interest rate swaps. As a result, the Group had a relatively low risk to changes in market interest rates for current borrowings.

In 2008, the Board refined its long-established treasury strategy of hedging exposure to interest rate volatility; in the light of falling interest rates worldwide, it gradually reduced the percentage of borrowings that were hedged. At 31 December 2008, 79% (2007: 85%) of the Group's £2.7 billion total borrowings were protected against future interest rate volatility, either through fixed rate borrowing (in the case of public bonds, private placement loan notes, debentures, finance leases, hire purchase and some other loans) or by using interest rate swaps to protect floating rate bank borrowings.

This strategy to limit exposure to interest rate movements helped to provide the Group with greater certainty and control over future funding costs. It has not been the policy of the Group to trade in such financial hedging instruments. The level of protection contracted for at any particular time was limited to the Group's exposure to actual or projected borrowings, except in the event of short-term timing differences.

During 2009, all of the Group's interest rate risk financial hedging instruments were closed out at their market values and converted into on-demand loans with the bank counterparties. This step was taken in conjunction with discussions with key financial creditors which led to the signing of the SEA in 2009.

• *Currency risk*
During 2008, certain funding received from banks or other sources was not in sterling. This created a potential exposure to the risk of adverse foreign exchange rate movements. At 31 December 2008, the Group had a US$70 million unsecured loan note due for redemption at par in 2011, a further US$75 million unsecured loan note due for redemption at par in two parts in 2011 and 2013 and a €6 million unsecured loan note due for redemption at par in 2013.

The Group's policy was to manage the risk of exposure to adverse foreign exchange rate movements by the use of financial hedging instruments. In order to achieve this, all foreign currency denominated borrowings were immediately swapped into sterling at the start of the related facility agreement for the term of the borrowings.

During 2009, all of the Group's currency risk financial hedging instruments were closed out at their market values and converted into on-demand loans with the bank counterparties. This step was taken in conjunction with discussions with key financial creditors which led to the signing of the SEA in 2009.

Strategic risk
This is the risk to earnings or capital arising from adverse business decisions, or improper or inadequate implementation of those decisions. This risk is a function of the Group's corporate strategic goals, the business strategies developed to achieve those goals, the resource deployed against them and the quality of the implementation.

Risk assessments of key initiatives are undertaken and approved and risks are monitored at business and Group level. The executive directors are involved in the development and implementation of strategy and operational plans, and monitoring operational and financial performance. The Board is responsible for consideration and approval of the annual business strategy, plans and budgets and for regular review of performance against these.

RISKS continued

Regulatory and legal risk

Failure or inability to comply with the laws, regulations or codes relating to the financial services industry can lead to fines, public reprimands and enforced suspension of operations and in extreme cases, withdrawal of authorisation to operate. The Group's compliance function has implemented controls and systems in relation to these risks. These include monitoring regulatory and legal changes, advising on implications, setting compliance policies and strategy and monitoring adherence to them. The Group seeks to identify and manage legal risk through its internal and external legal advisers. The Company Secretary and Legal Counsel is responsible for providing the support necessary to identify, manage and control legal risk across the Group.

Pension risk

Pension risk is the risk to earnings or capital arising from Cattles' contractual or other liabilities to or with respect to the Company pension scheme. In 2008, agreement was reached with the Trustee of the pension scheme regarding the level of the pension fund deficit on assumptions agreed by the Trustee and the Company. Arrangements were made for this deficit to be fully paid off with payments of £7.9 million (made during 2008) and with three further payments of £2.45 million to be made in each of March 2009 (paid in December 2009), March 2010 (paid in March 2010) and March 2011.

As a result of the weakening of the Company's covenant and the delay in paying the deficit contribution due in March 2009, the Trustee decided to bring forward the formal actuarial valuation to 31 March 2009. This showed that, based on the Statement Funding Principles agreed by the Trustee and the Company for the 31 March 2007 actuarial valuation, the deficit had increased from £15.7 million to £29.4 million as a result principally of the decline in equity markets and increases in life expectancy. As a result of the weakening of the Company's covenant the Trustee has prepared initial results on a more prudent basis which the Company is considering.

The Company is in the process of closing the scheme to future service accrual and working with the Trustee on addressing the deficit.

Capital risk

The Group's objective in managing capital was to aim to maintain a strong capital base to support current and planned operations.

The Group is not currently subject to external regulatory risk-based capital requirements. In 2008, it was, however, required under certain of its funding agreements, to ensure that its gearing ratio did not exceed six times. For this purpose gearing is calculated as the ratio of consolidated borrowings to tangible net assets. The precise definition of borrowings used in the calculation varies according to the funding agreement, but is broadly consistent with that disclosed in the consolidated balance sheet. Adjustment is made to exclude items such as accrued interest, unamortised discount and fees, and net off certain bank deposits. Tangible net assets are based on net assets (equivalent to total shareholders' equity) less goodwill and other intangible assets.

As a result of the restatement of the Group's 2007 results, at the 2008 year end the Group's shareholders' funds excluding goodwill and other intangible assets was negative, putting it in breach of its gearing covenant limit of six times.

Depending on the specific funding agreement, reporting against this covenant was carried out on a quarterly, semi-annual or annual basis throughout 2008. In addition, the gearing level was monitored internally on a monthly basis and included in the Group's forecasts.

Prior to the impairment issues and the restatement of the 2007 results, the Group aimed to maintain the capital base (which includes share capital, share premium, other reserves and retained earnings) so that, at all times, the gearing level was below the covenant limit. The Group's capital is disclosed in note 28 to the financial statements.

The steps being taken by the Board to restore the capital base of the Company are disclosed in note 37 to the financial statements.

CHANGES TO THE CONTROL ENVIRONMENT IN 2009 AND 2010 FOLLOWING DISCOVERY OF CONTROLS BREAKDOWN

Following the discovery of the breakdown in internal controls, a number of changes have been made in order to provide a more robust control environment.

Various changes have been made to the governance of the Group. Management committees, populated by senior representatives across key operational and support functions, were introduced to oversee the management of credit risk and operational risk. These report into the committee of the executive directors and the Board Risk Committee and responsibilities include the review and approval of policy and process changes. The Credit Risk Committee also oversees the development and approval of collection strategies and tools and reviews their effectiveness.

During the second half of 2009, the Executive Team commissioned Deloitte to undertake a thorough review of the key controls that had been identified across the business, focused on the key areas of risk of the current activities of the Group. The issues that were identified have largely been addressed, and plans are in place to ensure that all remaining matters are addressed appropriately. The directors do not consider that the remaining matters identified are material to the internal control framework in place.

DIRECTORS AND SECRETARY

The directors and secretary at 11 May 2010 are set out below:

Margaret A Young*, MBA. Executive Chairman. Age 55. Appointed to the Board in February 2006. Appointed Executive Chairman on 30 June 2009. Previously a non-executive director of Uniq plc and Royal Numico NV and a managing director of Credit Suisse First Boston and a director of NatWest Markets Corporate Finance Limited.

James R Drummond Smith, FCA. Finance Director. Age 50. Joined the Company in March 2009 and appointed to the Board as Interim Finance Director in April 2009. Previously held interim roles at New Star Asset Management Limited and Barbon Insurance Group Limited and prior to that was a partner at Deloitte LLP. Non-executive director of Barbon Insurance Group Limited.

Robert D East, ACIB, DipFS**.** Chief Restructuring Officer. Age 50. Joined the Company in June 2008 as Banking Director. Appointed to the Board as Chief Restructuring Officer in July 2009. Previously integration and risk director and integration director for Absa Group and prior to that held a variety of roles in Barclays Bank.

David A Haxby,** LLB, FCA. Age 68. Appointed to the Board 1999. Senior independent non-executive director. Non-executive director of SIG plc. From 1991 until his retirement in 1995 he was the managing partner of the London office of Arthur Andersen.

Frank R Dee.** Age 59. Appointed to the Board 2004. Previously a non-executive director of Eaglet Investment Trust plc, Leeds Building Society and Speedy Hire plc and held senior executive and non-executive roles in a variety of companies in the retail sector.

Alan J McWalter.** Age 57. Appointed to the Board 2005. Non-executive chairman of Trafficmaster plc and Constantine Group plc and non-executive director of Alphameric plc, Dignity plc and Haygarth Group Limited. Previously marketing director of Marks & Spencer plc.

Roland C W Todd, MA (Oxon), Solicitor. Company Secretary and Legal Counsel. Age 48. Joined the Company and appointed Company Secretary and Legal Counsel 2004. Prior to joining the Company was a partner in the Leeds office of the law firm DLA.

James R Drummond Smith was appointed to the Board on 24 April 2009 and Robert D East was appointed to the Board on 29 July 2009. All the other directors named above were also directors for the whole of the year ended 31 December 2008. In addition, the following were also directors for the whole of the year ended 31 December 2008 and ceased to be directors on 30 June 2009: Norman N Broadhurst*, Chairman; David J Postings*, Chief Executive; James J Corr, Finance Director; Mark W G Collins, Treasury & Risk Director; and Ian S Cummine, Chief Operating Officer.

* *Member of the Nomination Committee*

***Independent non-executive director and member of the Audit, Remuneration, Nomination and Risk Committees*

Throughout the year ended 31 December 2008, the Company complied with all relevant provisions set out in section 1 of the 2006 FRC Combined Code on Corporate Governance.

BOARD OF DIRECTORS

The Company is managed through the Board of directors. The Board's main roles are to provide leadership of the Company within a framework of controls which seek to enable risk to be assessed and managed, to set the Company's strategic aims and to seek to ensure that the necessary financial and human resources are in place for the Company to meet its objectives.

BOARD MEETINGS

The table below sets out the total number of meetings of the Board and its Committees which each director attended during 2008, together with, in brackets, the number he or she was eligible to attend.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee
N N Broadhurst	18(19)	–	7(8)	4(4)	1(1)
D J Postings	19(19)	–	–	4(4)	–
M W G Collins	19(19)	–	–	–	–
J J Corr	19(19)	–	–	–	–
I S Cummine	18(19)	–	–	–	–
D A Haxby	18(19)	4(4)	8(8)	4(4)	1(1)
F R Dee	19(19)	4(4)	8(8)	4(4)	1(1)
A J McWalter	18(19)	3(4)	8(8)	4(4)	1(1)
M A Young	19(19)	4(4)	8(8)	4(4)	1(1)

There are a number of matters specifically reserved for Board approval, which include:

- approval of the Group's overall business strategy, planning and annual budget;
- assessment of internal controls and risk management;
- senior management appointments;
- approval of major contracts and significant acquisitions;
- investment and capital expenditure decisions;
- corporate governance practices; and
- approval of the Group's financing and dividend policies.

At each 'business as usual' Board meeting (of which there were seven in 2008), there was a full financial and business review and discussion, which included the comparison of trading performance to date against the annual budget and any other financial plan which had been previously approved by the Board for that year. Each Board member received a comprehensive Board pack prior to each meeting, which incorporated a formal agenda, together with supporting papers for items to be discussed at the meeting. Board papers were usually sent out at the end of the week before the meeting to give the directors sufficient time to prepare to review the relevant issues at the meeting.

The Board has delegated the following responsibilities to the executive directors:

- the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board;
- implementation of the strategies and policies of the Group as determined by the Board;
- monitoring of operating and financial results against plans and budgets;
- monitoring the quality of the investment process against objectives;
- prioritising the allocation of capital, technical and human resources; and
- developing and implementing risk management systems.

THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE

In 2008 the division of responsibilities between the non-executive Chairman of the Board, N N Broadhurst, and the Chief Executive, D J Postings, was clearly defined in writing and had been approved by the Board.

The Chairman led the Board in the determination of its strategy and in the achievement of its objectives. The Chairman was responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman had no involvement in the day-to-day business of the Group.

The Chief Executive had direct charge of the Group on a day-to-day basis and was accountable to the Board for the financial and operational performance of the Group.

On 30 June 2009, following N N Broadhurst's resignation, M A Young was appointed as Executive Chairman of the Company.

SENIOR INDEPENDENT DIRECTOR

In 2008, D A Haxby continued to perform the role of Senior Independent Director. D A Haxby was available to meet shareholders on request and to ensure that the Board was aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

DIRECTORS AND DIRECTORS' INDEPENDENCE

In 2008, the Board comprised the Chairman, four executive directors and four independent non-executive directors. The names of the directors are set out on page 13. All the directors served throughout 2008. The Board included independent non-executive directors who constructively challenged and helped develop proposals on strategy, and brought strong, independent judgement, knowledge and experience to the Board's deliberations. The independent directors were of sufficient calibre and number that their views carried significant weight in the Board's decision making.

Independent professional advice is provided at the Company's expense, when the directors deem it necessary in order for them to carry out their responsibilities.

The Chairman during 2008, N N Broadhurst, held the chairmanship of one other listed company but the Board was satisfied that this did not interfere with the performance of his duties to the Company which were based around a commitment of approximately 80 days per annum.

The Board considered all its other non-executive directors to be independent in character and judgement. No independent non-executive director:

- had been an employee of the Group within the previous five years;
- had, or had had within the previous three years, a material business relationship with the Group;
- received remuneration other than a director's fee from the Group;
- had close family ties with any of the Group's advisers, directors or senior employees (except for D A Haxby and F R Dee);

- held cross-directorships or had significant links with other directors through involvement in other companies or bodies;
- represented a significant shareholder; or
- had served on the Board for more than nine years (except for D A Haxby).

D A Haxby's daughter is a corporate finance partner in the Manchester office of Hammonds LLP whose Leeds office provided legal advice to the Group in relation to certain information technology projects during 2008. In addition, D A Haxby reached nine years' service as a non-executive director on 1 July 2008. Nevertheless the other directors determined that D A Haxby should continue to be considered to be an independent non-executive director because his daughter was not involved in the Group's account in any way as she worked in a different department and office, he continued to be independent in character and judgement and none of the other relationships or circumstances set out in provision A.3.1 of the 2006 FRC Combined Code on Corporate Governance applied to him.

F R Dee's son is an employee of Scott Harris UK Limited, an investor relations consultancy, which carried out an assignment for the Company during 2008. Nevertheless, the other directors determined that F R Dee should continue to be considered to be an independent non-executive director, because his son was not involved in the assignment and he continued to be independent in character and judgement and none of the other relationships or circumstances set out in the provision A.3.1 of the 2006 FRC Combined Code on Corporate Governance applied to him.

J J Corr's son was an employee of Brilliant Media Limited, a major supplier of media advice and services to WFS. Brilliant Media Limited was already a major supplier to WFS when J J Corr's son joined that company. J J Corr declared this interest to the Cattles and WFS boards which approved the arrangement, subject to J J Corr's son not working on the WFS account.

DIRECTORS' CONFLICTS OF INTEREST

Since 1 October 2008 the directors have been under a statutory duty under section 175 of the Companies Act 2006 to avoid a situation in which they have, or could have, a conflict of interest or a possible conflict of interest with the Company's interests. However, there will be no breach of this duty if the relevant matter has been authorised in advance by the directors. As they are directors of a public company, the directors can only authorise the matter if they are permitted to do so by the Company's constitution.

At the Annual General Meeting on 9 May 2008, the Company's Articles of Association were amended with effect from 1 October 2008 so as to permit the directors to authorise actual or potential directors' conflicts of interests, subject to certain safeguards.

Before the new rules came into force on 1 October 2008 the directors received a detailed written briefing on the new rules about conflicts of interest and were requested to notify the Company Secretary of any actual or potential conflicts of interest pertaining to them.

The Board considered the disclosed actual or potential conflicts of interest and concluded that although none of these matters would give risk to an actual conflict of interest, because the term 'conflict of interest' was not defined in the legislation and in view of the serious consequences of failing to authorise a matter which was subsequently held to be a conflict of interest, it would be prudent for the independent directors to authorise these potential conflicts of interest.

Accordingly, at a Board meeting held on 1 October 2008 the directors authorised these potential conflicts of interest, subject to conditions in certain cases, in accordance with the procedures set out in the Company's Articles of Association. The authorisations were given by those directors who had no interest in the relevant matter and, in taking those decisions, those directors acted in a way they considered, in good faith, would be most likely to promote the Company's success.

A list of these authorised potential conflicts of interest was included in the papers for all regularly scheduled Board meetings for the rest of 2008 and the directors were requested to notify any new actual or potential conflicts of interest or where an authorised potential conflict was no longer relevant. Actual or potential conflicts of interest are also considered on the appointment of a new director.

PROFESSIONAL DEVELOPMENT

On appointment, the directors take part in an induction programme when they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board Committees, together with the powers delegated to those Committees, the Group's corporate governance practices and procedures, and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives. During their period in office the directors are updated on the Group's business, the competitive, legal and regulatory environment in which it operates and other changes affecting the Group and the financial services industry by written briefings and Board presentations by senior executives. Directors are also updated on changes to their legal and other duties and obligations as directors of a listed company. The directors received a written briefing on the provisions of the Companies Act 2006 relating to directors' conflicts of interest which came into force on 1 October 2008.

PERFORMANCE EVALUATION

The Board has established a formal process led by the Chairman for the annual evaluation of the performance of the Board, its principal Committees and the individual directors, with particular attention being paid to those who are due for re-appointment. The directors are made aware, on appointment that their performance will be subject to an evaluation.

For 2008, the directors completed a questionnaire which was circulated by the Company Secretary and was designed to gain an insight into how well the Board and the Audit, Remuneration and Nomination Committees were meeting their objectives. The Company Secretary then collated the completed results from the questionnaires and presented the consolidated results to the Chairman.

For 2008, individual written personal objectives in relation to their management roles were prepared at the beginning of the year by each executive director. After agreement with the Chief Executive, and in the case of the Chief Executive with the Chairman, these objectives were submitted to the Remuneration Committee for consideration and approval on behalf of the Board. The Chief Executive conducted an annual appraisal of the performance of the other executive directors which included an assessment of their individual performance against their personal objectives and a formal interview. The same process was conducted by the Chairman in respect of the Chief Executive. The extent to which executive directors' personal objectives had been achieved was determined during this review process, the results of which were submitted to, and taken into account by, the Remuneration Committee in finalising the executive directors' bonuses for the year.

RE-ELECTION

Any director who has been appointed by the directors since the last Annual General Meeting must stand for re-appointment as a director by the shareholders at the next Annual General Meeting. At each Annual General Meeting one-third of the directors (excluding, for this purpose, any director who must stand for re-appointment) or, if their number is not a multiple of three, then the number nearest to but not less than one-third, are required to retire from office and, if they so wish, stand for re-election. The re-appointment of directors who have served for more than nine years is subject to annual review and re-election by the shareholders. At the Annual General Meeting held on 29 July 2009, F R Dee, D A Haxby and A J McWalter were re-elected, and J R Drummond Smith was re-appointed, as directors.

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

STANDING COMMITTEES OF THE BOARD

In 2008, the Board had established four standing Committees, each with formal terms of reference, being the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee. The terms of reference were published on the Company's website, www.cattles.co.uk. The Company Secretary acts as secretary to all four standing Committees.

AUDIT COMMITTEE

Details of the Audit Committee and its activities during 2008 are set out in the Audit Committee Report on pages 18 to 20.

REMUNERATION COMMITTEE

Details of the Remuneration Committee and its activities during 2008 and the Group's remuneration policy are set out in the Directors' Remuneration Report on pages 22 to 30.

NOMINATION COMMITTEE

Details of the Nomination Committee and its activities during 2008 are set out in the Nomination Committee Report on page 21.

RISK COMMITTEE

In 2008, the Board established the Risk Committee which met for the first time in December 2008.

WFS REGULATORY OVERSIGHT COMMITTEE

WFS, the Company's largest subsidiary and the owner of Welcome, Welcome Car Finance and Shopacheck, is regulated by the FSA in relation to general insurance business. In 2007, following discussions with the FSA about WFS' corporate governance arrangements, the Company and WFS established the WFS Regulatory Oversight Committee. The purpose of the WFS Regulatory Oversight Committee was to provide oversight to the operation of WFS. Following the decision to establish the Risk Committee, the WFS Regulatory Oversight Committee met for the last time in October 2008 and was then disbanded.

RELATIONS WITH SHAREHOLDERS

In 2008, the Board maintained a close relationship with the Company's major shareholders. The Chief Executive, Finance Director, Treasury & Risk Director and Chief Operating Officer maintained regular contact with major institutional shareholders, who were offered a personal meeting with the Chief Executive and other executive directors at least twice each year. The Chairman usually attended the presentations to analysts of the Company's Interim and Final Results and all major shareholders were offered a personal meeting with the Chairman and Senior Independent Director, if they so required. Major shareholders were also given the opportunity to meet new non-executive directors on their appointment and to provide non-attributed feedback to the Board through discussions with the Company's stockbrokers, HSBC Bank plc and CitiGroup Global Markets Limited.

As required by the Combined Code, the Chairman relayed to the Board any issues raised with him by shareholders. This was supplemented by a report by the Chief Executive of shareholders' views following the presentations of the Interim and Final Results. The directors also received reports from the Company's advisers on the market's views of the Company both before and after the announcement of the Interim and Final Results and copies of analysts' reports.

The Annual General Meeting is seen as an opportunity to communicate with other shareholders and all directors are expected to attend. All shareholders have the opportunity to put questions at the Annual General Meeting.

In addition to regular financial reporting, significant matters relating to the trading or development of the Group are disseminated to the market by way of Stock Exchange announcements. The Company's website, www.cattles.co.uk, included a section focusing specifically on investor relations, and all Stock Exchange announcements are accessible on the website once made within the newsroom section. In addition, the materials used in the presentations to analysts of the Company's Interim and Final Results and the webcasts of these presentations were also available on the website after the presentations had been made.

ACCOUNTABILITY AND AUDIT

The directors believe that the Annual Report and Financial Statements present a balanced and understandable assessment of the Group's financial position and prospects. The Executive Chairman's Statement and the Business and Financial Review, together provide a detailed assessment of the Group's affairs. The directors' responsibilities for the financial statements are described in the Directors' Report on page 33. The Company's financial statements are reviewed by the Audit Committee prior to being submitted to the Board for approval.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of directors has overall responsibility for the Group's internal control system, which is designed to safeguard shareholders' investment and the Company's assets, and embraces all risks faced by the Group, including business, financial, operational and compliance risks. The directors recognise, however, that there are inherent limitations in any system of internal control and as such the controls can provide only reasonable, and not absolute, assurance against material misstatement or loss. Details of the breakdown in internal controls, which was discovered during 2009, are set out in the Executive Chairman's Statement.

The Group has sought to comply with the guidance provided by the Financial Reporting Council in a document entitled 'Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)' (Turnbull guidance), through an ongoing process to identify and evaluate key areas of risk, both financial and non-financial, the Group's perceived tolerance or commercial appetite towards such risks and the policies and procedures which should be adopted in order to manage the likely exposure and to review the operation and effectiveness of the Group's internal control system. This process, which was in place throughout 2008, is regularly reviewed by the Board and accords with the Turnbull guidance.

The Audit Committee is responsible for reviewing the operation and effectiveness of the internal control system on at least a six monthly basis and reporting to the Board thereon. Such reviews were conducted in 2008. The principal features of the Group's internal control system in 2008 can be summarised as follows:

- Primary responsibility of the Board to seek to identify the major business risks facing the Group and to develop appropriate policies for the management of those risks. The Board, however, recognises that the internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Details of the breakdown in internal controls, which was discovered during 2009, are set out in the Executive Chairman's Statement.
- A clearly defined organisational structure with lines of responsibility and delegation of authority to divisional executive management supported by established policies and procedures.
- The engagement of a leading firm of professional advisers for the provision of a range of internal audit services, with a direct reporting line to the Audit Committee.
- The Risk Committee, which met for the first time in December 2008, reviewed and approved key elements of the Group's risk management arrangements and the Group risk appetite and provided an appropriate level of reporting of the status of risk management within the Group to the Board.
- The Risk Committee was assisted in the discharge of its responsibilities by the Risk Oversight Committee, a committee of executive directors, which met for the first time in November 2008, and replaced the Risk Management Group which met for the last time in June 2008. The Risk Oversight Committee's duties included producing proposals for identifying, measuring and mitigating potential risks to ensure that they stayed within the limits of the Group's risk appetite and producing Group risk policies for review and approval by the Risk Committee.
- Arrangements by which employees of the Group may raise concerns in confidence about possible improprieties in matters of financial reporting or other matters, together with arrangements for the proportionate and independent investigation of such matters and for appropriate follow-up action and reporting to the Board.
- Operation of a comprehensive planning and financial reporting system, which covered income, expenditure, cash flows and balance sheets. Annual budgets and medium-term plans were approved by the Board and monitored against actual performance on a monthly basis to identify any significant deviation from approved plans. The annual budget was reviewed and reforecast on a regular basis.
- Adoption of a schedule of matters specifically reserved for the approval of the Board to seek to ensure that it maintained control over appropriate financial, strategic, organisational and compliance issues. As described above, the Board identified a number of key areas, which were subject to regular reporting to the Board.
- The Board also reviewed the role of insurance in managing risks across the Group.

As already explained in the Executive Chairman's Statement, in February 2009, as soon as it became clear that there was an issue with the Group's impairment provision, the Audit Committee commissioned Deloitte to conduct an independent review of the Group's impairment policies and their application in the Company's accounts. Deloitte were instructed to help establish the quantum of the impairment provision. Deloitte's principal finding was that, as a result of a breakdown in internal controls, the Group's impairment policies had been incorrectly applied. This resulted in impairments being materially understated and profits materially overstated. Further details of the financial impact of Deloitte's findings are set out in the Business and Financial Review.

In addition to the Impairment Review, the Audit Committee commissioned an independent forensic review carried out by Freshfields with the assistance of Deloitte. The predominant reason for the Forensic Review was to enable the Audit Committee to assess and take legal advice on liability and related issues. The Audit Committee also thought the Forensic Review was important for a number of other reasons:

- to enable the Company to understand what happened and to take steps to ensure it could not happen again;
- to enable the Company to identify any individuals who either posed a risk to the Company or who were otherwise culpable in what happened, and to determine what action should be taken against individual employees; and
- to be able to give an independent account of the matter to the Financial Services Authority (FSA) and any other interested regulatory bodies.

Further details of the results of the Forensic Review and subsequent actions taken, are set out in the Executive Chairman's Statement.

Margaret Young

Margaret Young

Executive Chairman

11 May 2010

AUDIT COMMITTEE REPORT

For the year ended 31 December 2008

INTRODUCTION

This report to shareholders has been prepared in accordance with the requirements of paragraph C.3.3 of the Combined Code on Corporate Governance and paragraphs 5.1 and 5.2 of the Guidance on Audit Committees produced by Sir Robert Smith. This report gives details of the work of the Committee in discharging its responsibilities in 2008.

TERMS OF REFERENCE

The Committee's terms of reference, which could be found on the Company's website, are reviewed annually by the Committee and any changes are approved by the Board.

The main responsibilities of the Committee set out in the terms of reference were:

- Reviewing the form and content of the Group's financial statements and accounting policies.
- Reviewing the effectiveness of the Group's internal controls and risk management systems.
- Reviewing the Group's arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters.
- Monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system.
- Considering and making recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditors.
- Overseeing the relationship with the external auditors, including (but not limited to) approving their remuneration, assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services.

MEMBERSHIP

The four independent non-executive directors, M A Young as chairman, D A Haxby, F R Dee and A J McWalter were members of the Committee throughout 2008.

The chairman of the Committee in 2008, M A Young, qualified and practised as a Chartered Accountant and has significant financial and accounting knowledge and experience. M A Young was previously chairman of the audit committee of Uniq plc (2003 to 2007), a member of the supervisory board and audit committee of Numico (2006 to 2007) and a managing director of Donaldson Lufkin & Jenrette and then Credit Suisse First Boston (1997 to 2001) and a director of NatWest Markets Corporate Finance Limited (1985 to 1997).

On 15 July 2009, D A Haxby was appointed as chairman of the Committee in place of M A Young who ceased to be a member of the Committee following her appointment as Executive Chairman of the Company on 30 June 2009. D A Haxby qualified and practised as a Chartered Accountant (FCA) and has significant financial and accounting knowledge and experience. D A Haxby was managing partner of the London office of Arthur Andersen (1991 to 1995) and chairman of the Audit Committee of SIG plc (2003 to 2009).

The other members of the Committee have a wide range of business experience which is evidenced in their biographical details on page 13.

MEETINGS

The Committee historically met three times a year but met four times in 2008. As explained in the Executive Chairman's Statement, the Committee took responsibility for investigating the serious issues which arose in 2009 and therefore met on numerous occasions during 2009.

All members of the Audit Committee attended each of the four meetings held in 2008, except for A J McWalter who was unable to attend the extra meeting held in December 2008, which was arranged at short notice, due to another pre-existing business commitment. The external auditor, the Chairman of the Board, the Chief Executive, the Finance Director and the Managing Director of WFS also attended all meetings of the Committee in 2008. The internal auditors and the Chief Operating Officer attended all meetings except the extra meeting held in December 2008. The external auditors and internal auditors had a confidential discussion with members of the Committee without the executive directors being present during part of certain meetings.

WORK OF THE COMMITTEE

The Committee discharged its duties in 2008 as follows:

- At its meetings in February and August, the Committee reviewed the Company's preliminary announcement and Annual Report and Financial Statements for the year ended 31 December 2007 and interim announcement for the six months ended 30 June 2008 respectively. At each of these meetings the Committee received a report from the external auditors setting out any accounting or judgemental issues which required its attention.
- A report from the internal auditors was reviewed at the meetings in February, August and December. The Committee considered the internal auditors' work plan for 2009 at its December meeting. The Committee considered the external auditors' pre-year end issues report at its December meeting and their audit plan at its August meeting.
- At its August meeting the Committee reviewed the final report of the Risk Management Group, which comprised the executive directors and other key members of senior management including risk specialists and considered the key risks facing the Group and the effectiveness of the Group's internal controls to manage and reduce the impact of those risks.
- At its February and August meetings the Committee considered the annual and half-yearly risk and compliance reports produced by the Treasury & Risk Director in relation to the year ended 31 December 2007 and six months ended 30 June 2008 respectively.
- The Committee reviewed the fees paid to the external auditors for audit and non-audit services at all its meetings and at its February meeting it assessed the external auditors' independence and made a recommendation to the Board as to the appointment or re-appointment of the auditors at the 2008 Annual General Meeting.
- In December 2008, in addition to the scheduled meeting, the Committee held an extra meeting to discuss various questions raised by members of the Audit Committee relating to certain impairment issues.

The main activities of the Committee in 2009 were as follows:

- Following the extra meeting of the Committee in December 2008 M A Young and other members of the Committee continued to raise questions in relation to certain impairment issues with the executive directors, senior management, and the external auditor, PwC. The members of the Committee also discussed the impairment issues with the internal auditors.
- At its 19 February 2009 meeting PwC reported to members of the Committee that they could not give an unqualified opinion on the draft 2008 financial statements due to their concerns about the Group's impairment policy and the size of the impairment provision. As a result the Company announced a delay in the publication of its 2008 preliminary results pending completion of the Impairment Review.
- At its 2 March 2009 meeting the Committee received a report as to Deloitte's progress in relation to the Impairment Review and recommended to the Board that the Company should announce that there had been a breakdown in internal controls which had resulted in the Group's impairment policies having been applied incorrectly and that 2008 profits were likely to be substantially lower than had been expected on 20 February 2009. The Committee also recommended the immediate suspension of three members of WFS' senior management team.
- At its 9 March 2009 meeting the Committee received a further update on the Impairment Review and recommended to the Board that the Company should announce that, based on information received to date and subject to completion of its external audit, the Board believed that the Group would incur a significant loss before tax for 2008 and that it would be necessary to restate the 2007 financial statements. The Committee also recommended the immediate suspension of two executive directors and another member of WFS' senior management team.
- At its 25 March 2009 meeting the Committee recommended that the Board should consider establishing an incurred but not reported provision.
- At its 30 June 2009 meeting following the conclusion of the Forensic Review, the Committee recommended the summary dismissal of the six suspended executive directors and Welcome Financial Services senior managers and that disciplinary action be taken in respect of certain other employees. In addition, it recommended that a further executive director should leave the Company with immediate effect and, at its November 2009 meeting, following PwC's resignation at the Company's request as external auditor, the Committee recommended to the Board that Grant Thornton should be appointed as the Company's external auditor to fill the casual vacancy.

INDEPENDENCE OF THE AUDITOR

The Audit Committee and the external auditors, both PricewaterhouseCoopers LLP and now Grant Thornton UK LLP, put in place safeguards to avoid the auditors' objectivity and independence being compromised. The Group's policy with regard to services provided by its external auditors is as follows:

- **Statutory audit services**

The external auditors are appointed annually by the shareholders. However, Grant Thornton UK LLP, were appointed by the Board on 7 December 2009 to fill the casual vacancy following the resignation of PricewaterhouseCoopers LLP in November 2009.

PricewaterhouseCoopers LLP commenced the audit of the financial statements for the year ended 31 December 2008. However, on 20 February 2009 the Company announced a delay in the release of its preliminary results announcement for the year ended 31 December 2008 pending the completion of a review of the adequacy of its impairment provisions. Subsequently, the Impairment Review commissioned by the Committee confirmed the Board's belief that there had been a breakdown of internal controls which resulted in the Group's impairment policies being applied incorrectly. PricewaterhouseCoopers LLP's work on the audit of the financial statements for the year ended 31 December 2008 was put on hold pending the completion of the Impairment Review and in November 2009 the Board asked PricewaterhouseCoopers LLP to resign as auditors. Given the accounting issues faced by the Company, the Board did not consider it appropriate for PricewaterhouseCoopers LLP to audit the Company's 2008 accounts.

Grant Thornton UK LLP now provides the statutory audit services.

The external auditors also provide services in respect of the provision of an independent review report on the Company's Interim Results, perform work in their capacity as reporting accountant in accordance with the Prospectus Rules (for example, as PricewaterhouseCoopers LLP did in relation to the Rights Issue Prospectus issued in April 2008) and provide regulatory services and formalities relating to other circulars. The Audit Committee reviews the auditors' performance on an ongoing basis.

- **Tax compliance and tax advisory services**

Tax compliance involves dealing with the Group's corporation tax returns and in 2008 this work was carried out by PricewaterhouseCoopers LLP. During 2009, PricewaterhouseCoopers LLP were replaced by Deloitte LLP who now provide these services to the Group.

Tax advisory services include tax planning and structuring advice for direct and indirect taxes. The Group's policy is for each individual assignment to be assessed separately and awarded depending on which professional services firm is considered best suited to perform the relevant work.

- **Other non-audit services**

This category includes work relating to due diligence and other non-regulatory reporting. The Group's normal policy is to appoint the external auditors to undertake this work because of their knowledge and experience of the business. However, the Board reviews their independence and expertise on every assignment. In 2008, this category included work done by PricewaterhouseCoopers LLP in connection with an aborted acquisition.

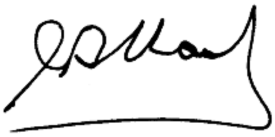
The external auditors are not permitted to provide internal audit, risk management, litigation support, remuneration advice or legal advice services. The provision of other non-audit services is awarded on a case-by-case basis, depending on which professional services firm is considered best suited to perform the work. In 2008, PricewaterhouseCoopers LLP provided advisory services in relation to the Competition Commission Enquiry into Payment Protection Insurance. This work was put out to tender and was won by the external auditors.

These safeguards, which are monitored by the Audit Committee, are regularly reviewed and updated to ensure they remain appropriate. The appointment of the external auditors to provide non-audit services requires Board approval for any assignments with fees above a set financial limit.

INDEPENDENCE OF THE AUDITOR continued

The external auditor reports to the Audit Committee each year on the actions it has taken to comply with professional and regulatory requirements and best practice designed to ensure its independence, including the rotation of key members of the external audit team. PricewaterhouseCoopers LLP and now Grant Thornton UK LLP have both formally confirmed their independence to the Board, in respect of the period since their appointment.

The disclosure of the non-audit fees paid to PricewaterhouseCoopers LLP is included in note 10 to the financial statements.



David Haxby

Chairman of the Audit Committee

11 May 2010

NOMINATION COMMITTEE REPORT

For the year ended 31 December 2008

INTRODUCTION

This report to shareholders has been prepared in accordance with the requirements of paragraph A.4.6 of the Combined Code on Corporate Governance. This report gives details of the work of the Committee in discharging its responsibilities in 2008.

TERMS OF REFERENCE

The Committee's terms of reference, which could be found on the Company's website, are reviewed annually by the Committee and any changes are approved by the Board.

The main responsibilities of the Committee set out in the terms of reference were:

- evaluating the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment;
- identifying and nominating for the approval of the Board candidates to fill Board vacancies; and
- considering proposals for succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Company and what skills and expertise are therefore needed on the Board in the future.

MEMBERSHIP

In 2008, the Committee comprised the Chairman (N N Broadhurst), the four independent non-executive directors (D A Haxby, F R Dee, A J McWalter and M A Young) and the Chief Executive (D J Postings), under the chairmanship of the Chairman of the Board, N N Broadhurst. There were no changes to the composition of the Committee during 2008. On 30 June 2009, N N Broadhurst and D J Postings resigned from the Board and M A Young became Executive Chairman of the Company. M A Young was appointed as Chairman of the Committee on 15 July 2009.

MEETINGS

The Committee met formally on four occasions during 2008. All members of the Committee attended each of the four formal meetings held in 2008.

WORK OF THE COMMITTEE

The main work undertaken by the Committee during 2008 was the search for a successor to J J Corr as Finance Director following his intended retirement in 2009.

Margaret Young

Margaret Young

Chairman of the Nomination Committee

11 May 2010

INTRODUCTION

This report contains the information required by the Directors' Remuneration Report Regulations 2002 (the Regulations) and also meets the relevant requirements of the Listing Rules of the Financial Services Authority.

The report describes how the Board applied the Principles of Good Governance relating to directors' remuneration in 2008 and a resolution to approve this report will be proposed at the Annual General Meeting of the Company on 29 June 2010.

The Regulations require the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information with the 'auditable part' being on pages 27 to 30.

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The Chairman, N N Broadhurst, and the four independent non-executive directors, D A Haxby, F R Dee, A J McWalter and M A Young, were members of the Committee, which was chaired by F R Dee, throughout 2008. All members of the Remuneration Committee attended each of the seven meetings held in 2008. On 30 June 2009, N N Broadhurst resigned from the Board. On 15 July 2009, A J McWalter was appointed Chairman of the Committee and M A Young has ceased to be a member of the Committee following her appointment as Executive Chairman of the Company on 30 June 2009.

In 2008, none of the Committee members had any personal financial interest in the Company other than as a shareholder, nor had they any day-to-day involvement in the running of the business or conflicts of interests arising from cross-directorships.

One of the main duties of the Committee is to determine the remuneration of the executive directors, the Chairman and the Company Secretary and to monitor the level and structure of remuneration for specified senior managers below Board level. The Committee's terms of reference, which could be found on the Company's website, are reviewed annually by the Committee and any changes are approved by the Board.

The Committee appointed Hewitt New Bridge Street (HNBS) as its remuneration consultants. HNBS had no other connection with the Company. HNBS advised the Committee directly on matters within the Committee's terms of reference on which the Committee chose to consult HNBS. HNBS also advised the Company generally on aspects of executive and employee remuneration, typically on the implementation and ongoing operation of executive remuneration schemes. HNBS advised a sub-committee of the Board from time to time on the remuneration of the non-executive directors, other than the Chairman.

In 2008, the Chairman did not participate in any discussions relating to his own remuneration and absented himself from the meeting when his own remuneration was being considered. In 2008, the Chief Executive was consulted by the Committee but did not participate in any discussions relating to his own remuneration.

REMUNERATION POLICY

During the year ended 31 December 2008, executive remuneration packages were designed to attract, motivate and retain directors of the calibre necessary to maintain the Group's record of financial performance with the aim of enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration packages were undertaken by the Committee.

In 2008, there were four main elements of the remuneration packages of executive directors:

- Basic salary and benefits;
- Annual bonus;
- Long-term incentives; and
- Pension and life assurance arrangements.

The Company's policy was that a substantial proportion of the remuneration of the executive directors should be performance-related. As described below, in 2008 each of the executive directors participated in both an annual bonus scheme and long-term incentive arrangements. **However, given the performance of the Group in the year ended 31 December 2008, no bonuses were paid to any executive director in respect of the year ended 31 December 2008.**

When determining remuneration levels for the executive directors, consideration was given to pay levels elsewhere in the Group.

In 2008, the fees paid to the Chairman of the Board were determined by the Remuneration Committee (excluding the Chairman) in consultation with the Chief Executive. The fees paid to non-executive directors, other than the Chairman, were determined by a sub-committee of the Board comprising the Chairman of the Board, the Chief Executive and the Finance Director.

In 2009, executive remuneration packages were designed to attract, motivate and retain directors of the high calibre necessary to deal with the circumstances which the Company was facing. The performance measurement of the executive directors and the determination of their annual remuneration packages were undertaken by the Committee.

In 2009, there were two main elements of the remuneration packages of executive directors:

- Basic salary and benefits; and
- Performance and retention bonus.

The Company's policy was that a substantial proportion of the remuneration of the executive directors should be performance-related. Each of the executive directors received a performance-related bonus.

When determining remuneration levels for the executive directors, consideration was given to pay levels elsewhere in the Group.

In 2009, the fees paid to non-executive directors were determined by a sub-committee of the Board comprising the Executive Chairman and the Finance Director.

BASIC SALARY AND BENEFITS

The basic salaries of the executive directors were determined by the Remuneration Committee, prior to the beginning of each year, taking into account the responsibilities and performance of the individual director and, for 2008 and previous years, having regard to market practice as advised by HNBS. In 2008, the Committee's policy was to pay basic salaries around the median while (as stated above) taking account of the responsibilities and performance of each director.

In view of the funding issues then affecting the Group, the Committee decided not to review the executive directors' basic salaries in December 2008 and so the Board agreed to make no changes to the annual salaries of the executive directors with effect from 1 January 2009:

	1 January 2009 £000	1 January 2008 £000
D J Postings	525	525
M W G Collins	320	320
J J Corr	320	320
I S Cummine	390	390

In addition to basic salary, the executive directors received certain benefits in kind, being a car and fuel provision (or a cash allowance), private medical insurance and permanent health insurance.

ANNUAL BONUS

The targets which trigger annual cash bonuses were set by the Remuneration Committee. In 2008, these targets comprised the following three measures of performance:

- The Group's actual earnings per share (EPS) growth;
- A profit to borrowings ratio; and
- The achievement of each director's personal objectives.

The maximum potential bonus payment to executive directors in respect of the year ended 31 December 2008 was restricted to 100% of basic salary, with a maximum of 75% being payable in respect of EPS growth, 15% in respect of the profit to borrowings ratio and 10% in respect of the achievement of personal objectives. Any bonus earned over 75% of 2009 basic salary had to be deferred into shares which would not be received by the executive directors for a further three years. Such deferred shares would count for the purposes of the Matching Shares element of the Long-Term Incentive Plan described more fully below, but would not be subject to further performance conditions.

Bonuses do not form part of pensionable earnings.

Given the performance of the Group in the year ended 31 December 2008, no bonuses were paid to any executive director in respect of the year ended 31 December 2008.

LONG-TERM INCENTIVES

In 2008, the Remuneration Committee believed that share ownership by executive directors and senior executives strengthened the link between their personal interests and those of shareholders, and provided the opportunity for longer-term motivation and retention. The Company's policy was that the executive directors were required to build up and retain a shareholding in the Company, primarily from their long-term incentive arrangements, equivalent to their annual salary. In 2008, the Committee agreed a policy that certain other senior executives should be required to build up and retain a shareholding in the Company, primarily from their long-term incentive arrangements, equivalent to one-half of their annual salary. In view of the substantial fall in the Company's share price during 2008, these policies were not complied with but the Committee noted that the policy required the executive directors and other senior executives to build up their shareholdings primarily from their long-term incentive arrangements and in any event did not consider it to be appropriate to require the executive directors and other senior executives to buy sufficient shares so as to comply with these policies at the then current share price. The Committee reviewed the Company's long-term incentive arrangements during 2008 in respect of their operation, grant levels, performance criteria and vesting schedules to ensure they remained appropriate to the Company's then current circumstances and prospects and took due account of market and best practice. Following this review, the Committee exercised its discretion and made changes to the operation of the Long-Term Incentive Plan as described below.

LONG-TERM INCENTIVE PLAN (LTIP)

The LTIP was adopted in May 2005. Participation was at the discretion of the Committee and in 2008 participants included the executive directors and other members of the Company's senior executive team who were best placed to influence the performance of the Group.

The LTIP had two elements: an award of Performance Shares and an award of Matching Shares linked to an investment in Cattles plc shares (together Awards). Awards would normally have vested following the third anniversary of the date of grant provided that challenging performance conditions had been satisfied and the participant remained in employment.

In normal circumstances, as was the case in 2008, Awards of Performance Shares could not be granted to any participant in any financial year under the LTIP if it would have caused the aggregate market value of those shares to exceed 100% of the participant's basic salary. However, to provide the Committee with a market standard degree of flexibility to operate the LTIP in the best interests of shareholders and to take account of particular circumstances as they may arise, in exceptional circumstances Awards of Performance Shares worth up to 200% of basic salary could be granted. This flexibility was exercised in 2006 and 2007 when awards of Performance Shares worth 115% and 200% respectively of basic salary were made to the executive directors for the reasons set out in the 2006 and 2007 Directors' Remuneration Reports.

Awards of Matching Shares were granted to the extent that participants acquired Cattles plc shares using their annual bonus (Investment Shares). Under the Company's annual bonus plan, any annual bonus in excess of 75% of basic salary payable to an executive director and certain senior executives had to be deferred into the Company's shares. These shares were treated as Investment Shares which qualified for the grant of Matching Shares. Executive directors were also allowed to invest their cash bonus (but no other funds) on a voluntary basis into Cattles plc shares and treat those shares as Investment Shares. The maximum aggregate pre-tax value of bonus invested on both a compulsory and voluntary basis per annum was 37.5% of the individual's salary. Matching Shares could be awarded up to a maximum award ratio of 2:1 (free Matching Shares to Investment Shares) on a gross basis. If a participant sold his Investment Shares at any time during the three year performance period, this would have reduced (on a pro-rata basis) the number of Matching Shares that would have been transferable to him on vesting. In June 2008 all the executive directors (except for D J Postings) were awarded deferred bonus shares and bought the maximum number of permitted Investment Shares and the Committee made Awards of Matching Shares on a 2:1 ratio. No award of Matching Shares was made to D J Postings in 2008.

LONG-TERM INCENTIVE PLAN (LTIP) continued

The vesting of Awards depended on the Company's performance over a single fixed three year performance period (i.e. with no re-testing facility) which commenced with the financial year in which the Awards were granted. Awards would (subject to the 'adjuster' referred to below) have vested by reference to the Company's EPS growth in excess of the Retail Price Index (RPI) over the three year performance period, comparing the Company's EPS in the financial year prior to grant with its EPS in the third year following grant. For these purposes, EPS was calculated on the same basis as stated in the Company's Annual Report and Financial Statements, subject to the Committee using its discretion to take account of any material short-term effect arising from an acquisition or any exceptional item of profit or loss in a particular year, or to take account of changes in accounting standards.

Subject to the adjuster referred to below, the performance conditions relating to Awards made in 2008 were:

EPS growth of the Company over the 3 year performance period	Percentage of Award that vests
Less than RPI +3%	0%
RPI +3%	20%
RPI +20% or more	100%
Between RPI +3% and RPI +20%	Between 20% and 100% on a straight line basis

Subject to the adjuster referred to below, the performance conditions relating to Awards made in 2007 were:

EPS growth of the Company over the 3 year performance period	Percentage of Award that vests
Less than RPI +20%	0%
RPI +20%	30%
RPI +35% or more	100%
Between RPI +20% and RPI +35%	Between 30% and 100% on a straight line basis

Subject to the adjuster referred to below, the performance conditions relating to Awards made in 2006 were:

EPS growth of the Company over the 3 year performance period	Percentage of Award that vests
Less than RPI +15%	0%
RPI +15%	30%
RPI +30% or more	100%
Between RPI +15% and RPI +30%	Between 30% and 100% on a straight line basis

As can be seen from the tables above, the Committee applied less demanding real EPS growth targets for awards made in 2008 than to those made in 2007, having taken into account the Company's projected reduced EPS growth over the relevant three year period in view of the economic conditions and outlook pertaining in June 2008.

In order to provide a comparative element to the performance conditions, the performance conditions were adjusted by reference to the Company's EPS performance over the performance period relative to an 'average' EPS growth of companies comprised in the FTSE 250 (the Index), calculated by dividing the Index by the price/earnings ratio of the Index.

If the Company's EPS growth over the performance period was lower than the average EPS growth of the Index, the level of vesting of Awards would have reduced by 1% for every 4% (subject to a maximum reduction of 25%) that the Company's EPS growth was lower than the Index average. To the extent that the Company's EPS growth was higher, the level of vesting of Awards would have increased by 1% for every 4% up to (but not exceeding) the maximum level of vesting.

The LTIP operated in conjunction with an employee benefit trust (Trust), the trustee of which was Cattles Trustee Limited, a wholly owned subsidiary of Cattles plc. The directors of the trustee Company were three of the members of the Committee in 2008, all of whom were independent non-executive directors of the Company, and none of whom was a beneficiary under the Trust or LTIP. On the grant or before the vesting of Awards, the Trust purchased sufficient shares in the market to satisfy such awards; hence there was no issue of new shares. On the vesting of Awards, the Trust transferred the appropriate number of shares to the participants. The Trust would at no time hold more than 5% of the issued share capital of Cattles plc. The LTIP was funded by loans from the Company to the Trust, which then acquired Cattles plc shares for the purpose of the LTIP.

RESTRICTED SHARE AWARD

In 2007, the Company made a restricted share award to D J Postings as an exceptional award which the Committee considered necessary to recruit D J Postings as Chief Executive. 50% of the award would have vested on 9 October 2009 and the remaining 50% would have vested on 9 October 2011, had D J Postings continued to be employed by a member of the Group. D J Postings resigned from the Board and left the Company on 30 June 2009. Vesting of the award (which was not pensionable) was not subject to performance conditions. On a change in control or the winding-up of the Company (except as part of an internal reorganisation), the award would have vested in full. On cessation of employment for 'good leaver' reasons (which included death), the award would have vested on cessation and would have been pro-rated on a time basis unless the Committee, acting fairly and reasonably, decided otherwise. On cessation of employment for other reasons or the transfer, assignment, charging or other disposal of the award, it would have lapsed. In the event of any variation in the share capital of the Company or a demerger, special dividend or other similar event which affected the market price of the Company's shares to a material extent, the Committee could have made such adjustments to the award as it considered appropriate to the number of shares comprised in the award. No alteration could have been made to the terms of the award to the advantage of D J Postings without prior shareholder approval.

The Restricted Share Award operated in conjunction with the Trust in the same way as the LTIP (i.e. no new issue shares would have been used).

MANAGEMENT SHARE PLAN

The Management Share Plan was adopted by the Board in 2007. Participation was at the discretion of the Committee and participants included senior executives who were best placed to influence the performance of the Group but excluded the executive directors. Participants were awarded shares in the Company which will normally vest in the proportions and on the dates specified by the Committee at the time of making the award, provided that the participant continues to be employed by a member of the Group. The vesting of awards is not subject to performance conditions.

No award was made under the Management Share Plan in 2008.

In June 2007, for the reasons stated in the 2007 Directors' Remuneration Report in relation to the grant of additional 100% Performance Awards under the LTIP to three of the executive directors in June 2007, the Committee granted awards worth 100% of their basic salary to nine senior non-main Board executives, of which 50% were due to vest on 21 December 2008 and the remaining 50% will vest on 21 June 2010, subject to the senior executives remaining in the employment of a member of the Group. The first 50% of the awards did not vest on 21 December 2008 because the Company was in a prohibited period under the Model Code and so these awards will vest as soon as dealings in the Company's shares are permissible under the Model Code, subject to the senior executives remaining in the employment of a member of the Group. Six of the nine senior non-main Board executives have subsequently ceased to be in the employment of a member of the Group and so their awards have lapsed.

The Management Share Plan operates in conjunction with the Trust in the same way as the LTIP (i.e. no new issue shares are used).

SHARESAVE SCHEME

This scheme was approved in 2003 and enables all employees, including executive directors, with at least 12 months' service at the date of invitation, to enter into a SAYE savings plan. At the end of three or five years, participants can exercise an option to acquire shares in the Company at a fixed price determined at the start of the savings contract in accordance with the scheme rules. The exercise of options under this scheme is not subject to any performance conditions, in accordance with HM Revenue & Customs (HMRC) rules.

The timing of invitations under this scheme is determined by the Board acting upon the recommendation of the Committee. Traditionally options have been granted under this scheme in alternate years but the Committee recommended, and the Board agreed, to grant options under this scheme in 2008, although options had also been granted under this scheme in 2007, because all the outstanding options' exercise prices were well in excess of the then current share price and so option holders were not being incentivised.

As at 31 December 2008, options to subscribe for 17,859,666 (2007: 2,555,753) ordinary shares remained exercisable under the Sharesave Scheme.

All outstanding options on the date of completion of the rights issue on 4 June 2008 were adjusted by multiplying the number of shares under option by 1.1681 and by multiplying the exercise price by 0.8560 to compensate option holders for the decrease in the value of their options due to the discounted rights issue price of 128p per share. The options granted during 2008 were granted after completion of the rights issue and so were not adjusted.

SHARE INCENTIVE PLAN

The Share Incentive Plan was introduced in 2003. It is open to all UK employees, including executive directors, with at least 12 months' service and is an HMRC-approved all employee share plan. Each year a sum of money is set aside if so determined by the Board acting upon the recommendation of the Committee. The amounts attributable to eligible employees are determined by a formula linked to their salaries. The maximum award to any one employee during a year is £3,000. Participants may also use their dividends to acquire further shares which are held within the plan.

EXECUTIVE SHARE OPTION SCHEMES

The Cattles Executive Share Option Scheme 1994 (the 1994 Scheme), an HMRC-approved scheme, and the Cattles Executive Share Option Scheme 1996 (the 1996 Scheme) have both now expired. Shareholder approval was obtained in 2005 for the establishment of the Cattles Executive Share Option Scheme 2005 (the 2005 Scheme) to replace the 1994 and the 1996 Scheme. The maximum award under the 2005 Scheme is 100% of salary.

Executive directors and senior executives have not participated in these Executive Share Option Schemes since being invited to participate in the LTIP and its predecessor. Consequently, no executive director had options outstanding or unexercised under any of the Executive Share Option Schemes.

As at 31 December 2008, no options had been granted under the 2005 Scheme. As at 31 December 2008, options to subscribe for 66,459 (2007: 68,900) and 30,370 (2007: 48,400) ordinary shares remained exercisable under the 1994 Scheme and the 1996 Scheme respectively. All outstanding options on the date of completion of the rights issue on 4 June 2008 were adjusted by multiplying the number of shares under option by 1.1681 and by multiplying the exercise price by 0.8560 to compensate option holders for the decrease in the value of their options due to the discounted rights issue price of 128p per share.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Committee was mindful of the effect of the transition to International Financial Reporting Standards (IFRS) on the EPS-based performance conditions used in the LTIP and the Executive Share Option Schemes. At the request of the Committee, the Company's auditors at the time, PricewaterhouseCoopers LLP, reviewed the conversion of the EPS growth targets from UK GAAP to IFRS.

PENSION AND LIFE ASSURANCE ARRANGEMENTS

J J Corr and I S Cummine had individual personal pension plans into which the Company contributed 20% of basic salary. M W G Collins was a member of the Cattles Staff Pension Fund and was subject to the cap in the rules of the Fund which was based on the former statutory pension cap. He therefore received payments representing 20% of the difference between his basic salary and that cap for contribution to additional pension schemes. No other payments to directors were pensionable.

In 2008, Cattles Staff Pension Fund was a funded, HMRC-approved, final salary occupational pension scheme with a contribution rate of 5% of pensionable salary from the employee. Its main features, which applied to all members on the same terms, were:

- pension was payable at normal pension age of 65 at 1/60th of final pensionable salary for each year of pensionable service up to a maximum of 40/60ths;
- death-in-service life assurance cover was provided at four times pensionable salary; and
- pension was payable in the event of early retirement due to ill health and to spouse on death of member.

D J Postings received a salary supplement of 25% of his basic salary in lieu of a pension contribution because his pension plans were already funded up to the HMRC maximum limit. This salary supplement did not form part of D J Postings' basic salary for any purpose.

The Executive Directors were provided with death-in-service life assurance cover of four times basic salary.

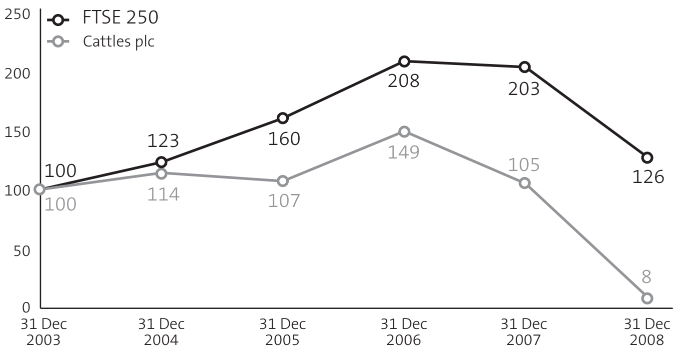
PERFORMANCE GRAPH OF TOTAL SHAREHOLDER RETURN

Five Years to 31 December 2008

In the opinion of the Committee, the index was the most appropriate index against which the total shareholder return of Cattles plc for the five years to 31 December 2008 should be measured because it is an index containing companies which were similar in size to Cattles plc in 2008 and the Company had a limited number of direct comparator companies.

The graph below shows the value of £100 invested in Cattles plc on 31 December 2003 compared with the value of £100 invested in the index.

TOTAL SHAREHOLDER RETURN



SERVICE CONTRACTS

Director	Date of service contract	Notice period
D J Postings	18 May 2007	12 months either party
M W G Collins	5 March 2003 (amended)	12 months from the Company, 6 months from the individual
J J Corr	5 March 2003 (amended)	12 months from the Company, 6 months from the individual
I S Cummine	5 March 2003 (amended)	12 months from the Company, 6 months from the individual

In 2008, it was the Company's policy that executive directors' service contracts should be rolling contracts requiring a notice period of one year to be given by the Company and usually six months to be given by each director. Each of the executive directors (apart from D J Postings) entered into service contracts, including these terms, on the date of their appointment to the Board. In order to reflect changes in other terms agreed since the original service contracts were entered into and to incorporate changes in employment legislation, the executive directors (apart from D J Postings) entered into new service contracts on 5 March 2003. D J Postings entered into a service contract, including these terms (except that he was required to give the Company 12 months' notice), on 18 May 2007.

The Company had the right to terminate a director's employment by paying to the director the remuneration which he would have been entitled to receive from the Company in respect of the relevant period of notice. If a director ceased to be employed, for any reason, by the Company before the end of the financial year, any bonus payment would be at the sole discretion of the Committee. It was the Committee's policy that, when determining the amount of any compensation paid to a departing director, the Committee would take into account the director's obligation to mitigate his loss, to the extent it was possible to do so under the terms of the relevant contract. On 30 June 2009, all the service contracts of the executive directors terminated with no compensation payments for loss of office to any director.

An executive director may not become a director of another company without the prior written consent of the Board. In 2008, no executive director was a non-executive director of any other company.

NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for an initial period of three years, although either the Company or the director may terminate the appointment by giving six months' written notice. Non-executive directors may be invited to serve one or two additional three year terms if the Nomination Committee considers this to be appropriate. They are subject to re-election at an Annual General Meeting at least every three years in common with all directors. They do not have service contracts and may not participate in any bonus scheme, share scheme, pension scheme, car scheme or healthcare scheme operated by the Company. As at 31 December 2008, the dates of their then current letters of appointment were: D A Haxby 22 June 1999; N N Broadhurst 23 March 2001; F R Dee 30 June 2004; A J McWalter 6 September 2005; and M A Young 1 February 2006.

In 2008, the Chairman, N N Broadhurst, received a fee of £185,000 which was determined by the Committee on the same basis as applied to the determination of the basic salaries of the executive directors. In 2008, the non-executive directors' basic fee (calculated by reference to practice adopted in the market generally and taking account of the time commitment and the responsibilities of the non-executive directors) was £47,500 with F R Dee receiving an extra £10,000 fee for his services as chairman of the Remuneration Committee, M A Young receiving an extra £10,000 fee for her services as chairman of the Audit Committee, A J McWalter receiving an extra £10,000 fee for his services as chairman of the Welcome Financial Services Regulatory Oversight Committee and D A Haxby receiving an extra £2,500 fee for his services as Senior Independent Director. Reasonable expenses that non-executive directors may incur in the furtherance of their duties are repaid by the Company.

In view of the funding issues then affecting the Group, the Committee, in relation to the Chairman, and the sub-committee of the Board, comprising the Chairman of the Board, the Chief Executive and the Finance Director, in relation to the other non-executive directors, decided not to review the Chairman's and non-executive directors' fees in December 2008 and so the Board agreed to make no changes to the fees of the Chairman and the non-executive directors with effect from 1 January 2009:

	1 January 2009 £000	1 January 2008 £000
N N Broadhurst	185	185
D A Haxby	50	50
F R Dee	58	58
A J McWalter	58	58
M A Young	58	58

AUDITED INFORMATION

AGGREGATE DIRECTORS' REMUNERATION

The following table sets out the basic salary, benefits in kind, annual bonus, expense allowances and other remuneration for each of the executive directors and the fees of the non-executive directors in respect of the year ended 31 December 2008 together with comparative figures for the preceding year.

	Basic salary £000	Fees £000	Benefits in kind £000	Annual bonus £000	Expense allowances £000	Other £000	Total **2008** **£000**	Total 2007 £000
Executive directors								
D J Postings (appointed 1 September 2007)	525	–	5	–	36	131	**697**	460
S P Mahon (retired 30 September 2007)	–	–	–	–	–	–	**–**	849
M W G Collins	320	–	35	–	–	–	**355**	586
J J Corr	320	–	34	–	–	–	**354**	592
I S Cummine	390	–	35	–	–	–	**425**	715
Non-executive directors								
N N Broadhurst	–	185	–	–	–	–	**185**	175
D A Haxby	–	50	–	–	–	–	**50**	55
F R Dee	–	58	–	–	–	–	**58**	45
A J McWalter	–	58	–	–	–	–	**58**	48
M A Young	–	58	–	–	–	–	**58**	55
Total	1,555	409	109	–	36	131	**2,240**	3,580

The expense allowances received by D J Postings are comprised of his car and fuel allowance and relocation expenses.

The other remuneration received by D J Postings is comprised of a salary supplement of 25% of his basic salary in lieu of a pension contribution.

DIRECTORS' LONG-TERM INCENTIVES

Participation in the LTIP, the Deferred Share Bonus Plan (DSBP), the Management Share Plan (MSP) and the Restricted Share Award (RSA) was as follows as at 31 December 2008:

	Award	No. of shares notionally held at 1 January 2008	Notionally awarded in the year	Vested in the year	Share price at vesting (p)	Total value at vesting £000	Lapsed in the year	**Potential interest in shares at 31 December 2008**	Share price at date of notional award (p)	Amount charged against profit in the year £000	Notional award date	Earliest vesting date
Executive directors												
D J Postings	LTIP	267,737	–	–	–	–	–	**312,743**	373.50	–	17.09.07	17.09.10
	RSA	137,080	–	–	–	–	–	**160,123**	373.50	–	17.09.07	09.10.09
	RSA	137,080	–	–	–	–	–	**160,123**	373.50	–	17.09.07	09.10.11
	LTIP	–	393,258	–	–	–	–	**393,258**	133.50	–	30.06.08	30.06.11
M W G Collins	LTIP	90,768	–	89,061	186.50	166	16,965	**–**	298.00	–	23.05.05	23.05.08
	LTIP	135,082	–	–	–	–	–	**157,789**	406.50	–	23.11.06	23.11.09
	LTIP	130,663	–	–	–	–	–	**152,626**	400.90	–	24.04.07	24.04.10
	DSBP	10,903	–	–	–	–	–	**12,735**	428.75	–	23.03.07	23.03.10
	LTIP	78,104	–	–	–	–	–	**91,233**	390.50	–	29.06.07	29.06.10
	DSBP	–	14,419	–	–	–	–	**14,419**	133.50	–	30.06.08	30.06.11
	LTIP	–	417,971	–	–	–	–	**417,971**	133.50	–	30.06.08	30.06.11
J J Corr	LTIP	90,768	–	89,061	186.50	166	16,965	**–**	298.00	–	23.05.05	23.05.08
	LTIP	135,082	–	–	–	–	–	**157,789**	406.50	–	23.11.06	23.11.09
	LTIP	130,663	–	–	–	–	–	**152,626**	400.90	–	24.04.07	24.04.10
	DSBP	10,903	–	–	–	–	–	**12,735**	428.75	–	23.03.07	23.03.10
	LTIP	78,104	–	–	–	–	–	**91,233**	390.50	–	29.06.07	29.06.10
	DSBP	–	14,419	–	–	–	–	**14,419**	133.50	–	30.06.08	30.06.11
	LTIP	–	418,612	–	–	–	–	**418,612**	133.50	–	30.06.08	30.06.11
I S Cummine	LTIP	111,320	–	109,226	186.50	204	20,806	**–**	298.00	–	23.05.05	23.05.08
	LTIP	163,029	–	–	–	–	–	**190,433**	406.50	–	23.11.06	23.11.09
	LTIP	158,542	–	–	–	–	–	**185,192**	400.90	–	24.04.07	24.04.10
	DSBP	12,827	–	–	–	–	–	**14,983**	428.75	–	23.03.07	23.03.10
	LTIP	94,750	–	–	–	–	–	**110,677**	390.50	–	29.06.07	29.06.10
	DSBP	–	16,479	–	–	–	–	**16,479**	133.50	–	30.06.08	30.06.11
	LTIP	–	509,380	–	–	–	–	**509,380**	133.50	–	30.06.08	30.06.11
Total – directors		1,973,405	1,784,538	287,348		536	54,736	**3,747,578**		–		
Other executives	LTIP	82,290	–	80,741	186.50	151	15,380	**–**	298.00	–	23.05.05	23.05.08
	LTIP	213,627	–	–	–	–	–	**249,530**	406.50	–	23.11.06	23.11.09
	LTIP	219,565	–	–	–	–	–	**256,468**	400.90	–	24.04.07	24.04.10
	MSP	159,887	–	–	–	–	–	**186,763**	405.75	–	21.06.07	27.02.09
	MSP	159,888	–	–	–	–	–	**186,763**	405.75	–	21.06.07	21.06.10
	LTIP	–	1,245,966	–		–	–	**1,245,966**	133.50	–	30.06.08	30.06.11
Total		2,808,662	3,030,504	368,089		687	70,116	**5,873,068**		–		

The figures for the executive directors' notional LTIP awards comprise both their performance and, where relevant, their Matching Awards.

All awards made under the LTIP, DSBP, MSP and RSA, except for the 2008 LTIP and DSBP awards, were adjusted by multiplying the number of shares by 1.1681 to compensate the holders of the awards for the decrease in the value of the original awards due to the discounted 2008 rights issue price of 128p per share. This explains why the numbers in the 'Vested in the year' and 'Lapsed in the year' columns and the 'Potential interest in shares at 31 December 2008' column are higher than in the 'No. of shares notionally held at 1 January 2008' column.

In respect of those shares notionally awarded on 23 May 2005 under the LTIP, the EPS growth achieved by the Group during the three years ended 31 December 2007 (by reference to the Annual Report and Financial Statements for 2005, 2006 and 2007) exceeded the pre-determined target but was less than the average EPS growth achieved by the constituent companies in the index and as a result 84% of the shares notionally awarded on 23 May 2005 vested in three of the executive directors and other senior executives on 23 May 2008.

Given the performance of the Group in the year ended 31 December 2008, no charge was made against profit for the year as vesting conditions were not met.

The 186,763 shares which were due to vest in certain senior executives under the MSP on 21 December 2008 did not vest because the Company was in a prohibited period for the purposes of the Model Code: these awards will vest as soon as dealings in the Company's shares are permissible under the Model Code, subject to the senior executives remaining in the employment of a member of the Group. However, six of the nine senior executives have subsequently ceased to be in the employment of the Group and so their awards have lapsed.

The performance criteria attaching to the LTIP are set out in the fifth to eleventh paragraphs of the 'LTIP' section of this report on pages 23 to 24.

As at 1 January 2008, the employee benefit trust owned 281,741 shares. On 21 May 2008, the employee benefit trust bought 100,000 shares. On 23 May 2008, the employee benefit trust transferred 143,993 shares on the vesting of awards under the LTIP to enable the sale of sufficient shares to pay the tax due in respect of the vested shares. On 4 June 2008, 126,782 shares were issued to the employee benefit trust following its take up of rights under the 2008 rights issue. On 25 June 2008 the employee benefit trust transferred 224,096 shares to participants following the vesting of awards under the LTIP on 23 May 2008. On 29 October 2008 the employee benefit trust bought 400,000 shares. As at 31 December 2008, the employee benefit trust owned 540,434 shares.

SHARESAVE SCHEME

Ordinary shares under option granted to executive directors under the Sharesave Scheme were as follows as at 31 December 2008:

Executive directors	1 January 2008	Exercise price (p) as at 1 January 2008	Granted during the year	Lapsed during the year	**31 December 2008**	Current exercise price (p)	Date from which exercisable	Expiry date
D J Postings	–	–	35,944	–	**35,944**	46.60	01.12.13	01.06.14
M W G Collins	5,633	298.20	–	6,579	**–**	–	–	–
M W G Collins	–	–	35,944	–	**35,944**	46.60	01.12.13	01.06.14
J J Corr	5,549	285.60	–	–	**6,481**	244.47	01.12.08	01.06.09
I S Cummine	3,418	285.60	–	–	**3,992**	244.47	01.12.08	01.06.09
I S Cummine	2,163	298.20	–	–	**2,526**	255.25	01.12.12	01.06.13
Total	16,763		71,888	6,579	**84,887**			

No options were exercised during the year. The mid-market price of the Company's shares at 31 December 2008 was 18p and the range during the year was 10.5p to 299p.

All outstanding options on the date of completion of the rights issue on 4 June 2008 were adjusted by multiplying the number of shares under option by 1.1681 and by multiplying the exercise price by 0.8560 to compensate option holders for the decrease in the value of their options due to the discounted rights issue price of 128p per share. This explains why the numbers of options in the 'Lapsed during the year' and '31 December 2008' columns are higher than in the '1 January 2008' column. The options granted during 2008 were granted after completion of the rights issue and so were not adjusted.

SHARE INCENTIVE PLAN

Allocations under the Share Incentive Plan represented the market value of shares at the date of appropriation to the trustees on behalf of the directors, relating to the allocation from profits of the previous year:

	2008 £000	2007 £000
Executive directors		
D J Postings (appointed 1 September 2007)	**–**	–
S P Mahon[1] (retired 30 September 2007)	**–**	3
M W G Collins	**3**	3
J J Corr	**3**	3
I S Cummine	**3**	3
Total	**9**	12

[1]Under the rules of the Share Incentive Plan the shares were transferred to S P Mahon by the trustees following his retirement.

DIRECTORS' PENSION ENTITLEMENTS

Company contributions during the year were as follows:

	2008 £000	2007 £000
Executive directors		
D J Postings (appointed 1 September 2007)	**–**	–
S P Mahon (retired 30 September 2007)	**–**	103
M W G Collins	**46**	39
J J Corr	**64**	61
I S Cummine	**78**	74
Total	**188**	277

Set out below are the Listing Rules and Companies Act disclosures providing details of the Cattles Staff Pension Fund benefits to which one executive director was entitled at 31 December 2008:

	Additional accrued benefits earned in the year (i) £000	Additional accrued benefits earned in the year (net of inflation) (i) £000	Transfer value of additional accrued benefits earned in the year (net of inflation) less director's contribution (i) £000	Accrued pension entitlement at 31 December 2008 £000	Transfer value of accrued pension entitlement at 31 December 2008 £000	Transfer value of accrued pension entitlement at 31 December 2007 £000	Increase in transfer value of accrued pension entitlement £000	Increase in transfer value of accrued pension entitlement less director's contribution £000
Executive director								
M W G Collins	3	3	10	23	264	206	58	52

(i) Under the Listing Rules disclosure requirements, additional accrued benefits earned in the year exclude inflation. Under the Companies Act disclosure requirements, inflation is included.

The accrued pension entitlement shown in respect of M W G Collins is the amount that would be paid each year to the director in the form of a pension on retirement at age 65 in the event of him having left service at the end of the year. The accrued pension entitlement includes, where relevant, entitlements earned as an employee prior to becoming a director, as well as those earned for qualifying services after becoming a director. The increase in the accrued pension entitlement is the difference between the accrued benefit at the year end and that at the previous year end. Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

The transfer values of the additional accrued benefits and of the accrued pension entitlement in respect of qualifying services represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits that he has earned in respect of qualifying services. They do not represent sums payable to the director and, therefore, cannot be added meaningfully to annual remuneration.

The transfer value of the additional accrued benefits earned in the year less director's contribution is the transfer value of the additional accrued benefits in respect of qualifying services earned in the year after deducting the director's personal contribution to the scheme during the year.

The increase in the transfer value less director's contribution is the increase in the transfer value of the accrued benefits in respect of qualifying services during the year after deducting the director's personal contributions to the scheme.

Approval

This report was approved by the Board on 11 May 2010 and signed on its behalf by:

Alan McWalter

Chairman of the Remuneration Committee

11 May 2010

The directors submit their Annual Report together with the audited Financial Statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year ended 31 December 2008 were the provision of consumer credit to non-standard customers in the UK, the provision of debt recovery services to external clients and the Group's consumer credit business and the provision of working capital finance for small and medium sized businesses. A list of principal operating subsidiary undertakings as at 31 December 2008 is set out in note 36 to the financial statements.

BUSINESS REVIEW

A review of the businesses of the Group, a description of the principal risks and uncertainties facing the Group during the year ended 31 December 2008 and an indication of likely future developments in the businesses of the Group are included in the Executive Chairman's Statement and the Business and Financial Review.

RESULTS AND DIVIDENDS

Total revenue for the year amounted to £847.0 million (2007 restated: £912.2 million) and loss before taxation was £745.2 million (2007 restated: £96.5 million) as set out in the Group Income Statement on page 38. An analysis of income and loss before taxation, by segmental activity, is set out in note 4 of the financial statements. Details of the taxation charge for the year are set out in note 11 of the financial statements.

The pre-close trading statement issued on 18 December 2008 stated that the directors, in light of the then current market and economic conditions, had decided that it would be prudent not to propose a final dividend in respect of the year ended 31 December 2008, nor pay an interim dividend in respect of the six months ended 30 June 2009. Given the losses reported by the Group no final dividend can be proposed for the year ended 31 December 2008.

An interim dividend of 6.51p per share was paid in October 2008 in respect of the year ended 31 December 2008.

The trustee of the Cattles employee benefit trust has agreed to waive the right to receive dividends over and above 0.01p per share on all shares it holds for the purpose of the Long-Term Incentive Plan, the Deferred Share Bonus Plan, the Management Share Plan and the Restricted Share Award. In respect of the total dividend for 2008 of 6.51p per share, the trustee waived dividends of less than £0.1 million (2007: £0.1 million) on the shares held during the year ended 31 December 2008.

POST BALANCE SHEET EVENTS

The Board reported on 10 March 2009 that, based on information received to that date, and subject to completion of its external audit, it believed that the Group had incurred a significant loss before tax for the year ended 31 December 2008, and that it would be necessary to restate the Group's financial statements for the year ended 31 December 2007. The Board also reported on 10 March 2009 that it believed Cattles was in breach of covenants under its borrowing arrangements.

On 1 April 2009, the Company announced that a report by Deloitte estimated that the Group would need to make a provision of around £700 million in excess of that originally anticipated with respect to the value of customer loans held as at 31 December 2008. At that date, the amount of this provision that should be reflected in the profit and loss account for the year ended 31 December 2008 versus earlier years still remained to be determined. However, the Board believed that such a provision would result in the Group reporting a significant loss before tax for the year ended 31 December 2008 and in the requirement to restate the Group's financial statements for the year ended 31 December 2007.

On 1 April 2009, the Board also reported that it was considering whether to include an additional IBNR provision consistent with accounting standard IAS39. Based on work carried out to that date, the Board believed that the adoption of such a policy would result in an IBNR impairment provision of approximately £150 million with respect to the value of customer loans held as at 31 December 2008. The financial statements from pages 37 to 90 include an IBNR provision of £150 million at 31 December 2008.

On 23 April 2009, Cattles announced it was not in a position to publish its report and accounts for the year ended 31 December 2008 by 30 April 2009 as required by DTR 4.1.3. In those circumstances, the Company believed that the FSA would ordinarily require the suspension of trading of the Company's shares and bonds with effect from 1 May 2009. Therefore, in order to avoid a disorderly market and to protect investors, Cattles requested an immediate suspension of trading in its securities pending publication of its audited report and accounts for the year ended 31 December 2008, which was granted.

On 30 April 2009, the Group closed its car retail operation, Welcome Car Finance.

On 2 September 2009, Cattles announced the closure of 30 Welcome branches to better align the network with reduced levels of lending and deliver efficiencies in line with Cattles' commitment to manage the business through cost-efficient operations and improved cash collection processes. 510 employees received notice that they were at risk of redundancy and subsequently 266 left the business.

On 14 September 2009, the Group sold Cattles Invoice Finance to ABS FS Limited for £70.4 million.

On 29 October 2009, the High Court of Justice heard the application of Cattles to seek a determination in relation to whether the terms contained within certain cross-guarantee documentation operate to subordinate the Company's claims against its subsidiaries, including WFS, to the claims of certain bank creditors. This application was brought as part of consensual discussions between all parties. On 14 December 2009, the High Court delivered a decision that interpreted the cross-guarantee documentation to mean that the Company will be prevented from making claims against relevant trading company subsidiaries for money lent until the claims of the relevant bank creditors against those subsidiaries and the Company have been satisfied in full. After judgement was handed down permission was sought to appeal this decision to the Court of Appeal. The High Court granted such permission to the Royal Bank of Scotland plc and Party A (being a representative member of the Bondholders). The Court of Appeal hearing is presently listed for 12 or 13 May 2010.

On 25 November 2009, Cattles announced that it had agreed the SEA with its key financial creditors which became effective on 17 December 2009. Further details of the SEA are set out in the Business and Financial Review.

On 16 December 2009, Cattles announced that it was unable to recommend a business plan to financial creditors which would allow Welcome to lend to existing or new customers. The Board therefore recommended a plan which would focus on collecting out Welcome's customer loans. It is envisaged that the collection of the Welcome loan book could take two to three years and, during this period, the Group's cost base will contract to reflect the reducing size of the book.

POST BALANCE SHEET EVENTS continued

On 5 February 2010, Cattles announced the closure of circa 70 Local Management Branches and Local Collections Units nationwide. Welcome entered into a consultation process from that date with staff affected by the proposals, of whom approximately 450 received notice that they were at risk of redundancy and subsequently 382 will leave the business.

On 7 May 2010, Cattles announced a proposal to close 18 branches nationwide and a contraction in the current operations management and their support staff in line with the smaller number of branches. Welcome entered into a consultation process from that date, with staff affected by the proposals, of whom approximately 155 received notice that they were at risk of redundancy.

DIRECTORS

In 2008, the Board comprised the non-executive Chairman, four executive directors and four independent non-executive directors, details of whom are set out on page 13.

The Company's Articles of Association require that one-third, or as near as possible but not less than one-third, of the directors (excluding, for this purpose, any director who has been appointed by the directors since the last Annual General Meeting) retire by rotation each year. Directors due to retire by rotation include any director who wishes to retire and not offer himself or herself for re-election and otherwise are those who have been longest in office since they were last elected and so that, as between persons who were last elected on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

All directors are re-elected at intervals of not more than three years, in accordance with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council. Details of the directors' remuneration, share incentives and options, and pension arrangements for the year ended 31 December 2008 are set out in the Directors' Remuneration Report. Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) have been made by the Company for the benefit of all the directors in office in 2008 indemnifying them to the maximum extent permitted by law against liabilities attaching to them as directors of the Company and of its subsidiary undertakings and such provisions continue in force at the date of this report. No director had a contract of significance, other than a service contract and a qualifying third-party indemnity provision, with the Company or any subsidiary undertaking during the year ended 31 December 2008.

The Company's shareholders may by ordinary resolution appoint any person to be a director and may by special resolution or by ordinary resolution, of which special notice has been given, remove any director before the expiration of his or her period of office and may by ordinary resolution appoint another person in his or her place. No person other than a director retiring at the meeting shall, unless recommended by the Board, be appointed as a director at any general meeting unless, not less than seven and not more than 28 clear days before the date of the meeting, there has been given to the Company Secretary written notice by a shareholder (not being the person proposed to be appointed as a director) who is entitled to attend and vote at the relevant meeting of his or her intention to propose such person for appointment and also written notice signed by the person to be proposed of his or her willingness to be appointed.

The Board also has the power to appoint a person as a director, although any such director shall only hold office until the next Annual General Meeting, at which he or she will be eligible for re-appointment. A person will cease to be a director in various circumstances, including if he or she is requested to resign by written notice signed by all of the other directors.

The directors have general power to manage the Company's business and may exercise all such powers of the Company as are not required by the Companies Act or the Articles of Association to be exercised by the shareholders in general meeting, subject nevertheless to the provisions of the Companies Act, the Articles of Association and to any directions given by the shareholders in general meeting by special resolution.

Subject to the provisions of the Companies Act and the Articles of Association, the unissued shares of the Company are at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to any such persons, at such times and for such consideration and upon such terms and conditions as the Board may determine. Pursuant to resolutions passed at the 2008 Annual General Meeting, as at 31 December 2008 the directors had authority to issue up to 120,934,920 ordinary shares. This authority has now expired.

Subject to the provisions of the Companies Act and the Articles of Association and to any confirmation or consent required by law, the Company may from time to time purchase its own shares. Pursuant to the resolution passed at the 2008 Annual General Meeting, as at 31 December 2008 the Company had the power to purchase up to 36,280,476 ordinary shares, subject to compliance with the limits set out in that resolution, and the directors could have exercised this power on behalf of the Company under their general power to manage the Company's business. This power has now expired.

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

DIRECTORS' SHAREHOLDINGS

The directors named on page 13 were in office for the whole of the year ended 31 December 2008, except where stated. The interests of the directors in the shares of the Company, all of which were beneficial interests, as notified pursuant to rule 3.1.2 of the Disclosure Rules and Transparency Rules, were as follows:

	11 May 2010	31 December 2008	31 December 2007
N N Broadhurst (resigned 30 June 2009)	n/a	6,450	1,000
D J Postings (resigned 30 June 2009)	n/a	90,000	–
M W G Collins (removed 30 June 2009)	n/a	149,900	90,877
J J Corr (removed 30 June 2009)	n/a	183,832	76,601
I S Cummine (removed 30 June 2009)	n/a	221,971	137,280
D A Haxby	12,059	12,059	8,317
F R Dee	24,500	24,500	10,000
A J McWalter	–	–	–
M A Young	7,250	7,250	5,000
Total	43,809	695,962	329,075

GOING CONCERN BASIS

On 25 November 2009, Cattles announced that it had agreed the SEA with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives, namely:

- to stabilise the financial position of Cattles and its subsidiaries; and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Cattles group.

Further details of the SEA are set out in the Business and Financial Review.

Cattles, WFS and other members of the Cattles group do not anticipate that the key financial creditors will demand repayment from Cattles, WFS or other members of the Cattles group because the key financial creditors have agreed in the SEA not to do so while the agreement continues.

Cattles and WFS are engaged in discussions with their key financial creditors and others in order to progress proposals for a consensual restructuring of the Cattles group. While these discussions are progressing a material uncertainty exists as to their outcome. The complexity and number of issues on which it is necessary to reach agreement, the interests which must be taken into account in doing so and the number of stakeholders with whom those agreements are necessary make achieving a consensual restructuring uncertain. However, the directors presently believe that a reasonable prospect of restructuring so as to avoid insolvent liquidation exists. The directors' belief is primarily based on the level of support that continues to be provided by the financial creditors of the Cattles group and the progress being made with them and others in furtherance of the achievement of a consensual restructuring. However, as these discussions are ongoing there is a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

In addition, the directors continue to believe the Company and the Group will not cease trading in the foreseeable future, as Welcome focuses on collecting out its customers' loans, with Shopacheck and The Lewis Group continuing to trade as normal.

WFS owes an inter-company liability to Cattles of £2.9 billion. However, Cattles is also party to the standstill contained within the SEA and Cattles has agreed not to demand repayment of the inter-company liability while the SEA continues.

After making enquiries regarding the circumstances outlined above, the directors have concluded that there is a reasonable expectation that Cattles and its subsidiaries can continue to pay their operational debts as they fall due for the foreseeable future (taking into account the expectations of Cattles and its subsidiaries in relation to the ongoing discussions with key financial creditors, as referred to above). Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report for the year ended 31 December 2008 comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the following directors

Margaret A Young, Executive Chairman
James R Drummond Smith, Finance Director
Robert D East, Director and Chief Restructuring Officer
David A Haxby, non-executive Director
Frank R Dee, non-executive Director
Alan J McWalter, non-executive Director

confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and loss of the Company and the undertakings included in the consolidation taken as a whole for the year ended 31 December 2008; and
- the Directors' Report and the Business and Financial Review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole for the year ended 31 December 2008, together with a description of the principal risks and uncertainties that they faced as at 31 December 2008.

These financial statements will be published on the Company's website, in addition to the paper version to be posted to those shareholders who receive printed documents. The maintenance and integrity of the Cattles plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters.

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

FORWARD-LOOKING STATEMENTS

This document and, in particular, the Business and Financial Review contained in this report contains certain forward-looking statements with respect to certain of the Group's objectives and expectations relating to its future financial condition and performance as at 31 December 2008. These forward-looking statements can be identified by the fact that they do not relate only to historical facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, impairment charges, business strategy and plans and objectives for future operations. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to,

FORWARD-LOOKING STATEMENTS continued

UK domestic and global economic and business conditions, the effects of continued volatility in credit markets, market related risks such as changes in interest rates and exchange rates, the policies and actions of governmental and regulatory authorities, changes in legislation, the further development of standards and interpretations under IFRS applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS, the outcome of pending and future litigation and the impact of competition a number of which factors are beyond the Group's control. As a result, the Group's actual future results may differ materially from the objectives and expectations set out in the Group's forward-looking statements as at 31 December 2008.

The Company does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that the Company has made or may make in its further announcements which can be found on its website, www.cattles.co.uk.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each director who held office on 11 May 2010 (the date of the approval of this report) is aware, there is no relevant audit information of which the Company's auditors are unaware and he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in the Business and Financial Review in the sections entitled 'Credit risk', 'Liquidity risk', 'Market risk' and 'Capital risk'.

SHARE CAPITAL

Details of the structure of the Company's share capital and the rights and obligations attaching to the ordinary shares are set out in note 28 to the financial statements.

As at 31 December 2008, Cattles Trustee Limited, the trustee of the employee benefit trust, owned 540,434 shares in the Company for the purpose of satisfying any future vesting of awards under the LTIP, the Deferred Share Bonus Plan, the Management Share Plan and the Restricted Share Award. Cattles Trustee Limited holds the voting rights in respect of such shares.

To vote by proxy at general meetings, shareholders must lodge their forms of proxy with the Company's registrars by no later than 48 hours before the start of the relevant meeting. There are no restrictions on shareholders exercising their voting rights in respect of their shares in the Company, except where calls or other sums payable in respect of the shares have not been paid or a shareholder or other person appearing to be or to have been interested in any shares fails to comply with a disclosure notice issued by the Company requiring the disclosure of information in relation to those shares.

There are no restrictions on the transfer of shares in the Company, except:

- where certain technical requirements for the transfer have not been complied with;
- to certain specified categories of persons such as minors, bankrupts and persons suffering from mental illness;
- where in certain circumstances a certificated share has not been paid up or on which the Company has a lien;
- where in certain circumstances a shareholder or other person appearing to be or to have been interested in any shares fails to comply with a disclosure notice issued by the Company requiring the disclosure of information in relation to those shares; or
- where law or regulation (for example, insider trading laws) or the Model Code (which applies to the directors and certain other senior executives) prevents dealings in shares.

During 2008, the issued ordinary share capital of the Company increased by 163,262,142 to 526,066,902. Details of the changes are shown in note 28 to the financial statements.

As at 31 December 2008, the Company was empowered to purchase up to 36,280,476 of its own shares. This power has now expired.

SUBSTANTIAL SHAREHOLDINGS

As at 11 May 2010, the Company had been notified of the following interests pursuant to the Disclosure Rules and Transparency Rules representing 3% or more of the issued share capital of the Company:

Barclays plc	17.88%
UBS Global Asset Management	6.75%
F&C Asset Management PLC	3.04%

SIGNIFICANT CONTRACTS

The agreements relating to the Company's bank facilities and debt securities in issue and other borrowings, details of which are set out in note 23 of the financial statements, contain provisions entitling the other parties to the agreements to terminate the agreements on a change of control of the Company. All of these bank facilities, debt securities in issue and other borrowings became repayable immediately when the Group believed in March 2009 that it had breached its lending covenants. However, as set out in the Business and Financial Review, the Company and certain of its subsidiaries agreed a SEA on 25 November 2009.

All of the Company's share plans and schemes, which are described in the Directors' Remuneration Report, contain provisions in relation to a change of control of the Company. Outstanding options and awards would normally vest and become exercisable on a change of control, subject, where relevant, to the satisfaction of any applicable performance conditions at that time.

DONATIONS

Charitable donations during 2008 amounted to £0.4 million (2007: £0.4 million) of which £0.3 million (2007: £0.3 million) were made to organisations seeking to improve the financial skills and general welfare of young people and £0.1 million (2007: £0.1 million) were made to organisations addressing the issues of social disadvantage in the communities served by the Group's businesses.

There were no political donations in either year.

SOCIAL AND COMMUNITY ISSUES

During 2008 Cattles established a Volunteer Educator programme in collaboration with its money education partner, the financial literacy project Debtcred. This programme supported the Group's commitment to promote financial education, while helping employees to learn new skills by delivering money management education in secondary schools across the UK. 60 employee volunteers from across the Group were recruited and trained and passed on their expertise in 2009.

In 2008 the Group continued to support and work with Credit Action, the national money education charity that helps people to manage their money better. In particular, the Group delivered over 250,000 Money Manuals to 17-18 year old students preparing for University.

In September 2008 Cattles teamed up with Credit Action and ABCUL, the Association of British Credit Unions, at the party conferences to debate whether the withdrawal of credit products and the tightening of borrowing criteria by mainstream lenders were making affordable credit less accessible for those who needed it most.

Although the Group's focus in 2008 was to support money management and financial education initiatives, Cattles continued to work with local communities through its well-established programme of community activities. This included Hands Up, the Group's volunteering initiative through which employees provided 3,528 hours to a variety of local community projects (2007: 2,664) during 2008.

In 2008 the Group had a further two internal community programmes: 14% of employees participated in the Cattles 50/50 Club, a Give As You Earn (GAYE) scheme where employees vote for their choice of charities and their contributions were matched by the Company; and CashMatch which gave employees the opportunity to double their fundraising for charitable and community activities.

Through these and other community activities, the Group invested £0.6 million (2007: £0.6 million) in community activities and initiatives during 2008. This included financial donations and the value of donations of time.

EMPLOYEES

The Group gives sympathetic consideration to applications for employment from disabled persons wherever practicable. Successful applicants and employees who become disabled are given appropriate assistance and training and have the same career and promotion prospects as other employees.

In 2008, 19,216 days of training were delivered to employees and the leadership development programme was strengthened, enrolling over 1,300 colleagues, more than double the 575 enrolled in 2007.

In 2008, Welcome Car Finance gained Investors in People (IiP) accreditation for the first time. Welcome Finance and Shopacheck were also reaccredited and so some 90% of employees were working under the IiP Standard.

ENVIRONMENTAL MATTERS

The Group's approach to environmental management is pragmatic, ensuring that environmental impacts are minimised while achieving other business benefits, such as cost and efficiency savings.

The Group uses energy to power its computers, to light its buildings and to fuel a company car fleet. In 2008, Cattles used 5.7 million kWh of electricity, an increase on 2007 in part reflecting new offices being opened during the year (2007: 4.9 million kWh).

One of the largest impacts relates to fuel use by the Company car fleet. During 2008, fuel consumption reduced by 7% to 2.2 million litres. This improvement was achieved through the introduction of more efficient vehicles and increasing awareness of fuel consumption. Employees were also driving less as teleconferencing was increasingly being used for internal meetings.

As a consequence, carbon dioxide (CO_2) emissions generated by the Group remained at similar levels to 2007 at 8,617 tonnes (2007: 8,594 tonnes) as increased emissions from building energy were offset by a reduction in emissions from Company car fuel use.

2008 saw the full implementation of hand-held computers across Shopacheck. It improved the way customer information is recorded and handled and reduced paper use by 1.3 million sheets per year.

During 2008, the Group generated 1,643 tonnes of waste, of which 63% was recycled.

SUPPLIER PAYMENT POLICY AND PRACTICE

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers when a binding purchase contract is entered into, provided that all trading terms and conditions have been complied with. The trade creditor days figure has not been stated as the measure is not considered to be appropriate to the business.

INDEPENDENT AUDITOR

PricewaterhouseCoopers LLP commenced the audit of the financial statements for the year ended 31 December 2008. However, on 20 February 2009 the Company announced a delay in the release of its preliminary results announcement for the year ended 31 December 2008 pending the completion of the Impairment Review. Subsequently, the Impairment Review commissioned by the Audit Committee, confirmed the Board's belief that there had been a breakdown of internal controls which resulted in the Group's impairment policies being applied incorrectly. PricewaterhouseCoopers LLP's work on the audit of the financial statements for the year ended 31 December 2008 was put on hold pending the completion of the Impairment Review and the Forensic Review and in November 2009 the Board asked PricewaterhouseCoopers LLP to resign as auditors. Given the accounting issues faced by the Company, the Board did not consider it appropriate for PricewaterhouseCoopers LLP to audit the Company's 2008 accounts.

The external auditors are appointed annually by the shareholders. However, Grant Thornton UK LLP, was appointed by the Board on 7 December 2009 to fill the casual vacancy following the resignation of PricewaterhouseCoopers LLP in November 2009.

Grant Thornton UK LLP has expressed its willingness to continue in office and resolutions proposing their re-appointment as auditors and authorising the directors to determine the auditors' remuneration will be proposed at the 2010 Annual General Meeting.

By order of the Board

Roland Todd

Company Secretary

11 May 2010

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CATTLES PLC

For the year ended 31 December 2008

We have audited the Group and parent Company financial statements (the 'financial statements') of Cattles plc for the year ended 31 December 2008 which comprise the Group income statement, the Group and parent Company balance sheets, the Group and parent Company statement of recognised income and expense, the Group and parent Company cash flow statements, the statement of accounting policies and notes 2 to 37. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Executive Chairman's Statement and the Business and Financial Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Executive Chairman's Statement, the Business and Financial Review, Directors and Secretary, the Corporate Governance Report, the Audit Committee Report, the Nomination Committee Report, the unaudited part of the Directors' Remuneration Report, and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of the Group's loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 1 and note 37 to the financial statements concerning the Group's and the Company's ability to continue as a going concern.

As explained in note 1 and note 37 to the financial statements, the Group and Company is reliant on the continuing support of its key financial creditors and others to achieve a consensual restructuring of the Cattles group. This condition, along with other matters disclosed in note 1 and note 37 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Grant Thornton UK LLP.

Grant Thornton UK LLP

Registered Auditor
Chartered Accountants

London
11 May 2010

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PRIMARY STATEMENTS

NOTES TO THE ACCOUNTS

GROUP INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 £m	Restated 2007 £m
Interest income	6	**576.9**	603.9
Fee and related income		**151.8**	179.4
Revenue from sale of goods		**110.2**	110.5
Other operating income		**8.1**	18.4
Revenue		**847.0**	912.2
Interest expense	7	**286.3**	137.6
Purchase of goods		**67.1**	68.0
Loan loss charge	18	**794.3**	415.8
Staff costs	8	**155.2**	145.3
Other operating expenses	9	**289.3**	242.0
Loss before taxation		**(745.2)**	(96.5)
Taxation	11	**(8.4)**	(1.2)
Loss for the year attributable to equity holders of the Company	30	**(753.6)**	(97.7)

Loss per share			
Basic and diluted	13	**156.38p**	23.56p

GROUP AND COMPANY BALANCE SHEETS

As at 31 December 2008

		Group		Company	
	Notes	**2008 £m**	Restated 2007 £m	**2008 £m**	Restated 2007 £m
ASSETS					
Non-current assets					
Goodwill	14	**–**	–	**–**	–
Other intangible assets	15	**1.6**	6.1	**–**	–
Property, plant and equipment	16	**22.2**	22.5	**0.2**	0.3
Investments in subsidiary undertakings	17	**–**	–	**1.1**	181.7
Loans and receivables	18	**1,168.4**	1,610.1	**–**	–
Trade and other receivables	19	**–**	–	**1.1**	0.8
Deferred tax assets	20	**1.6**	11.3	**–**	10.7
Derivative financial instruments	21	**17.1**	2.7	**17.1**	2.7
		1,210.9	1,652.7	**19.5**	196.2
Current assets					
Inventories		**7.0**	12.6	**–**	–
Loans and receivables	18	**1,336.3**	946.8	**1,251.5**	2,659.7
Current tax assets		**85.1**	41.5	**–**	–
Trade and other receivables	19	**13.7**	44.1	**2.3**	1.8
Derivative financial instruments	21	**–**	0.6	**–**	0.6
Cash and cash equivalents	22	**9.7**	49.8	**4.5**	7.4
		1,451.8	1,095.4	**1,258.3**	2,669.5
Total assets		**2,662.7**	2,748.1	**1,277.8**	2,865.7
LIABILITIES					
Current liabilities					
Borrowings	23	**2,716.7**	2,317.0	**2,820.0**	2,365.9
Current tax liabilities		**–**	–	**1.0**	29.6
Derivative financial instruments	21	**1.0**	7.8	**1.0**	7.8
Trade and other payables	24	**59.5**	53.9	**5.5**	4.1
Deferred income		**33.1**	27.5	**–**	–
Provisions	25	**16.6**	–	**–**	–
		2,826.9	2,406.2	**2,827.5**	2,407.4
Non-current liabilities					
Borrowings	23	**28.7**	6.4	**20.5**	0.2
Derivative financial instruments	21	**89.1**	27.4	**89.1**	27.4
Trade and other payables	24	**4.8**	11.7	**13.6**	11.7
Deferred income		**29.4**	45.8	**–**	–
Provisions	25	**80.2**	2.2	**–**	–
Retirement benefit obligation	27	**15.0**	14.1	**15.0**	14.1
		247.2	107.6	**138.2**	53.4
Total liabilities		**3,074.1**	2,513.8	**2,965.7**	2,460.8
Net (liabilities)/assets		**(411.4)**	234.3	**(1,687.9)**	404.9
SHAREHOLDERS'EQUITY					
Share capital	28	**52.6**	36.3	**52.6**	36.3
Share premium account	30	**449.4**	269.5	**449.4**	269.5
Other reserves	30	**(0.3)**	(0.8)	**4.2**	4.2
Retained earnings	30	**(913.1)**	(70.7)	**(2,194.1)**	94.9
Total equity	30	**(411.4)**	234.3	**(1,687.9)**	404.9

The financial statements were approved by the Board on 11 May 2010 and were signed on its behalf by:

J R Drummond Smith
Director

GROUP AND COMPANY STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2008

	Notes	Group 2008 £m	Group Restated 2007 £m	Company 2008 £m	Company Restated 2007 £m
(Loss)/profit for the year	30	**(753.6)**	(97.7)	**(2,205.4)**	59.6
Cash flow hedges:					
Fair value losses, net of tax	30	**–**	(3.1)	**–**	(3.1)
Recycled and reported in net profit	30	**–**	(1.1)	**–**	(1.1)
Actuarial (losses)/gains on defined benefit pension scheme	30	**(9.9)**	5.6	**(9.9)**	5.6
Reversal of deferred tax previously recognised	30	**(6.3)**	(3.9)	**–**	–
(Expense)/income recognised directly in equity		**(16.2)**	(2.5)	**(9.9)**	1.4
Total recognised income/(expense) for the year attributable to equity holders of the Company		**(769.8)**	(100.2)	**(2,215.3)**	61.0
Effect of prior period errors		**–**	(148.4)	**–**	–

GROUP AND COMPANY CASH FLOW STATEMENTS

For the year ended 31 December 2008

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash flows from operating activities					
Cash (outflow)/inflow from operations	31	**(434.0)**	(537.4)	**15.2**	8.6
Tax (paid)/repaid		**(46.6)**	(37.6)	**3.0**	1.1
Net cash (outflow)/inflow from operating activities		**(480.6)**	(575.0)	**18.2**	9.7
Cash flows from investing activities					
Disposal of subsidiary undertakings (net of cash and overdrafts transferred and contingent consideration repaid)		**–**	(0.6)	**–**	(0.6)
Purchase of property, plant and equipment		**(1.6)**	(2.2)	**–**	–
Proceeds from sale of property, plant and equipment		**0.9**	1.1	**–**	–
Purchase of intangible assets		**(15.1)**	(20.7)	**–**	–
Dividends received		**–**	–	**44.6**	34.1
Net cash (outflow)/inflow from investing activities		**(15.8)**	(22.4)	**44.6**	33.5
Cash flows from financing activities					
Proceeds from issue of share capital	30	**208.9**	133.2	**208.9**	133.2
Costs incurred in relation to the issue of equity shares	30	**(12.7)**	(4.3)	**(12.7)**	(4.3)
Purchase of own shares		**(0.5)**	–	**–**	–
Issue of new borrowings		**381.4**	679.0	**381.4**	679.0
Repayment of borrowings		**(37.5)**	(131.5)	**(31.3)**	(126.4)
Issue of intra-group borrowings		**–**	–	**(570.4)**	(654.0)
Dividends paid to shareholders	12	**(71.1)**	(65.3)	**(71.1)**	(65.3)
Net cash inflow/(outflow) from financing activities		**468.5**	611.1	**(95.2)**	(37.8)
Net (decrease)/increase in cash and cash equivalents		**(27.9)**	13.7	**(32.4)**	5.4
Cash and cash equivalents at 1 January		**35.8**	22.1	**(6.6)**	(12.0)
Cash and cash equivalents at 31 December		**7.9**	35.8	**(39.0)**	(6.6)
For the purposes of the cash flow statement, cash and cash equivalents comprise:					
Cash at bank and in hand		**6.8**	20.6	**4.5**	7.4
Short-term bank deposits		**2.9**	29.2	**–**	–
Cash and cash equivalents	22	**9.7**	49.8	**4.5**	7.4
Bank overdrafts included within borrowings		**(1.8)**	(14.0)	**(43.5)**	(14.0)
		7.9	35.8	**(39.0)**	(6.6)

1. STATEMENT OF ACCOUNTING POLICIES

Cattles plc (the Company) is a public limited company incorporated and domiciled in the UK. Its shares are listed on the London Stock Exchange although its shares were suspended from listing on 23 April 2009 and remain suspended at the date of these accounts. The consolidated financial statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the 'Group').

Statement of compliance
These consolidated and Company financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board.

These consolidated and Company financial statements have also been prepared in accordance with the Companies Act 1985 as applicable to companies reporting under IFRS.

Basis of preparation
On 25 November 2009, Cattles announced that it had agreed a Standstill and Equalisation Agreement (SEA) with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives, namely:

- to stabilise the financial position of Cattles and its subsidiaries; and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Cattles group.

Further details of the SEA, the discussions with key financial creditors and the Group's financial position are set out in the Business and Financial Review and notes 23 and 37 to the financial statements.

Cattles, WFS and the other members of the Cattles group do not currently anticipate that the key financial creditors will demand repayment from Cattles, WFS or the other members of the Cattles group because the key financial creditors have agreed in the SEA not to do so while that agreement continues.

Cattles and WFS are engaged in discussions with their key financial creditors and others in order to progress proposals for a consensual restructuring of the Cattles group. While these discussions are progressing, a material uncertainty exists as to their outcome. The complexity and number of issues on which it is necessary to reach agreement, the interests which must be taken into account in doing so and the number of stakeholders with whom those agreements are necessary make achieving a consensual restructuring uncertain. However, the directors presently believe that a reasonable prospect of restructuring so as to avoid insolvent liquidation exists. The directors' belief is, primarily, based on the level of support that continues to be provided by the financial creditors of the Cattles group and the progress being made with them and others in furtherance of the achievement of a consensual restructuring. However, as these discussions are ongoing there is a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

In addition, the directors continue to believe the Company and the Group will not cease trading in the foreseeable future, as Welcome focuses on collecting out its customers' loans, with Shopacheck and The Lewis Group continuing to trade as normal.

WFS owes an inter-company liability to Cattles of £2.9 billion. However, Cattles is also party to the standstill contained within the SEA and Cattles has agreed not to demand repayment of the inter-company liability while the SEA continues.

After making enquiries regarding the circumstances outlined above, the directors have concluded that there is a reasonable expectation that Cattles and its subsidiaries can continue to pay their operational debts as they fall due for the foreseeable future (taking into account the expectations of Cattles and its subsidiaries in relation to the ongoing discussions with key financial creditors, as referred to above). Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

The financial statements are prepared under the historical cost convention, and are presented in Pounds Sterling, the Company's and all Group subsidiaries' functional and presentational currency.

The accounting policies set out below have been applied consistently by the Company and its subsidiary undertakings to all periods presented in these consolidated and Company financial statements. While the accounting policies have been applied consistently the comparative figures have been restated. A summary of the prior period adjustments is provided in note 2.

Accounting developments
Interpretations effective in 2008 but which had no impact
The following interpretations to existing standards are mandatory for accounting periods beginning on or after 1 March 2007 or later periods, but they have had no impact on the Group or the Company:

- IFRIC 11 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent company's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and subsidiary companies. This interpretation does not have an impact on the Group's financial statements as the Company's accounting policy for share-based compensation arrangements already comply with this interpretation;
- IFRIC 12 'Services concession arrangements' and IFRIC 13 'Customer loyalty programmes' are not relevant to the Group's operations.

Interpretation which has been early adopted
The following interpretation to an existing standard is mandatory for accounting periods beginning on or after 1 January 2009 or later periods. The Group and Company have early adopted this interpretation:

- IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements', provides guidance on assessing the limit under IAS 19 on the amount of the pension surplus that can be recognised as an asset and on how the pension asset or liability may be further affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group or the Company's financial statements as the defined benefit scheme of the Group and Company is in a deficit position and the minimum funding requirement that is in place does not give rise to an additional liability.

Standards and amendments that are not yet effective and have not been early adopted
The following standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2009 or later periods, which are relevant to the Group's operations, but which the Group and the Company have not early adopted:

- IFRS 8 'Operating segments' (effective from 1 January 2009). This new standard, which replaces IAS 14 'Segment reporting', requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is not expected that this standard will significantly impact on the Group's segmental disclosures;
- IAS 23 (amendment) 'Borrowing costs' (effective from 1 January 2009). It is not expected that this amendment will have an impact on the Group or Company's result as the Group's existing accounting policy requires that borrowing costs relating to assets in the course of development are capitalised as part of the asset's costs rather than expensed;
- IAS 1 (revised) 'Presentation of financial statements' (effective from 1 January 2009). All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group and Company will apply IAS 1 (revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements;
- IFRS 2 (amendment) 'Share-based payment' (effective from 1 January 2009). This amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company will apply IFRS 2 (amendment) from 1 January 2009. It is not expected to have a material impact on the Group or Company's financial statements;
- IFRS 3 (revised) 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010;
- IFRS 5 (amendment) 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held-for-sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply the IFRS 5 (amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010;
- IAS 23 (amendment) 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group and Company will apply the IAS 23 (amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009 and it is not expected to have a material impact on the Group or Company's financial statements;
- IAS 36 (amendment) 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use calculation should be made. The Group and Company will apply the IAS 36 (amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009;
- IAS 38 (amendment) 'Intangible assets' (effective from January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group and Company will apply the IAS 38 (amendment) from 1 January 2009, subject to endorsement by the EU, and it is not expected to have a material impact on the Group or Company's financial statements;
- IAS 19 (amendment) 'Employee benefits' (effective from 1 January 2009). The most significant changes arising from the amendment are as follows:
  - (i) A plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation; and
  - (ii) The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  The Group and Company will apply the IAS 19 (amendment) from 1 January 2009, subject to endorsement by the EU, and it is not expected to have an impact on the Group or Company's financial statements.
- IFRS 9 (effective 1 January 2013, not yet endorsed by the EU). The Board has not yet assessed the impact IFRS 9 will have on these financial statements.

Consolidation

A business combination is recognised where separate entities or businesses have been brought together within the Group. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. All subsidiaries share the same reporting date, 31 December, as Cattles.

The purchase method of accounting is used to account for business combinations made by the Group. The cost of a business combination is measured as the fair value of the assets

1. STATEMENT OF ACCOUNTING POLICIES continued

Consolidation continued
given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination.

Contingent consideration is included in the cost of a business at the acquisition date only if the consideration is probable and can be reliably measured, and if deferred is discounted using an appropriate discount rate. If the future events upon which the contingent consideration is based do not occur or the estimate needs to be revised or if contingent consideration, which had not been initially included, does become probable and can be reliably measured, the cost of the business combination, and any associated goodwill, is adjusted accordingly.

Identifiable assets, liabilities and contingent liabilities acquired in the business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is credited to the income statement in the period of acquisition.

Inter-company income, expenses, balances and unrealised gains or losses on transactions between group companies are eliminated on consolidation, to the extent that they do not provide evidence of impairment of assets transferred.

Segmental reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. For management purposes, the Group is organised into three operating divisions, Welcome Financial Services, The Lewis Group and Cattles Invoice Finance. Welcome Financial Services comprises the consumer credit businesses, Welcome and Shopacheck, and the car retail business, Welcome Car Finance. As the consumer credit and car retail businesses are subject to different risks and returns, they are reported as two separate primary segments. The Lewis Group and Cattles Invoice Finance are reported as two further primary segments, being that of debt recovery and corporate services respectively. On 30 April 2009 the car retail business, Welcome Car Finance was closed. On 14 September 2009, Cattles Invoice Finance was sold.

A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments. The Group's operations are located only in the UK. Management considers that all regions of the UK are subject to the same risks and returns, such that no secondary geographic segments exist.

All income and expenses are directly attributable to a segment, except for certain expenses which are allocated to the consumer credit and car retail segments. These costs are allocated on the basis of either the proportion of the consumer loan portfolio represented by car hire purchase accounts obtained through Welcome Car Finance or the number of employees in each segment, whichever is more appropriate given the nature of the expense.

Revenue recognition
Revenue comprises the fair value of the consideration receivable for the sale of goods and services, net of value added tax, and is recognised as follows:

a) Interest income
Interest income is recognised in the income statement for all financial assets measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instruments, such as early settlement options, but does not include an expectation for future credit losses. The calculation includes all fees charged to customers, such as acceptance or similar fees, and direct and incremental transaction costs, such as broker commissions and certain agents' remuneration.

In respect of purchased debt, the EIR calculation is based on an estimate of expected collections from the debt and takes account of any initial costs, such as court fees.

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Group's net investment in the lease. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment (before tax) outstanding in respect of the lease.

b) Fee and related income
Welcome offered payment protection and other insurance products, such as health, life and mechanical breakdown insurance, to its customers for which a commission was received from third-party fronting insurers. Income from commission and profit share arrangements in respect of payment protection insurance, is recognised on an effective interest method over the term of the policy. The effective interest method reflects the provision of service under the policy, as the Group bears insurance risk. Commission received for the brokering of the sale of other insurance products, for which the Group does not bear any underlying insurance risk, is recognised and credited to the income statement when the brokerage service has been provided.

c) Revenue from sale of goods
Revenue from the sale of goods, principally vehicles, is recognised when the Group entity has delivered the product to the customer, the customer has accepted the product and collectability of the related receivable is reasonably assured.

d) Other operating income
Other operating income primarily comprises commission charged to clients for the collection of debts and fees are charged for marketing insurance products. These commissions and fees are credited to the income statement when the service has been provided.

Interest expense
Interest expense primarily comprises the interest expense arising on the Group's borrowings which is recognised on an effective interest method (refer to the accounting policies entitled Borrowings and Debt securities in issue and other borrowings), the ineffectiveness charge arising in relation to the Group's hedging instruments (refer to the accounting policy entitled Derivative financial instruments and hedging activities) and the cost of undrawn facilities.

Financial assets
Management determines the classification of the Group's financial assets at initial recognition into one of the following categories and re-evaluates this designation at each reporting date:

a) Loans and receivables
Loans and 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 directly to a customer with no intention of trading the receivable. This classification includes advances made to customers under hire purchase agreements and purchased debt.

Loans and receivables are recognised when cash is advanced to borrowers, or at the date of acquisition in respect of purchased debt. These assets are initially recognised at fair value plus direct and incremental transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

b) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified as at fair value through profit or loss if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives (refer to the accounting policy entitled 'Derivative financial instruments and hedging activities') are also categorised as held for trading unless they are designated as hedges.

Impairment of loans and receivables
In respect of loans and receivables, including receivables under hire purchase contracts, the Group assesses on an ongoing basis whether there is objective evidence that a loan asset or a group of loan assets is impaired. A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and the loss event has an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

For the purposes of evaluating the degree of impairment, loan assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of loan assets are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

In Welcome, objective evidence of impairment occurs after a customer misses one contractual payment. Impairment is increased by reference to the level of contractual arrears on a customer account as follows:

a) Incurred but not reported (IBNR)
Where accounts less than 120 days in arrears have missed one contractual payment they are subject to an impairment charge calculated on the basis of expected future cash flows, excluding future credit losses.

The IBNR was first established at 31 December 2008 following a review by the Board whilst assessing the change in economic circumstances. It has not been practicably possible without the use of hindsight, to calculate the amount of IBNR that could have been required as at 31 December 2007.

b) 120 days contracted arrears
At 120 days contractual arrears the relationship with the customer is judged to have broken down and loans are subject to an impairment charge on the basis of expected future cash flows. The credit losses are deemed to be fully incurred at this point.

In Shopacheck, home collect accounts are reviewed based upon recent cash collection performance and an impairment provision is made where future expected cash flows are lower than the carrying value of the loan.

Cattles Invoice Finance determines that there is objective evidence of an impairment loss as part of a process termed collect out. This process commences should a client have served notice that they wish to end their facility or when management become aware that the client is encountering trading difficulties. At this point the client's facilities are withdrawn, no further funds are made available and client managers begin the process of recovering the outstanding balance. Where, based upon an individual assessment of each client in collect out, it is apparent that there are no further routes to recovery and that as a consequence funds will not be recovered in full, a provision is made which is equivalent to the expected shortfall.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loan asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss charge.

Loans and receivables (and the related loan loss provision) are normally written off when there is no realistic prospect of recovery of these amounts.

Renegotiated loans
Loans whose terms are contractually renegotiated are no longer regarded as past due or impaired and are disclosed as new loans. In subsequent years, the loan is considered to be past due only if further performance issues arise, based on the new contractual terms. For renegotiated loans, impairment is calculated on the basis of expected future cash flows from the renegotiated loan.

Foreign currency translation
a) Functional and presentational currency
The Group's financial statements are presented in Pounds Sterling, which is the Company's functional and presentational currency. All subsidiaries of the Group have pounds sterling as their functional currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement as part of interest expense in relation to borrowings and as part of other operating expenses in relation to other monetary assets and liabilities.

1. STATEMENT OF ACCOUNTING POLICIES continued

Staff costs

a) Short-term benefits
Wages, salaries, commissions, bonuses, social security contributions, paid annual leave and non-monetary benefits, including the cost of providing company cars and death-in-service premiums, are accrued in the period in which the associated services are rendered by employees of the Group.

b) Pension obligations
The Group has both a defined benefit and a number of defined contribution pension plans. The assets of the defined benefit pension plan are held in a separate trustee administered fund.

The present value of the defined benefit obligation less the fair value of the plan assets is recognised in the balance sheet as the retirement benefit obligation. When a surplus arises on an IAS 19 'Employee benefits' basis which exceeds the anticipated value to the Company through future reductions in contributions or future refunds, the pension scheme asset is restricted to the value anticipated. When contributions payable to cover an existing deficit for past service will either create or increase an irrecoverable surplus, an additional liability is recognised when the obligation to pay such contributions arises regardless of whether the scheme is in deficit or surplus on an IAS 19 basis.

This obligation is recognised in the Company's balance sheet since this entity is the plan's sponsoring employer and there is no formal agreement for allocating the cost of pension contributions between the subsidiary participating employers. The defined benefit obligation is calculated annually by independent actuaries using the projected credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability and denominated in the currency in which the benefits will be paid. The defined benefit obligation takes account of an allowance for the cash commutation option that members have at retirement, but does not include a reserve for death-in-service benefits or non-investment related expenses.

The fair value of plan assets is based on bid prices at each balance sheet date.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are immediately recognised in the statement of recognised income and expense. Past service costs are recognised immediately within the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight line basis over the vesting period.

For defined contribution plans, the Group pays contributions into privately administered pension plans on a contractual basis. The contributions are recognised as a staff cost as they fall due.

The Group provides no other post-retirement benefits to its directors or other employees.

c) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offered.

d) Share-based payments
The Group operates a number of equity-settled share-based payment plans, including a Deferred Share Bonus Plan. In respect of share awards granted after 7 November 2002 (and not vested by 1 January 2005), in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of shares or share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over any relevant vesting period and is calculated by reference to the fair value of the shares or share options granted, excluding the effect of any non-market vesting conditions.

When the Group grants new share options as consideration for the cancellation or settlement of an old grant, these are identified as replacements for the cancelled share options and are accounted for as a modification in accordance with IFRS 2. Therefore, the original fair value in relation to the cancelled share options continues to be recognised as an expense over the original vesting period, together with an expense for the incremental fair value being recognised over the vesting period of the replacement share options. The incremental fair value is calculated as the difference between the fair value of the replacement share options and the net fair value of the cancelled share options at the date the replacement share options were granted.

In respect of the Deferred Share Bonus Plan, the grant date is the start of the year in which the performance to determine the level of bonus to be awarded is measured.

In arriving at fair values, the Black-Scholes pricing model is used and various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates. The estimate for the number of options that are expected to become exercisable is revised at each balance sheet date. Any impact from the revision of original estimates is recognised in the income statement over the remaining vesting period.

Share-based payment awards made by the Company to employees of subsidiary companies are reflected in the financial statements of the Company as an increase in the investments in subsidiary undertakings with the corresponding credit being made to equity. The Company does not make a recharge to its subsidiary companies in respect of awards granted to their employees.

On the exercise of share options any proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) with any surplus taken to the share premium account.

Current and deferred tax
The charge for current tax is based on the taxable profit for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held with banks with maturity dates of less than three months, and bank overdrafts. Bank overdrafts are shown within borrowings from banks in the balance sheet.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. The fair value of derivatives is determined by using a valuation model and is primarily based on observable market data. The method of recognising the resulting gain or loss from the re-measurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group's policy is to designate on the date that the derivative contract is committed to. The Group designates derivatives as:

- a hedge of the fair value of a liability (fair value hedging instrument); or
- a hedge of the cost of a highly probable forecast transaction or commitment (cash flow hedging instrument).

To qualify for hedge accounting, the Group is required, at inception, to document its risk management objectives and strategy for undertaking hedging transactions, together with documentation on the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective in offsetting changes in fair values or cash flows of the hedged item on an ongoing basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

The effectiveness of hedging instruments is assessed using the hypothetical derivative method. This involves the comparison of the changes in fair value of the hedging instrument to a hypothetical derivative which has critical terms that match the hedged item.

Changes in the fair value of derivatives designated as highly effective fair value hedging instruments are recorded in the income statement within interest expense, together with the change in the fair value of the hedged item attributable to the hedged risk. The change in the fair value relating to the ineffective portion is recognised immediately in the income statement within interest expense.

The effective portion of changes in the fair value of derivatives designated as cash flow hedging instruments is recognised in equity within the hedging reserve. The change in the fair value relating to the ineffective portion is recognised immediately in the income statement within interest expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit, i.e. when the forecast interest payment that is hedged takes place.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

If a fair value hedging instrument no longer meets the effectiveness criteria, the adjustment to the carrying value of a hedged item, for which the effective interest method is used, is amortised to income over the period to maturity.

Investments in subsidiaries
Investments in subsidiaries are initially recognised at cost. The Company recognises income from the investment only to the extent that it receives distributions from post-acquisition accumulated profits. Distributions received in excess of such profits are regarded as a recovery of investment and recognised as a reduction in the cost of the investment.

At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, where practicable the Company estimates the investment's recoverable amount. The investment is written down to the recoverable amount if this is lower than its carrying value. The impairment loss is recognised in the Company's income statement.

Intangible assets

a) Goodwill
Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the Group's share of the identifiable net assets acquired. Goodwill is not amortised, but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs). Each CGU is consistent with the Group's primary reporting segments. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Up to 31 December 1997 under previous accounting policies, goodwill arising on acquisitions was recognised as a deduction from equity. On the subsequent disposal of any business to which goodwill had been recognised as a deduction from equity, the goodwill remains within equity and is not transferred to the income statement.

b) Computer software
Acquired software licences are stated at cost less accumulated amortisation and any impairment loss. Cost represents expenditure that is directly attributable to the purchase of the licence. The licences are amortised over their useful lives (3-7 years) on a straight line basis.

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 Intangible assets, are recognised as internally generated intangible assets. Direct costs include the employment costs of internal software developers, consultancy costs and borrowing costs. Costs are capitalised until such time as the internally generated software is substantially ready for its intended use.

Computer software development costs recognised as assets are amortised over their estimated useful lives (5-7 years) on a straight line basis.

The residual values and useful lives of capitalised computer software are reviewed, and adjusted if appropriate, at each balance sheet date.

1. STATEMENT OF ACCOUNTING POLICIES continued

All other software development, which do not meet the asset recognition criteria of IAS 38, and maintenance costs are recognised as an expense as incurred.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset. Certain land and buildings are held at previous revalued amounts less subsequent accumulated depreciation, which were taken to be their deemed cost at the date of transition to IFRS (1 January 2004) in accordance with the exemption under IFRS 1.

Land and buildings are not subject to revaluations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate the cost less the residual values over their estimated useful lives, as follows:

Freehold buildings	2% pa
Leasehold buildings	2% to 20% pa
Fixtures and equipment	Shorter of 10% to 33.33% pa or the lease term
Motor vehicles	Shorter of 20% pa or the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

Leasing – as lessee
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases or hire purchase contracts are capitalised on inception of the agreement at an amount equal to their fair value or, if lower, the present value of the minimum lease payments. The interest element of the lease cost is charged to the income statement, within other operating expenses, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases or hire purchase contracts are depreciated over the shorter of the period of the agreement and the estimated useful lives of the assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within other operating expenses or staff costs (in the case of company cars), on a straight line basis over the period of the lease.

The obligations outstanding under finance leases and hire purchase contracts are included within other liabilities in the balance sheet.

Leasing – as lessor
Advances made to customers under hire purchase agreements whereby the Group conveys the right to use assets over a period of time in exchange for payment, substantially all the risks and rewards of ownership are retained by the Group.

Under such agreements the present value of the lease payment is recognised in loans and receivables. Income is recognised over the term of the lease using the net investment method in interest income.

Inventories
Inventories comprise vehicles held for resale and are stated at the lower of actual cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less variable selling expenses.

Trade and other receivables
Trade and other receivables, which do not include loans and receivables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original EIR. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

Impairment
The carrying amounts of the Group's assets, other than loans and receivables, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original EIR inherent in the asset. Receivables with a short duration are not discounted. Further details on the impairment policy in relation to the Group's loan portfolio are set out in the accounting policy Impairment of loans and receivables.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Borrowings from banks
Borrowings from banks include bank loans under syndicate and bilateral facilities and overdrafts.

Bank loans are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. These loans are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the loans using the effective interest method.

Debt securities in issue and other borrowings
Debt securities in issue and other borrowings include debenture loans and other borrowings.

Debenture loans and other borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. These borrowings are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably measured.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital
Ordinary shares are classified as equity.

Shares are recorded at their nominal value with any surplus received on their issue taken to the share premium account. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where the Company purchases its own shares, being held by the trustee of the employee benefit trust in respect of the various long-term incentive plans, the consideration paid, including any directly attributable incremental costs, is deducted from equity on consolidation. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs is included in equity on consolidation. These transactions are classified as own shares held within other reserves.

Dividend distribution
Final dividends payable to the Company's shareholders are recognised in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends payable are recognised in the period in which the dividends are paid.

2. RECONCILIATION OF RESTATEMENT OF PRIOR PERIOD ERRORS

Following the events outlined in the Executive Chairman's Statement and the Business and Financial Review, a number of items have been restated in the Group and the Company's 31 December 2007 financial statements, details of which are provided in the table below:

Group	Note	As published 2007 £m	Restatement amount 2007 £m	Restated 2007 £m
Income statement				
Interest income	a.	700.0	(96.1)	603.9
Fee and related income	b.	125.9	53.5	179.4
Interest expense	c.	132.6	5.0	137.6
Loan loss charge	d.	296.9	118.9	415.8
Other operating expenses	e.	146.8	95.2	242.0
Profit/(loss) before taxation		165.2	(261.7)	(96.5)
Taxation	f.	50.5	(49.3)	1.2
Profit/(loss) for the year		114.7	(212.4)	(97.7)
Balance sheet				
Goodwill	e.	39.5	(39.5)	–
Other intangible assets	e.	57.7	(51.6)	6.1
Loans and receivables				
Non-current	g.	1,778.5	(168.4)	1,610.1
Current	g.	1,065.6	(118.8)	946.8
Borrowings	h.	2,319.3	4.1	2,323.4
Current tax assets	i.	–	41.5	41.5
Current tax liabilities	i.	(53.4)	53.4	–
Deferred income				
Non-current	j.	–	45.8	45.8
Current	j.	–	27.5	27.5
Other reserves	k.	(5.8)	5.0	(0.8)
Retained earnings	l.	295.1	(365.8)	(70.7)

Company	Note	As published 2007 £m	Restatement amount 2007 £m	Restated 2007 £m
Income statement				
Profit for the year		68.7	(9.1)	59.6
Balance sheet				
Borrowings	h.	2,361.9	4.2	2,366.1
Other reserves	k.	(0.8)	5.0	4.2
Retained earnings	l.	104.0	(9.1)	94.9

Summary of restatement items

a. Interest income
There is a requirement under IAS 39 for interest recognised on an effective interest rate basis to be reduced where underlying loans become impaired. Interest income has been restated after the carrying value of the loans was reduced following additional loan loss charges.

b. Fee and related income
Payment protection insurance commission income has been reclassified from interest income to fee and related income.

c. Interest expense
As a result of the breach of the Group's borrowing covenants, the Company's hedging instruments were ineffective in 2007. The amount of £5.0 million reflects the adjustments required to the income statement in accordance with the Company's accounting policies.

d. Loan loss charge
As described in the Executive Chairman's Statement, the Group's impairment policies had been incorrectly applied. This has resulted in the restatement of the loan loss charge for the year ended 31 December 2007 by £118.9 million and, for the years ended 31 December 2006 and prior, a total of £135.4 million of additional provision has been made to 1 January 2007 retained earnings. The method of calculating the IBNR provision was first established as at 31 December 2008 following a review by the Board while assessing the change in economic circumstances. It has not been practicably possible without the use of hindsight, to calculate the amount required at 31 December 2007. The cost of establishing the IBNR provision has therefore all been charged in the 2008 income statement.

e. Other operating expenses
As a result of the loss before taxation incurred in 2007, it has been necessary to revise the cash flows used in calculating the previous estimates of value in use. This had led to a reduction in the carrying values of the goodwill (£39.5 million), other intangible assets (£51.6 million), and other costs (£4.1 million).

f. Taxation
Tax charges have been restated and agreed with HMRC to reflect the effect of the increased loan loss charge and other impairment charges.

g. Loans and receivables
Loans and receivables balances have been restated to reflect the additional loan loss provisions (note d.) and deferred income (note j.). This also results in the substantial restatement of the credit risk disclosures outlined in note 18.

h. Borrowings
As a result of the breach of loan covenants, it was necessary to reclassify the majority of borrowings as current and to write off certain issue costs, which had not previously been expensed through the effective interest method.

i. Current tax assets/liabilities
The increased loan loss charge, an allowable expense for tax purposes, has resulted in the restatement and recognition of a current tax asset in the Group of £41.5 million, which has been subsequently recovered from HMRC.

j. Deferred income
Loans and receivables have been grossed up by £73.3 million with the adjustment being shown as deferred income.

k. Other reserves
The Group other reserves related to the cumulative fair value gain/(loss) of the Group hedging instruments. As a result of the revised ineffectiveness test outlined in c. above, this adjustment relates to those fair value movements, which are subsequently chargeable to the income statement through interest expense in accordance with the Group's accounting policy.

l. Retained earnings
Previously stated retained earnings have been restated to reflect the impact of the above items and the related tax effect.

m. It has not been practicably possible, without the use of hindsight, to calculate the amount of impairment of investments in subsidiary undertakings and intra-group loans required at 31 December 2007 (note 17).

3. KEY SOURCES OF ESTIMATION, UNCERTAINTY AND JUDGEMENT

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. 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.

The following are the critical sources of estimation and judgement that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key source of judgement
Loan loss provisioning
Impairment losses are calculated in circumstances where a loss event, an impairment trigger, is deemed to have occurred, as described in the statement of accounting policies. The determination of impairment triggers has been reviewed and remains a key area of management judgement.

Key estimates
Retirement benefit obligation
The valuation of the retirement benefit obligation is dependent upon a series of assumptions, the key ones being mortality rates, investment returns, salary inflation, the rate of pension increases and the extent to which members take up the maximum tax free commutation on retirement.

Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own experience. The returns on fixed interest investments are set to market yields at the valuation date to ensure consistency with the asset valuation. The returns on UK and overseas equities are set by considering the long-term expected returns on these asset classes using a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations. The salary inflation and pension increase assumptions reflect the long-term expectations for both earnings and retail price inflation. The assumption as to how many members will take up the maximum tax free commutation on retirement is based on the scheme's own experience of commutation levels.

The principal assumptions used in the valuation of the retirement benefit obligation as at 31 December 2008 are set out in note 27.

Loan loss provisioning
In assessing future cash flows for the purposes of assessing impairment, management uses historic data from portfolios of similar loans. The assessment of the applicable range of data to include in the impairment calculation is a key estimate.

The degree to which the calculated impairment is deemed to be incurred for each delinquency band is also a key estimate.

- **Incurred losses**

Where there is objective evidence of impairment, losses should be calculated on the basis of the present value of future expected cash flows less future credit losses. The degree to which a loss is incurred is a matter of judgement.

Impairment losses are only considered to be fully incurred when an account has reached the 120 day arrears band. For accounts which are past due in the arrears bands 30-59 days, 60-89 days and 90-119 days, a discount factor is applied to the full provision calculated on the future expected cash flows to reflect the degree to which the total estimated final loss is incurred at the balance sheet date.

If the factors are removed from the 30-59 days, 60-89 days and 90-119 days, then based on management's assumptions, the provision would increase by £117 million. If the losses were only deemed incurred at the 120 day arrears band then the provision would reduce by £105 million.

- **Historical data**

The loan book in Welcome is collectively evaluated for impairment. Impairment is assessed on the basis of future cash flows based on the historical performance of assets with similar risk characteristics.

Historical loan performance data has been used which tracks the subsequent cash performance, based on representative historic data. The historical data is reviewed for applicability to the current period.

A 10% increase or decrease in actual cash collected against that predicted by historical data would result in a change in loan loss provision of £32 million.

Fair value
Fair value loans and receivables has been calculated by discounting expected future cash flows from the loans and receivables at the Group's cost of capital plus the costs of collection, effective at the balance sheet date. Both the future cash flows and the market rate of interest contain significant estimates. A five percentage point increase in the discount factor would reduce the fair value by £0.1 billion.

Provisions
The Group recognised in 2008 provisions in relation to potential future costs arising as a result of certain product sales. The calculation of the provisions contains significant judgement and estimates.

4. SEGMENTAL REPORTING

Group segmental income and results for the year ended 31 December 2008 and segment assets and liabilities as at that date are as follows:

	Consumer credit £m	Debt recovery £m	Corporate services £m	Central £m	Eliminations £m	Group £m
Revenue	810.0	13.3	23.7	–	–	847.0
Inter-segment income	–	2.9	–	–	(2.9)	–
Interest expense	(270.8)	(10.1)	(5.4)	–	–	(286.3)
	539.2	6.1	18.3	–	(2.9)	**560.7**
Result						
Segment result	(715.1)	(5.2)	2.3	(6.1)	–	(724.1)
Central expenses						(21.1)
Loss before taxation						(745.2)
Taxation						(8.4)
Loss for the year attributable to equity holders of the Company						**(753.6)**

Inter-segment sales are subject to arm's length commercial terms and conditions.

Segment assets and liabilities

	Consumer credit £m	Debt recovery £m	Corporate services £m	Central £m	Group £m
Segment assets	2,328.0	317.9	95.9	2,181.4	4,923.2
Unallocated					85.0
Eliminations					(2,345.5)
Total assets					**2,662.7**
Segment liabilities	3,138.6	305.1	81.9	3,142.6	6,668.2
Unallocated					–
Eliminations					(3,594.1)
Total liabilities					**3,074.1**
Other segment items					
Capital expenditure	26.2	0.5	0.3	–	**27.0**
Depreciation	11.2	0.2	0.3	0.1	**11.8**
Amortisation and impairment	19.3	–	0.1	–	**19.4**
Loan loss provisions	1,278.6	–	1.3	–	**1,279.9**

Capital expenditure comprises additions to intangible assets (note 15) and property, plant and equipment (note 16).

4. SEGMENTAL REPORTING continued

The segmental income and results for the year ended 31 December 2007 and segment assets and liabilities as at that date (as restated – see note 2) are as follows:

	Restated Consumer credit £m	Debt recovery £m	Corporate services £m	Restated Central £m	Eliminations £m	Restated Group £m
Revenue	859.0	31.9	21.3	–	–	912.2
Inter-segment income	–	1.8	–	–	(1.8)	–
Interest expense	(129.8)	(6.3)	(4.4)	2.9	–	(137.6)
	729.2	27.4	16.9	2.9	(1.8)	774.6
Result						
Segment result	(59.7)	10.2	2.5	(5.0)	–	(52.0)
Central expenses and goodwill impairment						(44.5)
Loss before taxation						(96.5)
Taxation						(1.2)
Loss for the year attributable to equity holders of the Company						(97.7)

Segment assets and liabilities

	Restated Consumer credit £m	Debt recovery £m	Corporate services £m	Restated Central £m	Restated Group £m
Segment assets	2,606.1	258.0	108.1	2,721.8	5,694.0
Unallocated					52.8
Eliminations					(2,998.7)
Total assets					2,748.1
Segment liabilities	2,604.4	251.0	96.3	2,531.0	5,482.7
Unallocated					29.8
Eliminations					(2,998.7)
Total liabilities					2,513.8
Other segment items					
Capital expenditure	26.5	0.2	0.8	0.2	27.7
Depreciation	6.1	0.1	0.3	0.1	6.6
Amortisation and impairment	66.7	0.1	27.9	–	94.7
Loan loss provisions	698.9	–	2.9	–	701.8

Capital expenditure comprises additions to intangible assets (note 15) and property, plant and equipment (note 16).

5. PARENT COMPANY INCOME STATEMENT

The consolidated loss for the year includes £2,205.4 million (2007 restated profit for the year: £59.6 million), which has been dealt with in the financial statements of the Company. The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own income statement in these financial statements.

6. INTEREST INCOME

Group	**2008 £m**	Restated 2007 £m
Loans and receivables	**576.3**	602.4
Cash equivalents	**0.6**	1.5
	576.9	603.9

7. INTEREST EXPENSE

Group	2008 £m	Restated 2007 £m
Interest expense on bank borrowings	**94.6**	65.9
Interest expense on debt securities in issue and other borrowings	**115.9**	64.4
Fair value movements on derivative instruments:		
Interest rate swaps	**43.0**	16.7
Cross-currency swaps	**(1.9)**	(0.1)
Other	**34.7**	(9.3)
	286.3	137.6

8. STAFF COSTS

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Wages and salaries	**121.7**	110.6	**5.0**	5.4
Social security costs	**14.0**	13.0	**0.6**	1.0
Pension costs				
Defined benefit pension scheme (note 27)	**1.0**	1.5	**1.0**	1.5
Defined contribution pension schemes (note 27)	**1.7**	1.6	**0.3**	0.2
Share-based payments (note 29)	**2.0**	4.9	**0.2**	2.8
Other benefits	**14.8**	13.7	**1.0**	0.3
	155.2	145.3	**8.1**	11.2

Staff costs includes the cost of employee termination benefits of £1.0 million (2007: £0.3 million) and £0.1 million (2007: £nil) for the Group and Company respectively.

Other benefits principally comprise the costs associated with the provision of company cars, health insurance and life assurance cover.

The average monthly number of persons employed by the Group (including directors) during the year was as follows:

	2008	2007
Welcome Financial Services	**4,666**	4,267
The Lewis Group	**311**	270
Cattles Invoice Finance	**169**	151
Central	**37**	31
	5,183	4,719

The employees of the Company are solely included in the Central category.

Key management compensation

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Short-term employee benefits	**2.9**	4.9	**2.5**	4.1
Post-employment benefits	**0.4**	0.5	**0.4**	0.4
Share-based payments	**–**	2.7	**–**	2.5
	3.3	8.1	**2.9**	7.0

In addition to the directors of the Company, key management of the Group comprised the members of the Group's Executive Committee. At 31 December 2008 4,781,245 shares were notionally held by key management in respect of long-term incentive schemes (2007: 2,383,808). During the year 1,894,003 shares (2007: 1,738,043 shares) with an estimated fair value of £1.6 million (2007: £5.2 million) were awarded to key management under these schemes.

A detailed analysis of the emoluments of the Company's directors, including salaries, benefits in kind, performance-related bonuses, share options, long-term incentives and pension arrangements, is provided in the section entitled Audited information of the Directors' Remuneration Report and forms part of these financial statements.

9. OTHER OPERATING EXPENSES

Group	2008 £m	Restated 2007 £m
Administrative expenses	**56.3**	42.0
Occupancy costs	**21.6**	18.4
Agents' commission	**12.8**	13.4
Advertising costs	**13.2**	12.1
Collection costs	**18.5**	8.6
Motor and travel expenses	**6.7**	5.3
Depreciation and amortisation costs	**20.9**	10.2
Impairment of goodwill and intangibles	**10.3**	91.1
Provisions costs	**94.6**	–
Other	**34.4**	40.9
	289.3	242.0

Other includes hire purchase interest expense of £0.1 million (2007: £0.3 million) and the cost of inventory written down in the year of £0.4 million (2007: £0.2 million). There were no reversals of written down inventory in the year (2007: £nil).

10. SERVICES PROVIDED BY THE COMPANY'S EXTERNAL AUDITORS

Subsequent to the year end, PricewaterhouseCoopers LLP resigned as auditor and were replaced by Grant Thornton UK LLP. Details of both their charges are provided below.

The disclosure of auditors' remuneration in accordance with the ICAEW's Technical Release 06/06 is as follows:

Group	2008 £m	2007 £m
Fees payable to the Company's auditors for the audit of the Company's annual report and financial statements were:		
PricewaterhouseCoopers LLP	**0.1**	0.1
Grant Thornton UK LLP	**0.5**	–
	0.6	0.1
Fees payable to the Company's auditors:		
The audit of the Company's subsidiaries pursuant to legislation		
PricewaterhouseCoopers LLP	**0.5**	0.3
Grant Thornton UK LLP	**1.5**	–
In addition PricewaterhouseCoopers LLP fees related to:		
Other services supplied pursuant to such legislation	**0.7**	0.1
Other services relating to taxation:		
Compliance	**0.2**	0.4
Advisory	**0.1**	–
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**2.7**	0.1
All other services	**0.3**	0.3
Total other services	**6.0**	1.2
Total auditors' remuneration	**6.6**	1.3

In addition to the above services, PricewaterhouseCoopers LLP, acted as auditor to the Cattles Staff Pension Fund. The appointment of auditor to the Group's pension scheme, and the fees paid of £8,550 (2007: £8,780), are agreed by the trustees of the scheme, acting independently from the management of the Group.

In appointing the external auditor to carry out non-audit services, and in setting their fees for such work, the directors have due regard to the Group's policy in respect of non-audit services as detailed in the Audit Committee Report and the benefits, financial and non-financial, expected to be obtained.

For the year ended 31 December 2008 all other services principally related to the Group's response to the Competition Commission's inquiry in the payment protection insurance market and the Group's share-based payment awards. Other services in 2007 related to the same matters as those in 2008, together with work in relation to the Group's defined benefit pension scheme.

The fees for audit and non-audit services are included within other operating expenses, except for £0.5 million of non-audit fees relating to the rights issue which were recognised in the share premium account. The Company is not required to disclose details of its own non-audit services.

Grant Thornton fees relate only to the provision of audit assurance services.

11. TAXATION

Group	2008 £m	Restated 2007 £m
Current tax		
UK corporation tax at 28.5% (2007: 30%)	**–**	0.8
Adjustments in respect of previous years	**5.0**	(0.1)
Total current tax charge/(credit)	**5.0**	0.7
Deferred tax		
Origination and reversal of temporary differences	**(1.5)**	(0.1)
Adjustments in respect of previous years	**4.9**	–
Change in tax rate	**–**	0.6
Total deferred tax charge (note 20)	**3.4**	0.5
Total tax charge in the income statement	**8.4**	1.2
Current tax on items credited to equity		
Relating to share-based payments	**(0.1)**	(0.4)
	(0.1)	(0.4)
Deferred tax on items debited to equity		
Relating to cash flow hedges	**–**	–
Relating to retirement benefit obligation	**–**	2.4
Prior year adjustment charged to equity	**6.3**	3.9
Change in tax rate	**–**	0.2
	6.3	6.5

The rate of tax for the year is 28.5% (2007: 30%) and represents a blended tax rate following the reduction in the rate of corporation tax from 30% to 28%, which was effective from 1 April 2008.

The tax charge for the year is more than the tax on profit on ordinary activities at the standard rate for the reasons set out in the following reconciliation:

Group	2008 £m	Restated 2007 £m
Loss before taxation	**(745.2)**	(96.5)
Tax on loss at the standard rate of 28.5% (2007: 30%)	**(212.1)**	(29.0)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**2.4**	14.0
Adjustments to tax charge in respect of previous years	**9.9**	(0.8)
Change in tax rate	**–**	0.6
Movement in unprovided deferred tax	**208.2**	16.4
Total tax charge for the year	**8.4**	1.2

12. DIVIDENDS

Group and Company	2008 £m	2007 £m
Amounts recognised as distributed to equity holders in the year:		
Interim dividend for the year ended 31 December 2008 of 6.51p (2007: 6.20p)	**23.6**	22.4
Final dividend for the year ended 31 December 2007 of 13.10p (2006: 11.85p)	**47.5**	42.9
	71.1	65.3

Dividends of less than £0.1 million (2007: £0.1 million), in respect of the total dividend for 2008 of 6.51p per share, have been waived by the trustee of the employee benefit trust in respect of those shares held under the various long-term incentive plans.

At the time of the payments of the 2007 final and 2008 interim dividends, the directors were of the opinion that the Company had sufficient distributable reserves from which to distribute the dividends. Subsequently, as a result of the events outlined in the Executive Chairman's Statement and the Business and Financial Review, it has transpired that the Company did not have sufficient distributable reserves to make these distributions.

13. LOSS PER SHARE

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding own shares held (note 30), which are treated, for this purpose, as being cancelled.

The weighted average number of ordinary shares in issue and the own shares held in respect of the year ended 31 December 2007 has been restated to reflect the bonus element associated with the rights issue which took place on 4 June 2008.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, being all options under the Group's Sharesave and Executive Share Option Schemes. The number of potentially dilutive share options has been adjusted and restated to reflect the bonus element associated with the rights issue.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2008			2007		
	Earnings £m	**Weighted average number of shares 'm**	**Loss per share pence**	Earnings £m	Restated Weighted average number of shares 'm	Restated Loss per share pence
Shares in issue in the year		**482.2**			415.5	
Own shares held		**(0.3)**			(0.8)	
Basic and diluted EPS	**(753.6)**	**481.9**	**(156.38)**	(97.7)	414.7	(23.56)

Unexercised options amounted to 11.2 million shares (2007 restated: 0.5 million) amounting to 3.45 pence per share (2007 restated: 0.03 pence per share).

14. GOODWILL

Group	**£m**
Cost	
At 1 January 2007, 31 December 2007 and **31 December 2008**	**46.1**
Accumulated impairment	
At 1 January 2007	6.6
Impairment – restated	39.5
31 December 2007 – restated and **31 December 2008**	**46.1**
Net book amount	
At 31 December 2008	**–**
At 31 December 2007 – restated	–
At 1 January 2007	39.5

The recoverable amount of goodwill is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to loan loss rates and direct costs. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group's businesses. Changes in loan loss rates and direct costs are based on historic experience and expectations of short-term future changes in the market. The Group prepares a cash flow forecast derived from the approved forecasts for the following three years and extrapolates these using a long-term growth rate. Using these undiscounted cash flows gives rise to a full impairment of goodwill at 31 December 2007.

Goodwill related entirely to the Group's consumer credit division. Due to the circumstances outlined in the Executive Chairman's Statement and the Business and Financial Review, the Group has revised its cash flow forecasts for the CGU, which has resulted in a value in use estimate of £nil.

The Company had no goodwill.

15. OTHER INTANGIBLE ASSETS

Other intangible assets solely comprise computer software.

	Group			Company
	Internally generated assets £m	Acquired assets £m	Total £m	Acquired assets £m
Cost				
At 1 January 2007	30.9	27.2	58.1	0.1
Additions	18.1	2.6	20.7	–
Disposals	–	(0.1)	(0.1)	(0.1)
Reclassifications	0.3	(0.3)	–	–
At 1 January 2008	49.3	29.4	78.7	–
Additions	13.1	2.0	15.1	–
Disposals	–	(2.0)	(2.0)	–
At 31 December 2008	**62.4**	**29.4**	**91.8**	**–**
Accumulated amortisation				
At 1 January 2007	0.8	16.7	17.5	0.1
Charge for the year – restated	1.3	2.3	3.6	–
Impairment	47.2	4.4	51.6	–
Disposals	–	(0.1)	(0.1)	(0.1)
At 1 January 2008 – restated	49.3	23.3	72.6	–
Charge for the year	7.0	2.1	9.1	–
Impairment	6.1	4.2	10.3	–
Disposals	–	(1.8)	(1.8)	–
At 31 December 2008	**62.4**	**27.8**	**90.2**	**–**
Net book amount				
At 31 December 2008	**–**	**1.6**	**1.6**	**–**
At 31 December 2007 – restated	–	6.1	6.1	–
At 1 January 2007	30.1	10.5	40.6	–

The internally generated computer software principally relates to the cost of developing Welcome's customer relationship management and back-office lending systems. Following the events outlined in the Executive Chairman's Statement and the Business and Financial Review and the subsequent announcement to collect out loans and receivables, the impairment review as at 31 December 2007 has resulted in the restatement of its carrying value to £nil.

All amortisation charges for the year have been charged to the income statement through other operating expenses.

16. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Fixtures and equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 January 2007	12.3	10.9	38.9	2.8	64.9
Additions	–	0.8	2.1	4.1	7.0
Disposals	(0.2)	(0.8)	(0.6)	(1.2)	(2.8)
Reclassifications	(0.5)	0.6	(0.1)	–	–
At 1 January 2008	11.6	11.5	40.3	5.7	69.1
Additions	–	0.8	10.7	0.4	11.9
Disposals	(0.1)	–	(0.5)	(1.1)	(1.7)
At 31 December 2008	**11.5**	**12.3**	**50.5**	**5.0**	**79.3**
Accumulated depreciation					
At 1 January 2007	0.5	7.2	33.1	1.0	41.8
Charge for the year	–	1.2	4.4	1.0	6.6
Disposals	–	(0.5)	(0.6)	(0.7)	(1.8)
Reclassifications	(0.1)	0.1	–	–	–
At 1 January 2008	0.4	8.0	36.9	1.3	46.6
Charge for the year	3.2	1.2	6.0	1.4	11.8
Disposals	(0.1)	–	(0.4)	(0.8)	(1.3)
At 31 December 2008	**3.5**	**9.2**	**42.5**	**1.9**	**57.1**
Net book value					
At 31 December 2008	**8.0**	**3.1**	**8.0**	**3.1**	**22.2**
At 31 December 2007	11.2	3.5	3.4	4.4	22.5
At 1 January 2007	11.8	3.7	5.8	1.8	23.1

Depreciation and profit or loss on disposal have been charged/credited to operating expenses in the income statement and other or staff costs in the case of motor vehicles.

The net book values of fixtures and equipment and motor vehicles include amounts of £7.2 million (2007: £1.3 million) and £3.0 million (2007: £4.2 million) respectively in respect of assets held by the Group under finance leases and hire purchase contracts. Included within the depreciation charge shown above was £5.0 million (2007: £1.9 million) in respect of assets held under finance leases and hire purchase contracts.

Company	Leasehold land and buildings £m	Fixtures and equipment £m	Motor vehicles £m	Total £m
Cost				
At 1 January 2007	0.2	0.7	0.2	1.1
Additions	–	–	0.2	0.2
Disposals	–	–	(0.1)	(0.1)
At 1 January 2008	0.2	0.7	0.3	1.2
Disposals	–	(0.4)	–	(0.4)
At 31 December 2008	**0.2**	**0.3**	**0.3**	**0.8**
Accumulated depreciation and impairment				
At 1 January 2007	0.2	0.6	0.1	0.9
Charge for the year	–	–	0.1	0.1
Disposals	–	–	(0.1)	(0.1)
At 1 January 2008	0.2	0.6	0.1	0.9
Charge for the year	–	–	0.1	0.1
Disposals	–	(0.4)	–	(0.4)
At 31 December 2008	**0.2**	**0.2**	**0.2**	**0.6**
Net book amount				
At 31 December 2008	**–**	**0.1**	**0.1**	**0.2**
At 31 December 2007	–	0.1	0.2	0.3
At 1 January 2007	–	0.1	0.1	0.2

Depreciation has been charged to the Company's income statement through other operating expenses or staff costs in the case of company cars.

The net book value of motor vehicles includes £0.1 million (2007: £0.2 million) of assets held by the Company under hire purchase contracts. The depreciation charge includes £0.1 million (2007: £0.1 million) for assets held under hire purchase contracts.

17. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Company	2008 £m	2007 £m
Cost		
At 1 January	**189.8**	187.7
Additions	**2.9**	2.1
At 31 December	**192.7**	189.8
Provision for diminution in value		
At 1 January	**8.1**	8.1
Impairment	**183.5**	–
At 31 December	**191.6**	8.1
Net book amount at 31 December	**1.1**	181.7

The additions in the year of £2.9 million (2007: £2.1 million) relate to share-based payments in respect of employees of the subsidiary undertakings.

As a result of the events outlined in the Executive Chairman's Statement and the Business and Financial Review, all Company investments have been reviewed to determine their future recoverability. As a result an impairment provision of £183.5 million (2007: £nil) has been made. It has not been practically possible, without the use of hindsight, to calculate the amount of impairment of investments in subsidiary undertakings required at 31 December 2007.

All subsidiaries are wholly owned, either directly or indirectly, by Cattles. The principal operating subsidiary undertakings are shown in note 36.

18. LOANS AND RECEIVABLES

Credit risk
Credit risk in relation to loans and receivables is the risk that financial loss arises from the failure of a customer to meet their obligations under a loan agreement.

A description of the Group's objectives, policies and processes for managing credit risk and how it is measured is set out in the Business and Financial Review in the section entitled Credit risk.

Maximum exposure to credit risk
The maximum exposure to credit risk of the Group and Company's loans and receivables is set out in the table below:

	Group		Company	
	2008 £m	Restated 2007 £m	2008 £m	Restated 2007 £m
Welcome	**2,184.4**	2,223.3	**–**	–
Shopacheck	**79.8**	101.3	**–**	–
Cattles Invoice Finance	**86.6**	99.4	**–**	–
Originated loans and receivables	**2,350.8**	2,424.0	**–**	–
Purchased debt – The Lewis Group	**153.9**	132.9	**–**	–
Intra-group loans	**–**	–	**1,251.5**	2,659.7
Total loans and receivables	**2,504.7**	2,556.9	**1,251.5**	2,659.7
Debt purchase commitments	**58.6**	93.3	**–**	–
	2,563.3	2,650.2	**1,251.5**	2,659.7

Of the Group's balance of loans and receivables as at 31 December 2008 £1,168.4 million (2007 restated: £1,610.1 million) is expected to be recovered in more than one year. Of the Company's loans and receivables, £nil (2007 restated: £nil) is expected to be recovered in more than one year.

The estimated fair value of Group loans and receivables at 31 December 2008 is £1.6 billion. Fair value has been calculated by discounting expected future cash flows from the loans and receivables at 10%, being the Group's cost of capital plus costs of collection effective at the balance sheet date.

Debt purchase commitments relate to certain contracts with third parties, in which subsidiary undertakings are committed to acquire debt. These commitments are not included in the loans and receivables detailed in the balance sheet.

It has not been practicably possible, without the use of hindsight, to calculate the amount of impairment of intra-group loans required at 31 December 2007.

18. LOANS AND RECEIVABLES continued

Credit quality
A summary of the arrears status of the Group's loans and receivables by class is shown below as at 31 December 2008 and 2007:

Group 2008	Welcome £m	Shopacheck £m	Cattles Invoice Finance £m	Total £m
Neither past due nor impaired	1,423.2	29.3	82.1	**1,534.6**
Past due	797.1	67.8	3.2	**868.1**
Impaired	1,356.0	65.8	2.9	**1,424.7**
Outstanding customer balance	3,576.3	162.9	88.2	**3,827.4**
Unamortised fees and costs and accrued interest	(167.8)	(28.6)	(0.3)	**(196.7)**
Gross loans and receivables	3,408.5	134.3	87.9	**3,630.7**
Loan loss provision	(1,224.1)	(54.5)	(1.3)	**(1,279.9)**
Originated loans and receivables	2,184.4	79.8	86.6	**2,350.8**
Purchased debt – The Lewis Group				**153.9**
Total loans and receivables				**2,504.7**

Following a downward revaluation to £153.9 million (2007: £132.9 million) of The Lewis Group's purchased debt portfolios in 2008, because of a reduction in cash collections and as the directors took a more cautious view of the outlook for the UK economy and housing market in particular, as at the date of these financial statements these portfolios are now performing in line with The Lewis Group's expectations. This debt is in default relative to the original contractual terms between the debtor and the third-party from whom the debt was acquired.

2007	Restated Welcome £m	Shopacheck £m	Cattles Invoice Finance £m	Restated Total £m
Neither past due nor impaired	1,572.4	32.4	95.5	1,700.3
Past due	601.2	71.5	2.4	675.1
Impaired	886.7	75.6	4.8	967.1
Outstanding customer balance	3,060.3	179.5	102.7	3,342.5
Unamortised fees and costs and accrued interest	(186.1)	(30.2)	(0.4)	(216.7)
Gross loans and receivables	2,874.2	149.3	102.3	3,125.8
Loan loss provision	(650.9)	(48.0)	(2.9)	(701.8)
Originated loans and receivables	2,223.3	101.3	99.4	2,424.0
Purchased debt – The Lewis Group				132.9
Total loans and receivables				2,556.9

Past due balances relate to loans which are contractually overdue. However, Welcome's contractually overdue loans are not specifically impaired unless the customer is 120 days in contractual arrears.

Company
There are no amounts past due (2007: £nil). An impairment provision of £1,949.0 million (2007: £nil) has been made to reflect the recoverability of this balance. The carrying value now approximates to fair value.

Loans and receivables – past due

Group 2008	Welcome £m	Cattles Invoice Finance £m	Total £m
Past due up to 29 days	282.4	1.0	**283.4**
Past due 30-59 days	230.5	0.2	**230.7**
Past due 60-89 days	158.7	0.1	**158.8**
Past due 90-119 days	125.5	0.8	**126.3**
Past due 120 days or more	–	1.1	**1.1**
	797.1	3.2	**800.3**
Shopacheck			**67.8**
Total			**868.1**

As at 31 December 2008, the Group had an IBNR provision of £150 million.

2007	Restated Welcome £m	Cattles Invoice Finance £m	Restated Total £m
Past due up to 29 days	143.1	0.8	143.9
Past due 30-59 days	221.3	0.2	221.5
Past due 60-89 days	139.0	0.1	139.1
Past due 90-119 days	97.8	0.2	98.0
Past due 120 days or more	–	1.1	1.1
	601.2	2.4	603.6
Shopacheck			71.5
Total			675.1

The above analysis includes loans and receivables that would have been past due or impaired had their terms not been renegotiated. These loans totalled £286.5 million and £nil (2007: £215.2 million and £1.0 million) in respect of Welcome and Shopacheck respectively.

Shopacheck receivables of £67.8 million (2007: £71.5 million), which are classified as past due have not been analysed into past due bandings since the collection performance of this type of loan is not managed with reference to the extent of any contractual arrears arising during the entire period of the loan since its inception. Instead, performance is managed, and the need for any loan loss provision is considered, with reference to the value of contractual payments received in only the preceding 13-week period. This approach prohibits any meaningful disclosure of the ageing of the debt by reference to its contractual past due status.

18. LOANS AND RECEIVABLES continued

Collateral
The Group holds collateral in relation to certain loans and receivables, further details of which are provided below:

a) **Welcome**
In accordance with IFRS 7 paragraph 37(c), Welcome does not fair value the collateral held as security in respect of its secured loan and hire purchase receivables.

Loans and receivables – security type, gross of loan loss charges

2008	Welcome £m	Shopacheck £m	Total £m
Secured	1,300.5	–	**1,300.5**
Unsecured	1,272.1	162.9	**1,435.0**
Hire purchase	1,003.7	–	**1,003.7**
	3,576.3	162.9	**3,739.2**

2007	Welcome £m	Shopacheck £m	Total £m
Secured	975.7	–	975.7
Unsecured	1,090.4	179.5	1,269.9
Hire purchase	994.2	–	994.2
	3,060.3	179.5	3,239.8

i. **Secured loans**
Secured loans are not underwritten based on equity, but on the customer's ability to afford the loan repayments, with the emphasis placed on assessing and verifying the customer's incomings and outgoings.

ii. **Hire purchase**
Hire purchase loans are advanced to customers for the purchase of used motor vehicles. The terms of the hire purchase contract allow the customer to voluntarily terminate and allow Welcome to repossess the vehicle, both subject to meeting certain criteria.

A customer may voluntarily terminate the hire purchase contract provided they have paid at least 50% of the contract and have not received a notice of default. In this instance the vehicle is returned to Welcome and disposed of, with the proceeds offset against the customer's outstanding balance. Any remaining balance is written off.

Legally, Welcome may repossess a vehicle financed on a hire purchase contract, provided the customer has paid less than one third of the contract and a notice of default has been issued. Welcome endeavours to negotiate arrangements with the customer to avoid the need for repossession. Vehicles that are repossessed are promptly disposed of at auction and the proceeds offset against the customer's outstanding balance. The customer is liable for any remaining balance.

Maturity profile of hire purchase receivables
The Group's gross investment in hire purchase receivables is analysed in the table below:

	Present value 2008 £m	**Carrying value 2008 £m**	Present value 2007 £m	Restated Carrying value 2007 £m
Within one year	**333.8**	**431.2**	277.2	399.5
One to five years	**409.3**	**507.2**	456.0	567.1
Over five years	**54.4**	**65.3**	22.8	27.6
	797.5	**1,003.7**	756.0	994.2
Unearned future finance income	**–**	**(206.2)**	–	(238.2)
Loan loss provision	**(339.3)**	**(339.3)**	(172.8)	(172.8)
Present value of future lease payments	**458.2**	**458.2**	583.2	583.2

The Group provided hire purchase facilities to customers purchasing cars from Welcome Car Finance. Under the terms of the hire purchase agreements, no unguaranteed residual values are accruing to the Company and no contingent rents are payable.

b) **Cattles Invoice Finance**
In addition to the value of the underlying assigned sales ledger balances, Cattles Invoice Finance will wherever possible obtain additional security before offering invoice finance facilities to a client. These include limited personal guarantees from major shareholders, charges over personal and other business property, cross guarantees from associated companies, and unlimited warranties in the case of frauds. These additional forms of security are impracticable to fair value as valuations of the guarantees or warranties are not capable of being accurately determined at any point during the agreement.

Loan loss provision

The following tables provide an analysis of the movement in the Group's loan loss provision during 2008 and 2007:

Group 2008	Welcome £m	Shopacheck £m	Cattles Invoice Finance £m	Total £m
At 1 January 2008 – restated	650.9	48.0	2.9	**701.8**
Utilised	(167.8)	(49.7)	(4.2)	**(221.7)**
Recoveries of amounts previously written off	3.7	1.7	0.1	**5.5**
Charged to the income statement:				
Additional provisions created	741.0	56.2	2.6	**799.8**
Recoveries of amounts previously written off	(3.7)	(1.7)	(0.1)	**(5.5)**
Total loan loss charge	737.3	54.5	2.5	**794.3**
Loan loss provision at 31 December 2008	1,224.1	54.5	1.3	**1,279.9**

2007	Restated Welcome £m	Shopacheck £m	Cattles Invoice Finance £m	Restated Total £m
At 1 January 2007 – restated	451.5	34.6	2.2	488.3
Utilised	(181.6)	(33.1)	(1.9)	(216.6)
Recoveries of amounts previously written off	13.0	1.2	0.1	14.3
Charged to the income statement:				
Additional provisions created – restated	381.0	46.5	2.6	430.1
Recoveries of amounts previously written off	(13.0)	(1.2)	(0.1)	(14.3)
Total loan loss charge	368.0	45.3	2.5	415.8
Loan loss provision at 31 December 2007	650.9	48.0	2.9	701.8

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Trade receivables	**2.9**	5.2	**–**	–
Loan to the employee benefit trust	**–**	–	**0.3**	0.8
Other receivables	**5.4**	27.8	**1.5**	0.4
Prepayments and accrued income	**5.4**	11.1	**1.6**	1.4
	13.7	44.1	**3.4**	2.6
Comprising:				
Non-current	**–**	–	**1.1**	0.8
Current	**13.7**	44.1	**2.3**	1.8
	13.7	44.1	**3.4**	2.6

Analysis of the arrears status of the Group's trade receivables, prepayments and accrued income and the Company's loan to the employee benefit trust has not been presented as the amounts concerned are not material. The loan to the employee benefit trust is recoverable in more than one year.

The Group and Company's other receivables at 31 December 2008 and 2007 are considered neither past due nor impaired.

20. DEFERRED TAX ASSETS

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007: 28%).

All of the deferred tax liabilities are available for offset against deferred tax assets and hence the deferred tax asset at each balance sheet date is shown net.

The Group and Company has not recognised a deferred tax asset of £224.6 million (2007 restated: £16.4 million) in the financial statements, as it is not considered likely that there will be suitable future taxable profits.

The movements in the deferred tax account are shown below:

	Group			Company
	Accelerated tax depreciation £m	Other temporary differences £m	Total £m	Other temporary differences £m
At 1 January 2007	(2.2)	17.9	15.7	10.0
Recognised in income – restated	(2.8)	2.3	(0.5)	0.7
Recognised in equity – restated	–	(3.9)	(3.9)	–
At 1 January 2008	(5.0)	16.3	11.3	10.7
Recognised in income	5.0	(8.4)	(3.4)	(10.7)
Recognised in equity	–	(6.3)	(6.3)	–
At 31 December 2008	**–**	**1.6**	**1.6**	**–**

21. DERIVATIVE FINANCIAL INSTRUMENTS

A description of how the Group is exposed to interest rate and currency risk in relation to its borrowings, as well as details on the Group's objectives, policies and processes for managing these risks during 2008 and how they are measured, is set out in the Business and Financial Review. Details are also given in relation to the counterparty credit risk associated with the Group's derivative financial instruments in the section entitled Credit risk.

During 2009, all of the Group's interest rate risk and currency risk financial hedging instruments were closed out at their market values and converted into on-demand loans with the bank counterparties. This step was taken in conjunction with the signing of the Equalisation Agreement and subsequent SEA in 2009, further details of which are set out in the Business and Financial Review.

Interest rate risk
At 31 December 2008, the Group and the Company held interest rate swaps covering floating rate bank borrowings of £1.1 billion (2007: £1.0 billion), effectively fixing the associated cost of interest at rates between 4.37% and 6.06% (2007: 4.01% and 5.72%).

Throughout 2008, all of the interest rate financial instruments were designated as cash flow hedges.

Foreign currency risk
All foreign currency denominated borrowings were immediately swapped into sterling at the commencement of the facility agreement and any exposure to movements in foreign currency rates, were hedged.

In 2009, all derivative assets and liabilities were converted into on-demand loans of £85.7 million with bank counterparties.

Of the Group and the Company's cross-currency swaps as at 31 December 2008, £48.1 million (2007: £75.5 million) are designated as fair value hedges and, as a consequence, the change in the fair values of these swaps is recorded in the income statement within interest expense, together with the change in the fair values of US Dollar denominated tranches of a private placing which the swaps have hedged.

The remaining £47.2 million (2007: £47.2 million) of cross-currency swaps are designated as cash flow hedges and were taken out to hedge against the interest and currency risk associated with US Dollar and Euro denominated tranches of a private placing.

The following table shows the fair value of derivative financial instruments, as well as their notional amounts that equal the amount of the associated borrowing:

Group and Company	2008 Notional amount £m	2008 Assets £m	2008 Liabilities £m	2007 Notional amount £m	2007 Assets £m	2007 Liabilities £m
Interest rate swaps	**1,140.0**	**–**	**90.1**	1,010.0	3.0	9.1
Interest rate caps and collars	**–**	**–**	**–**	10.0	0.1	–
Cross-currency swaps	**95.3**	**17.1**	**–**	122.7	0.2	26.1
	1,235.3	**17.1**	**90.1**	1,142.7	3.3	35.2
Comprising:						
Current		**–**	**1.0**		0.6	7.8
Non-current		**17.1**	**89.1**		2.7	27.4
		17.1	**90.1**		3.3	35.2

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

In 2009 all derivative assets and liabilities were converted into on-demand loans with the bank counterparties.

The Company does not hold any other derivatives or embedded derivatives which require separate accounting for in accordance with IAS 39 'Financial instruments: Recognition & measurement'. The Group has identified a derivative within a contract held by a subsidiary undertaking, the effect of £1.6 million is included in interest expense and within note 24, trade and other payables.

Liquidity risk
The contractual maturities of the Group and Company's derivatives as at the balance sheet date are analysed in the tables below. The amounts shown are the contractual undiscounted cash flows.

Group and Company 2008	Up to 3 months £m	3–12 months £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	Over 5 years £m	Total £m
Derivatives settled on a net basis:								
Interest rate swaps	**3.1**	**28.9**	**29.6**	**18.6**	**12.1**	**3.8**	**5.3**	**101.4**
Derivatives settled on a gross basis:								
Cross-currency swaps								
Outflow	**0.7**	**4.7**	**5.4**	**64.8**	**2.1**	**36.2**	**–**	**113.9**
Inflow	**(1.8)**	**(5.4)**	**(7.2)**	**(69.4)**	**(2.7)**	**(45.8)**	**–**	**(132.3)**
2007								
Derivatives settled on a net basis:								
Interest rate swaps	(1.3)	0.3	3.4	2.7	1.9	1.8	2.5	11.3
Derivatives settled on a gross basis:								
Cross-currency swaps								
Outflow	0.7	36.0	6.4	6.5	65.6	2.1	36.2	153.5
Inflow	(1.3)	(25.5)	(5.2)	(5.2)	(50.1)	(1.9)	(33.0)	(122.2)

Cash flow hedges
The following table shows the impact of the Group and Company's cash flow hedges on the income statement and equity during the year:

Group and Company	2008 £m	Restated 2007 £m
Amount recognised in equity	**–**	–
Amount removed from equity via the income statement (within interest expense)	**–**	–
Ineffectiveness recognised in the income statement (within interest expense)	**(84.7)**	18.2

Fair value hedges
The following table shows the impact of the Group and Company's fair value hedges on the balance sheet and the income statement during the year:

Group and Company	2008 £m	Restated 2007 £m
Gains on the hedging instruments	**–**	–
Losses on the hedged borrowings	**–**	–
Ineffectiveness recognised in the income statement (within interest expense)	**(0.1)**	–

21. DERIVATIVE FINANCIAL INSTRUMENTS continued

Sensitivity analysis
An increase in LIBOR by one percentage point would have an adverse impact on profit for the year of £5.7 million (2007: £1.9 million) and a favourable impact on profit of £38.6 million (2007: £34.1 million).

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Cash at bank and in hand	**6.8**	20.6	**4.5**	7.4
Fixed interest bank deposits	**2.9**	29.2	**–**	–
	9.7	49.8	**4.5**	7.4

All bank deposits have a maturity of one month.

A description of how the Group is exposed to counterparty credit risk in relation to its cash and cash equivalents, as well as details on the Group's objectives, policies and processes for managing this risk and how it is measured, is set out in the Business and Financial Review in the section entitled Credit risk.

23. BORROWINGS

	Group		Company	
	2008 £m	Restated 2007 £m	**2008 £m**	Restated 2007 £m
Current				
Bank borrowings and overdrafts	**1,683.2**	1,351.4	**1,724.9**	1,351.4
Other borrowings	**1,029.4**	963.6	**1,028.5**	962.8
Obligations under finance leases and hire purchase contracts	**4.1**	2.0	**–**	–
Intra-group borrowings	**–**	–	**66.6**	51.7
	2,716.7	2,317.0	**2,820.0**	2,365.9
Non-current				
Bank borrowings	**–**	–	**–**	–
Other borrowings	**21.9**	2.4	**20.4**	–
Obligations under finance leases and hire purchase contracts	**6.8**	4.0	**0.1**	0.2
	28.7	6.4	**20.5**	0.2
Total borrowings	**2,745.4**	2,323.4	**2,840.5**	2,366.1

Following the breaches of covenants relating to a number of the above borrowings, all related borrowings at 31 December 2008 and 31 December 2007 became repayable on demand. As a result the 2007 balances have been restated.

Bank borrowings comprise a number of syndicated, bilateral and term loans as analysed below. During 2008, each of these facilities incurred interest at floating rates based on a fixed margin over floating rate LIBOR. This fixed margin varied between 1% and 3% dependent on the facility, with the majority of existing bank funding carrying a fixed margin of 1% or 1.25%. None of the bank borrowings are secured.

Debt securities in issue and other borrowings for the Group, none of which are secured, comprised:

(a) A sterling bond with a carrying amount of £386.2 million (2007: £371.1 million). The bond has a par value of £350 million but was issued at a 0.227% discount, realising net proceeds of £347.6 million. The bond has a fixed rate of interest of 7.875% and is redeemable at par in January 2014. The carrying amount reflects the unamortised discount, the increase in financial liabilities following step up in interest and accrued interest of £0.4 million, £13.5 million and £23.1 million respectively.

(b) A sterling bond with a carrying amount of £433.2 million (2007: £408.4 million). The bond has a par value of £400 million but was issued at a 0.931% discount, realising net proceeds of £394.3 million. The bond has a fixed rate of interest of 8.125% and is redeemable at par in July 2017. The carrying amount reflects the unamortised discount, the increase in financial liabilities following step up in interest and accrued interest of £5.1 million, £24.2 million and £14.1 million respectively.

(c) A US private placing with a carrying amount of £126.4 million (2007: £125.0 million). The placing raised $70 million 8.53% unsecured notes redeemable at par in December 2011, £30 million 8.64% unsecured notes redeemable at par in December 2011 and £40 million 8.80% unsecured notes redeemable at par in December 2016, as well as $40 million 7.15% unsecured notes which were redeemed in December 2008. The carrying amount reflects hedging adjustments, the increase in financial liabilities following step up in interest and accrued interest of £3.8 million, £4.3 million and £0.2 million respectively.

(d) A US private placing with a carrying amount of £82.9 million (2007: £63.3 million). The placing raised $20 million 7.17% unsecured notes redeemable at par in February 2011, $55 million 7.25% unsecured notes redeemable at par in February 2013, €6 million 5.62% unsecured notes redeemable at par in February 2013, £1 million 6.89% unsecured notes redeemable at par in February 2013 and £20 million 6.94% unsecured loan notes redeemable at par in February 2021. The carrying amount reflects hedging adjustments, the increase in financial liabilities following step up in interest and accrued interest of £10.8 million, £3.4 million and £0.5 million respectively.

(e) A fixed rate 6.39% loan with a carrying amount of £2.4 million (2007: £3.2 million). The loan is repayable in quarterly instalments by September 2011.

(f) Five fixed rate loans, bearing interest at rates of between 6.43% and 6.75%, with a total carrying amount of £26.0 million (2007: £nil), including accrued interest of £0.3 million. The loans are repayable in quarterly instalments by March 2013.

(g) £1.5 million (2007: £1.5 million) 4% unsecured loan notes redeemable at par during 2009.

All the unsecured debt securities in issue and other borrowings described above relate to the Company, except for the loan referred to in part (e).

Following the breach of covenants, the terms above were all superseded as all debt securities and borrowings became repayable on demand as at 31 December 2007 and 31 December 2008.

Liquidity risk

A description of how the Group is exposed to liquidity risk in relation to its borrowings from banks, and debt securities in issue and other borrowings, as well as details on the Group's objectives, policies and processes for managing liquidity risk and how it is measured, is set out in the Business and Financial Review in the section titled Liquidity risk.

The contractual maturities of the Group and Company's borrowings from banks, debt securities in issue and other borrowings, including both capital and interest payments, are analysed below. The amounts shown, therefore, do not reconcile to the Group and Company's balance sheets.

Group 2008	On demand £m	Up to 3 months £m	3–12 months £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	Over 5 years £m	Total £m
Bank overdrafts	1.8	–	–	–	–	–	–	–	**1.8**
Bank borrowings	1,681.4	–	–	–	–	–	–	–	**1,681.4**
Other borrowings	1,023.2	–	6.2	21.9	–	–	–	–	**1,051.3**
	2,706.4	**–**	**6.2**	**21.9**	**–**	**–**	**–**	**–**	**2,734.5**
2007 – Restated									
Bank overdrafts	14.0	–	–	–	–	–	–	–	14.0
Bank borrowings	1,337.4	–	–	–	–	–	–	–	1,337.4
Other borrowings	963.6	–	–	2.4	–	–	–	–	966.0
	2,315.0	–	–	2.4	–	–	–	–	2,317.4

Company 2008	On demand £m	Up to 3 months £m	3–12 months £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	Over 5 years £m	Total £m
Bank overdrafts	43.5	–	–	–	–	–	–	–	**43.5**
Bank borrowings	1,681.4	–	–	–	–	–	–	–	**1,681.4**
Other borrowings	1,023.2	–	5.3	20.4	–	–	–	–	**1,048.9**
	2,748.1	**–**	**5.3**	**20.4**	**–**	**–**	**–**	**–**	**2,773.8**
2007 – Restated									
Bank overdrafts	14.0	–	–	–	–	–	–	–	14.0
Bank borrowings	1,337.4	–	–	–	–	–	–	–	1,337.4
Other borrowings	962.8	–	–	–	–	–	–	–	962.8
	2,314.2	–	–	–	–	–	–	–	2,314.2

Intra-group borrowings are repayable on demand

23. BORROWINGS continued

Bank facilities

The committed bank facilities available to the Group and the Company at 31 December 2008 were:

Type	Original contractual maturity period	Established	Total facility £m	Undrawn facility £m
Overdraft	Renewable annually		13.4	11.6
Syndicate	July 2009	2004	500.0	–
Bilateral	December 2009	2008	135.0	50.0
Syndicate	April 2010	2008	97.5	–
Syndicate	April 2011	2008	97.5	2.0
Syndicate	July 2011	2006	15.0	–
Bilateral	July 2011	2004	75.0	–
Loan	April 2012	2005	5.5	–
Syndicate	July 2012	2006	785.0	–
Syndicate	April 2013	2008	20.0	–
			1,743.9	63.6

Utilisation from each syndicated and bilateral facility is by money market renewable term loans or acceptances which are rolled over in one year or less.

Principal covenants

The Group and the Company must comply with principal lending covenants in respect of the ratio of total borrowings to tangible net worth and the ratio of profit before interest and tax to net interest payable. Details of these covenants are set out in the Business and Financial Review in the section titled Capital risk.

As set out in the Executive Chairman's Statement, on 10 March 2009 the Company believed it was in breach of covenants under its borrowing arrangements. The financial creditors therefore had the right to demand immediate repayment of their loans.

Fair values of non-derivative financial instruments

The following table summarises the carrying values and fair values of those financial instruments not recognised in the balance sheet of the Group and Company at fair value, except for those financial instruments (being other assets, prepayments, bank overdrafts, other liabilities, accruals, intra-group receivables and payables, and obligations under finance leases and hire purchase contracts) whose carrying values approximate to their fair values.

	2008		2007	
Group	**Carrying value £m**	**Fair value £m**	Restated Carrying value £m	Fair value £m
Borrowings from banks	**1,683.2**	**1,677.9**	1,351.4	1,294.8
Other borrowings	**1,051.3**	**1,013.1**	966.0	980.1
Company				
Borrowings from banks	**1,724.9**	**1,719.6**	1,351.4	1,294.8
Other borrowings	**1,048.9**	**1,010.7**	962.8	976.9

The fair values of borrowings from banks and debt securities and other borrowings are calculated by discounting expected future cash flows. Expected future cash flows are derived using interest rates reflected in yield curves available at each balance sheet date and at exchange rates prevailing at each balance sheet date.

Obligations under finance leases and hire purchase contracts
Of the Group and Company's balances of obligations under finance leases and hire purchase contracts as at 31 December, £6.8 million and £0.1 million (2007: £4.0 million and £0.2 million) respectively are expected to be settled in more than one year.

The Group and Company's gross obligations for motor vehicles acquired under hire purchase contracts and computer hardware acquired under finance lease agreements are as follows:

	Group				Company	
	Present value 2008 £m	**Gross 2008 £m**	Present value 2007 £m	Gross 2007 £m	**Gross and present value 2008 £m**	Gross and present value 2007 £m
Gross lease payments:						
Not later than one year		**4.6**		2.1	**–**	–
Later than one year but not more than five		**7.5**		4.4	**0.1**	0.2
		12.1		6.5	**0.1**	0.2
Future finance charges	**–**	**(1.2)**	–	(0.5)	**–**	–
Present value of minimum lease payments	**14.3**	**10.9**	6.0	6.0	**0.1**	0.2

Liquidity risk
The contractual maturities of the Group and Company's obligations under finance leases and hire purchase contracts, including both capital and interest payments, are analysed below.

Group	Up to 3 months £m	3–12 months £m	1–2 years £m	2–3 years £m	3–4 years £m	Total £m
2008	**1.1**	**3.5**	**5.4**	**2.0**	**0.1**	**12.1**
2007	0.6	1.5	2.0	1.4	1.0	6.5
Company						
2008	**–**	**–**	**–**	**0.1**	**–**	**0.1**
2007	–	–	0.1	–	0.1	0.2

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Current				
Trade payables	**19.0**	18.3	**0.4**	0.5
Other taxes and social security	**6.6**	6.3	**–**	0.2
Other payables	**3.6**	3.9	**–**	0.2
Accruals	**30.3**	25.4	**5.1**	3.2
	59.5	53.9	**5.5**	4.1
Non-current				
Other taxes and social security	**–**	0.2	**–**	0.2
Other payables	**4.8**	11.5	**13.6**	11.5
	4.8	11.7	**13.6**	11.7
Total trade and other payables	**64.3**	65.6	**19.1**	15.8

All trade payables have a maturity of within one month.

An analysis of the contractual maturities of the Group and Company's other taxes and social security liability and other payables have not been presented as the amounts are not material in the context of the Group and Company's total liabilities.

25. PROVISIONS

Group	2008 £m	2007 £m
Current		
Property dilapidations	**0.8**	–
Other provisions	**15.8**	–
	16.6	–
Non-current		
Property dilapidations	**2.1**	2.2
Other provisions	**78.1**	–
	80.2	2.2
Total provisions	**96.8**	2.2

Property dilapidations relate to the estimated future cost of rectifying dilapidations for the leasehold properties occupied by the Group. The provision is expected to be utilised within four years from the balance sheet date.

Other provisions have been recognised in 2008 and relate to the estimation of subsidiary undertakings' potential future costs arising as a result of certain product sales. As permitted by IAS 37 paragraph 92, certain disclosures required by that standard have not been provided.

The Company had no provisions (2007: £nil).

26. FINANCIAL INSTRUMENTS

The following table sets out the carrying value of the Group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets outside the scope of IAS 39 are shown within non-financial assets/liabilities.

	2008				
Group	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	Total £m
ASSETS					
Non-current assets					
Other intangible assets	–	–	–	1.6	1.6
Property, plant and equipment	–	–	–	22.2	22.2
Loans and receivables	1,168.4	–	–	–	1,168.4
Deferred tax assets	–	–	–	1.6	1.6
Derivative financial instruments	–	–	17.1	–	17.1
	1,168.4	–	17.1	25.4	1,210.9
Current assets					
Inventories	–	–	–	7.0	7.0
Loans and receivables	1,336.3	–	–	–	1,336.3
Current tax assets	–	–	–	85.1	85.1
Trade and other receivables	8.3	–	–	5.4	13.7
Cash and cash equivalents	9.7	–	–	–	9.7
	1,354.3	–	–	97.5	1,451.8
Total assets	**2,522.7**	**–**	**17.1**	**122.9**	**2,662.7**
LIABILITIES					
Current liabilities					
Borrowings	–	2,716.7	–	–	2,716.7
Derivative financial instruments	–	–	1.0	–	1.0
Trade and other payables	–	52.9	–	6.6	59.5
Deferred income	–	33.1	–	–	33.1
Provisions	–	–	–	16.6	16.6
	–	2,802.7	1.0	23.2	2,826.9
Non-current liabilities					
Borrowings	–	28.7	–	–	28.7
Derivative financial instruments	–	–	89.1	–	89.1
Trade and other payables	–	4.8	–	–	4.8
Deferred income	–	29.4	–	–	29.4
Provisions	–	–	–	80.2	80.2
Retirement benefit obligation	–	–	–	15.0	15.0
	–	62.9	89.1	95.2	247.2
Total liabilities	**–**	**2,865.6**	**90.1**	**118.4**	**3,074.1**

26. FINANCIAL INSTRUMENTS continued

The following table sets out the carrying value of the Group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets outside the scope of IAS 39 are shown within non-financial assets/liabilities.

	2007 – restated				
	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	Total £m
ASSETS					
Non-current assets					
Other intangible assets	–	–	–	6.1	6.1
Property, plant and equipment	–	–	–	22.5	22.5
Loans and receivables	1,610.1	–	–	–	1,610.1
Deferred tax assets	–	–	–	11.3	11.3
Derivative financial instruments	–	–	2.7	–	2.7
	1,610.1	–	2.7	39.9	1,652.7
Current assets					
Inventories	–	–	–	12.6	12.6
Loans and receivables	946.8	–	–	–	946.8
Current tax assets	–	–	–	41.5	41.5
Trade and other receivables	33.0	–	–	11.1	44.1
Derivative financial instruments	–	–	0.6	–	0.6
Cash and cash equivalents	49.8	–	–	–	49.8
	1,029.6	–	0.6	65.2	1,095.4
Total assets	**2,639.7**	**–**	**3.3**	**105.1**	**2,748.1**
LIABILITIES					
Current liabilities					
Borrowings	–	2,317.0	–	–	2,317.0
Derivative financial instruments	–	–	7.8	–	7.8
Trade and other payables	–	47.6	–	6.3	53.9
Deferred income	–	27.5	–	–	27.5
Provisions	–	–	–	–	–
	–	2,392.1	7.8	6.3	2,406.2
Non-current liabilities					
Borrowings	–	6.4	–	–	6.4
Derivative financial instruments	–	–	27.4	–	27.4
Trade and other payables	–	11.5	–	0.2	11.7
Deferred income	–	45.8	–	–	45.8
Provisions	–	–	–	2.2	2.2
Retirement benefit obligation	–	–	–	14.1	14.1
	–	63.7	27.4	16.5	107.6
Total liabilities	**–**	**2,455.8**	**35.2**	**22.8**	**2,513.8**

The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets outside the scope of IAS 39 are shown within non-financial assets/liabilities.

	2008				
Company	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	Total £m
ASSETS					
Non-current assets					
Property, plant and equipment	–	–	–	0.2	0.2
Investments in subsidiary undertakings	–	–	–	1.1	1.1
Trade and other receivables	1.1	–	–	–	1.1
Derivative financial instruments	–	–	17.1	–	17.1
	1.1	–	17.1	1.3	19.5
Current assets					
Loans and receivables	1,251.5	–	–	–	1,251.5
Trade and other receivables	0.7	–	–	1.6	2.3
Cash and cash equivalents	4.5	–	–	–	4.5
	1,256.7	–	–	1.6	1,258.3
Total assets	**1,257.8**	**–**	**17.1**	**2.9**	**1,277.8**
LIABILITIES					
Current liabilities					
Borrowings	–	2,820.0	–	–	2,820.0
Current tax liabilities	–	–	–	1.0	1.0
Derivative financial instruments	–	–	1.0	–	1.0
Trade and other payables	–	5.5	–	–	5.5
	–	2,825.5	1.0	1.0	2,827.5
Non-current liabilities					
Borrowings	–	20.5	–	–	20.5
Derivative financial instruments	–	–	89.1	–	89.1
Trade and other payables	–	13.6	–	–	13.6
Retirement benefit obligation	–	–	–	15.0	15.0
	–	34.1	89.1	15.0	138.2
Total liabilities	**–**	**2,859.6**	**90.1**	**16.0**	**2,965.7**

26. FINANCIAL INSTRUMENTS continued

The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets outside the scope of IAS 39 are shown within non-financial assets/liabilities.

	2007 – restated				
Company	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	Total £m
ASSETS					
Non-current assets					
Property, plant and equipment	–	–	–	0.3	0.3
Investments in subsidiary undertakings	–	–	–	181.7	181.7
Trade and other receivables	0.8	–	–	–	0.8
Deferred tax assets	–	–	–	10.7	10.7
Derivative financial instruments	–	–	2.7	–	2.7
	0.8	–	2.7	192.7	196.2
Current assets					
Loans and receivables	2,659.7	–	–	–	2,659.7
Trade and other receivables	0.4	–	–	1.4	1.8
Derivative financial instruments	–	–	0.6	–	0.6
Cash and cash equivalents	7.4	–	–	–	7.4
	2,667.5	–	0.6	1.4	2,669.5
Total assets	**2,668.3**	**–**	**3.3**	**194.1**	**2,865.7**
LIABILITIES					
Current liabilities					
Borrowings	–	2,365.9	–	–	2,365.9
Current tax liabilities	–	–	–	29.6	29.6
Derivative financial instruments	–	–	7.8	–	7.8
Trade and other payables	–	4.1	–	–	4.1
	–	2,370.0	7.8	29.6	2,407.4
Non-current liabilities					
Borrowings	–	0.2	–	–	0.2
Derivative financial instruments	–	–	27.4	–	27.4
Trade and other payables	–	11.6	–	0.1	11.7
Retirement benefit obligation	–	–	–	14.1	14.1
	–	11.8	27.4	14.2	53.4
Total liabilities	**–**	**2,381.8**	**35.2**	**43.8**	**2,460.8**

27. RETIREMENT BENEFIT OBLIGATION

The Group and Company operate both defined benefit and defined contribution pension plans.

Defined contribution post-employment benefit plans
The Group operates a number of defined contribution personal pension plans for new employees and for existing employees who are not members of the defined benefit scheme. The expense recognised by the Group and the Company for the defined contribution plans is £1.7 million (2007: £1.6 million) and £0.3 million (2007: £0.2 million) respectively.

Defined benefit post-employment benefit plan
The Group and Company operates a funded defined benefit scheme for certain employees, providing benefits based on final salary. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The scheme was closed to new applicants from 1998.

The retirement benefit obligation, which is expected to be settled in more than one year, is analysed as:

Group and Company	2008 £m	2007 £m
Present value of plan liabilities	**68.0**	72.9
Fair value of plan assets	**(53.0)**	(58.8)
Retirement benefit obligation	**15.0**	14.1

The amounts charged in the Group and Company's income statement in respect of the defined benefit plan are as follows:

	2008 £m	2007 £m
Current service cost (i)	**1.4**	1.4
Interest cost	**4.1**	3.9
Expected return on plan assets	**(4.5)**	(3.8)
Total defined benefit pension expense (note 8)	**1.0**	1.5

(i) Current service cost is net of employee contributions.

The defined benefit pension expense is included in staff costs in the income statement.

The total return on plan assets was a loss of £12.9 million, £17.4 million lower than that assumed (2007: the total return was £4.3 million, £0.5 million in excess of that assumed).

The cumulative actuarial gains and losses (before deferred tax) recognised in the statement of recognised income and expense in respect of the defined benefit plan are as follows:

	2008 £m	2007 £m
Net actuarial (losses)/gains recognised in the year	**(9.9)**	8.0
Cumulative net actuarial gains/(losses) recognised at start of year	**5.0**	(3.0)
Cumulative net actuarial (losses)/gains recognised at end of year	**(4.9)**	5.0

27. RETIREMENT BENEFIT OBLIGATION continued

Principal actuarial assumptions used

	2008 %	2007 %
Inflation rate	**3.0**	3.3
Expected rate of salary increases (i)	**3.0**	4.8
Expected rate of pension increases (ii)	**2.9**	3.2
Discount rate	**6.2**	5.8
Proportion of members that will take maximum tax free cash allowance on retirement	**75.0**	75.0
Expected return on plan assets	**6.8**	7.2
Analysed as:		
Equities	**7.9**	8.2
Bonds	**5.1**	5.0
Cash	**4.0**	5.5

	2008	2007
Number of years that a current pensioner is expected to live beyond 65:		
Men	**22.2**	20.7
Women	**24.7**	23.2
Number of years that a future pensioner, currently aged 50, is expected to live beyond 65:		
Men	**23.2**	21.7
Women	**25.6**	24.0

(i) In addition, allowance is made for scale of age related promotional increases.
(ii) In excess of any Guaranteed Minimum Pension (GMP) element.

The expected return on plan assets assumptions reflect the actual split of the plan's assets into the different types of underlying investments and are based on the following:

Equities
The best estimate return on the fund's equity portfolio based on an asset model provided by the fund's investment advisers.

Bonds
Gross redemption yields on both government and corporate bonds at the balance sheet date, weighted by the holding in each class.

Cash
Yield on long-term cash investments at the balance sheet date.

Sensitivities
The sensitivity of plan liabilities and pension expense to changes in certain key assumptions are as follows:

Assumption	Assumption change	Impact on	Estimated increase %	Estimated increase £m
Discount rate	Reduce by 0.5%	Plan liabilities	10	6.8
		Pension expense	40	0.4
Expected rate of salary increases	Increase by 0.5%	Plan liabilities	1	1.0
		Pension expense	20	0.2

Changes in the present value of the plan liabilities are as follows:

	2008 £m	2007 £m
Present value of plan liabilities at start of year	**72.9**	78.1
Current service cost	**1.4**	1.4
Interest cost	**4.1**	3.9
Contributions by plan participants	**0.3**	0.3
Actuarial gain	**(7.5)**	(7.5)
Benefit payments	**(3.2)**	(3.3)
Present value of plan liabilities at end of year	**68.0**	72.9

Sensitivities continued

Changes in the fair value of plan assets are as follows:

	2008 £m	2007 £m
Fair value of plan assets at start of year	**58.8**	54.3
Expected return on plan assets	**4.5**	3.8
Actuarial (loss)/gain	**(17.4)**	0.5
Contributions by plan participants	**0.3**	0.3
Contributions by the employer	**10.0**	3.2
Benefit payments	**(3.2)**	(3.3)
Fair value of plan assets at end of year	**53.0**	58.8

The fair value of plan assets at the balance sheet date is analysed as follows:

	2008 £m	2007 £m
Equities	**31.9**	40.1
Fixed interest bonds	**20.9**	18.2
Cash	**0.2**	0.5
	53.0	58.8

The plan assets do not include any of the Company's own financial instruments, other than within the UK equity index tracking funds held, nor any property occupied by, or other assets used by, the Group.

The history of the plan is as follows:

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Present value of plan liabilities	67.3	81.4	78.1	72.9	**68.0**
Fair value of plan assets	(38.4)	(46.7)	(54.3)	(58.8)	**(53.0)**
Retirement benefit obligation	28.9	34.7	23.8	14.1	**15.0**
Experience gain/(loss) on defined benefit obligation	(5.2)	(11.4)	4.4	7.5	**7.5**
Experience (loss)/gain on plan assets	1.5	4.6	3.1	0.5	**(17.4)**
Net actuarial (loss)/gain recognised in the year	(3.7)	(6.8)	7.5	8.0	**(9.9)**

As a result of the actuarial valuation of the Group's defined benefit pension scheme undertaken as at 31 March 2007, the Group has agreed a revised schedule of additional shortfall contributions with the scheme's trustees, effective from June 2008. The first shortfall contribution under this revised schedule of £4.0 million was paid during June 2008, followed by a second contribution of £3.9 million in July 2008. Three further shortfall contributions of £2.45 million each will be payable in March 2009, 2010 and 2011. The payment due in March 2009 was made in December 2009 and the payment due in March 2010 was made in March 2010.

In addition, the Group has agreed to make normal employer contributions from 1 July 2008 of 4.5 times members' contributions to meet the ongoing cost of accrual. The total amount of these employer contributions paid during 2009 was £1.0 million.

Following the sale of Cattles Invoice Finance Limited on 14 September 2009, an additional payment of £3.1 million was paid into the plan in November 2009.

Members contribute at the rate of either 3% or 5% of pensionable salaries, depending on their membership status. The amount of employee contributions paid during 2009 was £0.2 million.

Impact of IFRIC 14

The Group has established its interpretation of IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements' and agreed with the plan's auditors that it has had no impact on the value of the Group's and Company's retirement benefit obligation as at 31 December 2008.

28. SHARE CAPITAL

Group and Company	Number	£m
Authorised ordinary shares of 10p each		
At 1 January 2007, 1 January 2008 and **31 December 2008**	**700,000,000**	**70.0**
Allotted, called up and fully paid ordinary shares of 10p each		
At 1 January 2007	329,732,935	33.0
Issue of new shares through placing	32,978,986	3.3
Exercise of options	92,839	–
At 1 January 2008	362,804,760	36.3
Issue of new shares through rights issue	163,262,142	16.3
At 31 December 2008	**526,066,902**	**52.6**

On 4 June 2008 the Company issued 163,262,142 ordinary shares for a total consideration (before costs) of £208.9 million through a rights issue.

The rights attached to the ordinary shares are as follows:

Voting
On a show of hands every ordinary shareholder who is present in person at a general meeting of the Company and every proxy appointed by an ordinary shareholder and present at a general meeting of the Company shall have one vote and on a poll every ordinary shareholder who is present in person or by proxy shall have one vote for every share held.

Dividends
Ordinary shareholders shall be entitled to receive such dividend as the Company by ordinary resolution may from time to time declare as a final dividend (such dividend not to exceed the amount recommended by the Board) or as the Board may from time to time declare as an interim dividend. No dividend may be paid other than out of profits available for distribution.

Return of capital on a winding-up
Ordinary shareholders are entitled to participate in any surplus assets on the winding-up of the Company in proportion to their shareholdings.

Capital risk
The Group's objective in managing capital was to aim to maintain a strong capital base to support current and planned operations.

The Group is not currently subject to external regulatory risk-based capital requirements. In 2008, it was, however, required under certain of its funding agreements, to ensure that its gearing ratio did not exceed six times. For this purpose gearing is calculated as the ratio of consolidated borrowings to tangible net assets. The precise definition of borrowings used in the calculation varies according to the funding agreement, but is broadly consistent with that disclosed in the consolidated balance sheet. Adjustment is made to exclude items such as accrued interest, unamortised discount and fees, and net off certain bank deposits. Tangible net assets are based on net assets (equivalent to total shareholders' equity) less goodwill and other intangible assets.

As a result of the restatement of the Group's 2007 results, at the 2008 year end the Group's shareholders' funds excluding goodwill and other intangible assets was negative, putting it in breach of its gearing covenant limit of six times.

Depending on the specific funding agreement, reporting against this covenant was carried out on a quarterly, semi-annual or annual basis throughout 2008. In addition, the gearing level was monitored internally on a monthly basis and included in the Group's forecasts.

Prior to the impairment issues and the restatement of the 2007 results, the Group aimed to maintain the capital base (which includes share capital, share premium, other reserves and retained earnings) so that, at all times, the gearing level was below the covenant limit. The Group's capital is disclosed above.

The steps being taken by the Board to restore the capital base of the Company are disclosed in note 37 to the financial statements.

29. SHARE-BASED PAYMENTS

As explained in note 28, the Company issued new shares through a rights issue on 4 June 2008. The rights issue resulted in a restatement of the exercise prices and the number of shares under option in respect of the Group's Executive Share Option Schemes and Employee Sharesave Scheme. This restatement has been reflected in the tables below for both the Group and the Company.

During 2008, the Group granted new options under the Employee Sharesave Scheme, which gave employees who were members of the 2005 and 2007 Schemes the option to cancel their existing savings contracts and take out a savings contract in the 2008 Scheme. These replacement options were accounted for as a modification as set out in the accounting policy on share-based payments.

(a) Group

The Group recognised a total charge of £2.0 million (2007: £4.9 million) related to equity-settled share-based payment transactions during the year ended 31 December 2008.

Equity-settled share option schemes

Outstanding options under the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme at 31 December 2008 are as follows:

Period granted	Restated Exercise price (pence)	Exercise period	2008 Number	Restated 2007 Number
Executive Share Option Schemes				
1998	206.93	2001 – 2008	**–**	2,803
1999	279.39 – 311.54	2002 – 2009	**64,709**	102,091
2000	188.40	2003 – 2010	**584**	584
2001	189.68 – 242.41	2004 – 2011	**22,192**	22,192
2002	284.10	2005 – 2012	**9,344**	9,344
			96,829	137,014
Employee Sharesave Scheme				
2003	244.47	2008 – 2009	**280,128**	405,897
2005	208.17	2010 – 2011	**201,488**	783,227
2007	255.25	2010 – 2011	**111,640**	495,206
2007	255.25	2012 – 2013	**189,810**	871,423
2008	46.60	2011 – 2012	**7,099,418**	–
2008	46.60	2013 – 2014	**9,977,182**	–
			17,859,666	2,555,753
			17,956,495	2,692,767

The outstanding share options may be analysed by range of exercise prices as follows:

	2008			2007		
Range of exercise prices (pence)	**Weighted average exercise price (pence)**	**Number**	**Weighted average remaining life (years)**	Restated Weighted average exercise price (pence)	Restated Number	Restated Weighted average remaining life (years)
46.60 – 149.00	**46.60**	**17,076,600**	**4.58**	–	–	–
150.00 – 199.00	**189.59**	**8,760**	**2.65**	189.59	8,760	3.65
200.00 – 249.00	**229.62**	**495,632**	**1.28**	220.77	1,205,943	2.74
250.00 – 299.00	**256.12**	**310,794**	**3.66**	255.53	1,380,645	4.68
300.00 – 311.54	**310.49**	**64,709**	**0.25**	310.31	97,419	1.25
	56.30	**17,956,495**	**4.46**	241.73	2,692,767	3.68

Details of the share option schemes and the directors' interests in share options and the issued shares of the Company are set out in the audited section of the Directors' Remuneration Report and the Directors' Report, respectively.

29. SHARE-BASED PAYMENTS continued

(a) Group continued
A reconciliation of option movements during the year is shown below:

	2008		2007	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
Outstanding at 1 January	**2,692,767**	**241.73**	1,373,733	262.84
Granted	**17,261,921**	**46.60**	1,183,991	298.20
Exercised	**–**	**–**	(92,839)	247.22
Expired	**(1,998,193)**	**222.40**	(159,628)	251.77
Outstanding at 31 December	**17,956,495**	**56.30**	2,305,257	282.40
Outstanding at 31 December – restated	**–**	**–**	2,692,767	241.73
Exercisable at 31 December	**376,957**	**255.39**	117,300	339.46
Exercisable at 31 December – restated	**–**	**–**	137,015	290.58

On 31 October 2008, 17,261,921 options were granted (2007: 1,183,991) with an estimated fair value of less than £0.1 million (2007: £0.5 million).

No options were exercised in the year. The weighted average share price during 2007 for options exercised in that year was 383p.

Shares issued under long-term incentive plans and Share Incentive Plan
The Group has a number of long-term incentive plans for directors and senior executives. Details of each plan are set out in the Directors' Remuneration Report. During the year 3,030,504 shares (2007: 2,042,404 shares) with an estimated fair value of £2.7 million (2007: £6.2 million) were awarded to directors and senior executives under these plans.

The Group also operates a Share Incentive Plan which is open to all eligible UK employees, including executive directors, and is an HMRC approved all-employee scheme. During the year 1,475,449 shares (2007: 572,167 shares) with an estimated fair value of £2.0 million (2007: £1.8 million) were awarded to staff, including directors and senior executives under the Share Incentive Plan.

(b) Company
The Company recognised a total charge of £0.2 million (2007: £2.8 million) related to equity-settled share-based payment transactions during the year ended 31 December 2008.

Equity-settled share option schemes
Outstanding options under the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme at 31 December 2008 are as follows:

Period granted	Restated Exercise price (pence)	Exercise period	**2008 Number**	Restated 2007 Number
Executive Share Option Schemes				
1998	206.93	2001 – 2008	**–**	2,803
1999	311.49	2002 – 2009	**4,672**	4,672
			4,672	7,475
Employee Sharesave Scheme				
2003	244.47	2008 – 2009	**21,925**	32,424
2005	208.17	2010 – 2011	**4,330**	29,752
2007	255.25	2010 – 2011	**1,127**	13,804
2007	255.25	2012 – 2013	**6,474**	47,612
2008	46.60	2011 – 2012	**287,576**	–
2008	46.60	2013 – 2014	**245,856**	–
			567,288	123,592
			571,960	131,067

(b) Company continued

The outstanding share options may be analysed by range of exercise prices as follows:

Range of exercise prices (pence)	2008 Weighted average exercise price (pence)	2008 Number	2008 Weighted average remaining life (years)	2007 Restated Weighted average exercise price (pence)	2007 Restated Number	2007 Restated Weighted average remaining life (years)
46.60 – 199.00	**46.60**	**533,432**	**4.34**	–	–	–
200.00 – 249.00	**238.48**	**26,255**	**0.75**	226.23	64,979	2.31
250.00 – 299.00	**255.25**	**7,601**	**4.12**	255.25	61,416	4.97
300.00 – 311.49	**311.49**	**4,672**	**0.25**	311.49	4,672	1.25
	60.34	**571,960**	**4.14**	242.87	131,067	3.52

A reconciliation of option movements during the year is shown below:

	2008 Number	2008 Weighted average exercise price (pence)	2007 Number	2007 Weighted average exercise price (pence)
Outstanding at 1 January	**131,067**	**242.87**	59,629	270.98
Granted	**533,432**	**46.60**	52,579	298.20
Expired	**(92,539)**	**239.63**	–	–
Outstanding at 31 December	**571,960**	**60.34**	112,208	283.74
Outstanding at 31 December – restated	**–**	**–**	131,067	242.87
Exercisable at 31 December	**26,597**	**256.24**	6,400	318.13
Exercisable at 31 December – restated	**–**	**–**	7,475	272.28

On 31 October 2008 533,432 options were granted (2007: 52,579) with an estimated fair value of less than £0.1 million (2007: £0.1 million).

No options were exercised in the year (2007: nil).

Fair value of share-based payments

The fair values of all share-based payments arising from share awards in relation to both the Group and the Company have been estimated using the Black-Scholes option pricing model. The assumptions used in the fair value calculations relating to share awards, which have not vested by 31 December 2008 are as follows:

Arrangement	**Employee Sharesave Scheme**					
Nature of arrangement	Grant of options	Grant of options	Grant of options	Grant of options	Grant of options	Grant of options
Grant date	1.10.03	25.10.05	26.10.07	26.10.07	31.10.08	31.10.08
Share price at grant date	327p	271p	342p	342p	32.75p	32.75p
Exercise price at grant date	285.6p	243.2p	298.2p	298.2p	46.6p	46.6p
Restated exercise price following rights issue	244.47p	208.17p	255.25p	255.25p	N/A	N/A
Shares under option (at grant date)	755,683	878,109	428,511	755,480	7,188,410	10,073,511
Vesting period (years)	5.2	5.1	3.1	5.1	3.1	5.1
Expected volatility	31%	31%	27%	26%	76%	61%
Expected life (years)	5.2	5.1	3.1	5.1	3.1	5.1
Risk free rate	4.3%	4.3%	4.9%	4.9%	3.6%	3.9%
Expected dividends expressed as dividend yield	3.3%	5.4%	5.3%	5.3%	59.9%	59.9%
Expected forfeiture rate (pa)	9%	9%	12%	12%	23%	23%
Fair value per option (at grant date)	**95.2p**	**60.9p**	**70.3p**	**73.0p**	**0.1p**	**0.1p**

29. SHARE-BASED PAYMENTS continued

Fair value of share based payments continued

Arrangement	Share Incentive Plan					
Nature of arrangement	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Grant date	19.8.03	31.8.04	10.5.05	31.5.06	31.5.07	30.5.08
Share price at grant date	327.50p	320.00p	304.75p	346.25p	413.25p	182.75p
Exercise price at grant date	0p	0p	0p	0p	0p	0p
Restated exercise price following rights issue	N/A	N/A	N/A	N/A	N/A	N/A
Shares under option (at grant date)	423,287	546,417	640,226	576,783	572,167	1,475,449
Vesting period (years)	2.0	2.0	2.0	2.0	2.0	2.0
Expected volatility	N/A	N/A	N/A	N/A	N/A	N/A
Expected life (years)	2.0	2.0	2.0	2.0	2.0	2.0
Risk free rate	N/A	N/A	N/A	N/A	N/A	N/A
Expected dividends expressed as dividend yield	N/A	N/A	N/A	N/A	N/A	N/A
Expected forfeiture rate (pa)	14%	14%	14%	14%	14%	14%
Fair value per share (at grant date)	**327.5p**	**320.0p**	**304.75p**	**346.25p**	**413.25p**	**182.75p**

Arrangement	Long-Term Incentives[1]							
Nature of arrangement	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Grant date	23.11.06	24.4.07	21.6.07	29.6.07	17.9.07	17.9.07	17.9.07	30.6.08
Share price at grant date	406.00p	399.75p	401.00p	392.00p	356.25p	356.25p	356.25p	134.00p
Exercise price at grant date	0p	0p	0p	0p	0p	0p	0p	0p
Shares under option (at grant date)	891,367	875,025	159,888	250,958	267,737	137,080	137,080	2,985,187
Vesting period (years)	3.0	3.0	3.0	3.0	2.8	2.1	4.1	3.0
Expected volatility	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Expected life (years)	3.0	3.0	3.0	3.0	2.8	2.1	4.1	3.0
Risk free rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Expected dividends expressed as dividend yield	4.0%	4.4%	4.4%	4.5%	5.0%	5.0%	5.0%	14.4%
Expected forfeiture rate (pa)	0%	0%	0%	0%	0%	0%	0%	0%
Fair value per share (at grant date)	**359.9p**	**350.6p**	**351.8p**	**342.9p**	**309.9p**	**321.3p**	**290.6p**	**87.0p**

[1]Long-term incentives include the Long-Term Incentive Plan, the Management Share Plan, the Restricted Share Award and the Restricted Share Scheme.

The expected volatility is based on historical volatility over an appropriate period, consistent with the assumed option life. The expected life is the average expected period to exercise from the date of grant. The vesting period represents the contractual period to the earliest vesting date. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

30. STATEMENT OF CHANGES IN EQUITY

Group	Share capital £m	Share premium account £m	Restated Hedging reserve £m	Own shares held reserve £m	Restated Retained earnings £m	Restated Total equity £m
At 1 January 2007 – restated	33.0	143.9	4.2	(3.1)	89.4	267.4
Actuarial gains on defined benefit pension scheme, net of tax	–	–	–	–	5.6	5.6
Fair value losses on cash flow hedges, net of tax	–	–	(3.1)	–	–	(3.1)
Transfers to profit or loss for the year	–	–	(1.1)	–	–	(1.1)
Reversal of deferred tax previously recognised	–	–	–	–	(3.9)	(3.9)
Net (losses)/gains recognised directly in equity	–	–	(4.2)	–	1.7	(2.5)
Loss for the year	–	–	–	–	(97.7)	(97.7)
Total recognised income and expense for the year	–	–	(4.2)	–	(96.0)	(100.2)
Share-based payments:						
Value of services provided	–	–	–	–	4.9	4.9
Settlement of share awards	–	–	–	–	(4.1)	(4.1)
Tax on share-based payments	–	–	–	–	0.4	0.4
Vesting of shares	–	–	–	2.3	–	2.3
Dividends	–	–	–	–	(65.3)	(65.3)
Issue of equity – placing	3.3	129.7	–	–	–	133.0
Costs incurred in share issue	–	(4.3)	–	–	–	(4.3)
Issue of equity – exercise of options	–	0.2	–	–	–	0.2
At 1 January 2008	36.3	269.5	–	(0.8)	(70.7)	234.3
Actuarial losses on defined benefit pension scheme	–	–	–	–	(9.9)	(9.9)
Reversal of deferred tax previously recognised	–	–	–	–	(6.3)	(6.3)
Net losses recognised directly in equity	–	–	–	–	(16.2)	(16.2)
Loss for the year	–	–	–	–	(753.6)	(753.6)
Total recognised income and expense for the year	–	–	–	–	(769.8)	(769.8)
Share-based payments:						
Value of services provided	–	–	–	–	2.0	2.0
Settlement of share awards	–	–	–	–	(3.6)	(3.6)
Tax on share-based payments	–	–	–	–	0.1	0.1
Purchase of own shares	–	–	–	(0.5)	–	(0.5)
Vesting of shares	–	–	–	1.0	–	1.0
Dividends	–	–	–	–	(71.1)	(71.1)
Issue of equity – rights issue	16.3	192.6	–	–	–	208.9
Costs incurred in share issue	–	(12.7)	–	–	–	(12.7)
At 31 December 2008	**52.6**	**449.4**	**–**	**(0.3)**	**(913.1)**	**(411.4)**

30. STATEMENT OF CHANGES IN EQUITY continued

Company	Share capital £m	Share premium account £m	Restated Hedging reserve £m	Restated Other reserves £m	Restated Retained earnings £m	Restated Total equity £m
At 1 January 2007 – restated	33.0	143.9	4.2	4.2	93.9	279.2
Actuarial gains on defined benefit pension scheme, net of tax	–	–	–	–	5.6	5.6
Fair value gains on cash flow hedges, net of tax	–	–	(3.1)	–	–	(3.1)
Transfers to profit or loss for the year,	–	–	(1.1)	–	–	(1.1)
Net (losses)/gains recognised directly in equity	–	–	(4.2)	–	5.6	1.4
Profit for the year	–	–	–	–	59.6	59.6
Total recognised income and expense for the year	–	–	(4.2)	–	65.2	61.0
Share-based payments:						
Value of services provided by Company and subsidiary employees	–	–	–	–	4.9	4.9
Settlement of share awards	–	–	–	–	(4.1)	(4.1)
Tax on share-based payments	–	–	–	–	0.3	0.3
Dividends	–	–	–	–	(65.3)	(65.3)
Issue of equity – placing	3.3	129.7	–	–	–	133.0
Costs incurred in share issue	–	(4.3)	–	–	–	(4.3)
Issue of equity – exercise of options	–	0.2	–	–	–	0.2
At 1 January 2008	36.3	269.5	–	4.2	94.9	404.9
Actuarial losses on defined benefit pension scheme	–	–	–	–	(9.9)	(9.9)
Net losses recognised directly in equity	–	–	–	–	(9.9)	(9.9)
Loss for the year	–	–	–	–	(2,205.4)	(2,205.4)
Total recognised income and expense for the year	–	–	–	–	(2,215.3)	(2,215.3)
Share-based payments:						
Value of services provided by Company and subsidiary employees	–	–	–	–	0.2	0.2
Settlement of share awards	–	–	–	–	(2.9)	(2.9)
Tax on share-based payments	–	–	–	–	0.1	0.1
Dividends	–	–	–	–	(71.1)	(71.1)
Issue of equity – rights issue	16.3	192.6	–	–	–	208.9
Costs incurred in share issue	–	(12.7)	–	–	–	(12.7)
At 31 December 2008	**52.6**	**449.4**	**–**	**4.2**	**(2,194.1)**	**(1,687.9)**

Hedging reserve
As a consequence of the breach of bank covenants, which resulted in all Group hedging being ineffective with effect from 31 December 2007, all fair value movements previously held in other reserves have been transferred to the income statement and debited to interest expense in accordance with the Group's accounting policy.

Own shares held reserve
The own shares held reserve comprises the cost of the shares in Cattles held by the employee benefit trust to meet obligations under the Group's long-term incentive plans. The shares were acquired by the trust in the open market using funds provided by the Company.

Shares held in trust	Number	Nominal value £m
At 1 January 2007	1,002,023	0.1
Awarded by the trust	(720,282)	(0.1)
At 1 January 2008	281,741	–
Shares purchased	626,782	0.1
Awarded by the trust	(368,089)	–
At 31 December 2008	**540,434**	**0.1**

The market value of the own shares held at 31 December 2008 was £0.1 million (2007: £0.8 million).

As at 31 December 2008, the shareholders' authority for the Company to purchase its own shares, as approved in Resolution 9 at the Annual General Meeting of 9 May 2008, remained valid.

Merger reserve
The merger reserve has arisen over numerous years in relation to past acquisitions. This reserve is considered non-distributable.

31. RECONCILIATION OF LOSS/PROFIT BEFORE TAXATION TO CASH FLOW FROM OPERATIONS

	Group		Company	
	2008 £m	Restated 2007 £m	**2008 £m**	Restated 2007 £m
(Loss)/profit before taxation	**(745.2)**	(96.5)	**(2,230.8)**	59.3
Adjustments for:				
Dividend income	**–**	–	**–**	(72.4)
Depreciation of property, plant and equipment	**11.8**	6.6	**0.1**	0.1
Profit on disposal of property, plant and equipment	**(0.5)**	(0.1)	**–**	–
Loss on disposal of intangible assets	**0.2**	–	–	–
Amortisation of intangible assets	**19.4**	94.7	**–**	–
Impairment of investments in subsidiaries	**–**	–	**183.5**	–
Impairment of intra-group loans and receivables	**–**	–	**1,949.0**	–
Share-based payments	**(0.6)**	3.1	**(6.3)**	1.0
Fair value movements on derivatives	**41.1**	0.4	**41.1**	0.4
Decrease/(increase) in loans and receivables	**52.2**	(568.8)	**–**	–
Decrease/(increase) in inventories	**5.6**	(5.4)	**–**	–
Decrease/(increase) in trade and other receivables	**30.4**	3.8	**(0.8)**	0.4
(Decrease)/increase in trade and other payables	**(10.3)**	13.8	**(0.5)**	0.8
Increase in borrowings	**78.1**	19.0	**79.9**	19.0
Increase in provisions	**94.6**	0.4	**–**	–
Decrease in deferred income	**(10.8)**	(8.4)	**–**	–
Cash (outflow)/inflow from operations	**(434.0)**	(537.4)	**15.2**	8.6

The amount of interest paid and received (excluding that recognised in interest income) during the year was as follows:

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Interest paid	**(168.7)**	(123.4)	**(169.9)**	(122.2)
Interest received	**4.3**	4.4	**194.3**	151.8

32. NON-CASH TRANSACTIONS

Non-cash transactions in relation to the purchase of property, plant and equipment under finance leases and hire purchase contracts during the year were as follows:

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Purchase of property, plant and equipment	**10.3**	4.8	**–**	0.2

33. OPERATING LEASE ARRANGEMENTS

At the balance sheet date the Group and Company had total future lease payments under non-cancellable operating leases as follows:

	Group				Company			
	2008		2007		**2008**		2007	
	Land and buildings £m	**Motor vehicles £m**	Land and buildings £m	Motor vehicles £m	**Land and buildings £m**	**Motor vehicles £m**	Land and buildings £m	Motor vehicles £m
Future lease payments:								
Within one year	**6.2**	**3.6**	5.7	2.9	**0.2**	**0.1**	0.3	0.1
In two to five years	**12.4**	**4.5**	10.4	3.3	**0.3**	**0.2**	0.4	–
After five years	**2.7**	**–**	3.5	–	**–**	**–**	–	–
	21.3	**8.1**	19.6	6.2	**0.5**	**0.3**	0.7	0.1

The following lease payments were recognised in the income statement during the year:

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Land and buildings	**8.6**	8.3	**0.6**	0.2
Motor vehicles	**4.8**	5.6	**0.1**	0.1
	13.4	13.9	**0.7**	0.3

34. CONTINGENT LIABILITIES

The Company, together with other companies in the Group, has entered into an unsecured multilateral bank guarantee. There are no fair values attached to the guarantee.

35. RELATED PARTY TRANSACTIONS

The Group's payroll is administered by a subsidiary undertaking with the relevant payroll charges being recharged to the ultimate parent company and fellow group companies. The subsidiary undertaking does not make any charge for providing these services.

The Company provides borrowing facilities for its subsidiary undertakings, for which a financing charge is levied each month. This charge is based upon the Company's average cost of borrowing.

The Company also levies a management fee to certain of its subsidiary undertakings in relation to providing them with certain services, such as internal audit services. This management fee is calculated on a cost incurred basis.

The Company is provided with IT services by one of its subsidiary undertakings for which a management charge is incurred. The charge is calculated on a cost incurred basis.

As noted in the Corporate Governance Report, close relatives of D A Haxby, F R Dee and J J Corr worked for suppliers to the Company and its subsidiaries. Amounts paid to these suppliers are set out in the table below as related party suppliers.

The following related party transactions were carried out by the Company with its subsidiary undertakings during the year:

	2008 £m	2007 £m
Lending of funds	**558.5**	712.9
Intra-group finance income	**178.7**	150.2
Management fee – central services	**0.4**	0.3
Management charge – IT services	**0.1**	0.1
Related party suppliers		
Hammonds LLP	**–**	–
Scott Harris UK Limited	**–**	–
Brilliant Media Limited	**12.7**	10.8

Receivables due from and payables to subsidiary undertakings are disclosed in note 18 and note 23 respectively.

Key management compensation is disclosed in note 8.

Amounts included in trade and other payables (note 24) in respect of the related party suppliers were: Hammonds LLP £6,000 (2007: £nil), Scott Harris UK Limited £27,000 (2007: £nil) and Brilliant Media Limited £39,000 (2007: £328,000).

36. PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS

Subsidiary undertaking	Principal activity
Welcome Financial Services Limited – trading as:	
Welcome Finance	Monthly instalment personal loans and hire purchase credit
Shopacheck Financial Services	Weekly home collected credit
Welcome Car Finance (closed 30 April 2009)	Direct distribution car retailer
The Lewis Group	
The Lewis Group Limited	Debt collection and investigation services
C L Finance Limited	Debt purchase
Cattles Invoice Finance (sold 14 September 2009)	
Cattles Invoice Finance Limited	Invoice finance
Cattles Invoice Finance (Oxford) Limited	Invoice finance

All the above companies are wholly owned. They operate in the United Kingdom and are registered in England with the exception of The Lewis Group Limited, which is registered in Scotland. Companies which are dormant or whose operations are insignificant have been excluded from the above listing.

37. POST BALANCE SHEET EVENTS

On 7 January 2009 the Company announced that in light of the continuing uncertain funding environment, new business volumes in Welcome in 2009 would be reduced by some 75% on 2008 and collective consultation had begun with employees over a reduction of around 1,000 jobs within the Group. Annualised cost savings were estimated at £40 million and the costs of delivering these savings are expected to be £20 million.

The Board reported on 10 March 2009 that, based on information received to that date, and subject to completion of its external audit, it believed that the Group had incurred a significant loss before tax for the year ended 31 December 2008, and that it would be necessary to restate the Group's financial statements for the year ended 31 December 2007. The Board also reported on 10 March 2009 that it believed Cattles was in breach of covenants under its borrowing arrangements.

On 1 April 2009, the Company announced that a report by Deloitte estimated that the Group would need to make a provision of around £700 million in excess of that originally anticipated with respect to the value of customer loans held as at 31 December 2008. At that date, the amount of this provision that should be reflected in the profit and loss account for the year ended 31 December 2008 versus earlier years still remained to be determined. However, the Board believed that such a provision would result in the Group reporting a significant loss before tax for the year ended 31 December 2008 and in the requirement to restate the Group's financial statements for the year ended 31 December 2007.

On 1 April 2009, the Board also reported that it was considering whether to include an additional IBNR provision consistent with accounting standard IAS39. Based on work carried out to that date, the Board believed that the adoption of such a policy would result in an IBNR impairment provision of approximately £150 million with respect to the value of customer loans held as at 31 December 2008.

On 23 April 2009, Cattles announced it was not in a position to publish its report and accounts for the year ended 31 December 2008 by 30 April 2009 as required by DTR 4.1.3. In those circumstances, the Company believed that the FSA would ordinarily require the suspension of trading of the Company's shares and bonds with effect from 1 May 2009. Therefore, in order to avoid a disorderly market and to protect investors, Cattles requested an immediate suspension of trading in its securities pending publication of its audited report and accounts for the year ended 31 December 2008, which was granted.

On 30 April 2009, the Group closed its car retail operation, Welcome Car Finance.

On 2 September 2009, Cattles announced the closure of 30 Welcome branches to better align the network with reduced levels of lending and deliver efficiencies in line with Cattles' commitment to manage the business through cost-efficient operations and improved cash collection processes. 510 employees received notice that they were at risk of redundancy and subsequently 266 left the business.

On 14 September 2009 the Company's subsidiary undertaking, Cattles Invoice Finance Limited, was sold to ABS FS Limited for a total consideration of £70.4 million. The Company's share of this consideration was used to repay Cattles group bank indebtedness.

On 29 October 2009, the High Court of Justice heard the application of Cattles to seek a determination in relation to whether the terms contained within certain cross-guarantee documentation operate to subordinate the Company's claims against its subsidiaries, including WFS, to the claims of certain bank creditors. This application was brought as part of consensual discussions between all parties. On 14 December 2009, the High Court delivered a decision that interpreted the cross-guarantee documentation to mean that the Company will be prevented from making claims against relevant trading company subsidiaries for money lent until the claims of the relevant bank creditors against those subsidiaries and the Company have been satisfied in full. After judgment was handed down permission was sought to appeal this decision to the Court of Appeal. The High Court granted such permission to the Royal Bank of Scotland plc and Party A (being a representative member of the Bondholders). The Court of Appeal hearing is presently listed for 12 or 13 May 2010.

On 25 November 2009, Cattles announced that it had agreed a formal SEA with its key financial creditors. At the same time, Cattles also agreed certain modifications to the terms of its bank facilities, private placement notes and, subsequently, its bonds.

37. POST BALANCE SHEET EVENTS continued

The signing of the SEA and these modifications was expected to improve the likelihood of Cattles achieving its restructuring objectives, namely:

- to stabilise the financial position of Cattles and its subsidiaries; and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Group.

The SEA was signed by Cattles, WFS, certain other members of the Cattles group and, among others, lenders of certain syndicated and bilateral facilities to Cattles (Banks), certain guaranteed hedging counterparties (Guaranteed Hedging Counterparties), certain unguaranteed hedging counterparties (Unguaranteed Hedging Counterparties) and holders of certain private placement notes issued by Cattles (Noteholders).

The SEA became effective on 17 December 2009 (the Effective Date) following the formal approval of the amendments to the bonds by holders of the 2014 and 2017 bonds (Bondholders).

The key provisions of the SEA include:

- **Standstill:** A formal agreement by the key financial creditors to 'stand still' and therefore agree not to take enforcement action against Cattles, WFS or other members of the Group for a limited period of time.
- **Cash distributions:** Obligations on WFS to distribute the majority of cash generated by the Group to the key financial creditors, subject to the right of WFS to forecast and retain a provision for working capital requirements and other contingencies. The SEA expressly provides that this forecast will be prepared on a conservative basis to provide ongoing liquidity for the Cattles group.
- **Cash management:** Obligations on Cattles, WFS and other members of the Group to ensure that the majority of cash generated by the Group, which is currently subject to rights of set off in favour of certain key financial creditors, continues to be maintained in bank accounts that are subject to such rights of set off in favour of such key financial creditors.

The period of standstill is linked to the litigation process relating to certain intra Group subordination arrangements (as set out in Cattles' announcement of 11 August 2009) (the Litigation). The Banks, the Noteholders and the Guaranteed Hedging Counterparties are required to stand still during an initial standstill period from (and including) the Effective Date and ending on the earlier of:

(i) 30 June 2011;

(ii) the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant; and

(iii) the occurrence of the date on which the SEA is terminated,

unless the Banks and the Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and the Guaranteed Hedging Counterparties against the Group and the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group decide that the standstill applicable to the Banks and the Guaranteed Hedging Counterparties and the Noteholders should be terminated.
During the period after 30 June 2011 or after the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant, the standstill can be terminated (i) in the case of the standstill applicable to the Banks and Guaranteed Hedging Counterparties, by the Banks and Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and Guaranteed Hedging Counterparties against the Group; and (ii) in the case of the Noteholders, by the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group.

With respect to the Bondholders and the Unguaranteed Hedging Counterparties, the initial standstill period (which began on the Effective Date) has been extended following the appeal of the first instance judgment to the Court of Appeal. The Court of Appeal hearing is presently listed for 12 or 13 May 2010. There will be a further automatic extension of such standstill period following any appeal of the Court of Appeal judgment, provided that a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties agree that WFS shall fund the legal costs of any appeal (up to a maximum amount of £1,500,000). The standstill period for the Bondholders and the Unguaranteed Hedging Counterparties shall terminate where: (i) a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties do not agree that WFS shall fund such costs; or (ii) the SEA is terminated.

On 16 December 2009, Cattles announced that it was unable to recommend a business plan to financial creditors which would allow Welcome to lend to existing or new customers. The Board therefore recommended a plan which would focus on collecting out Welcome's customer loans. It is envisaged that the collection of the Welcome loan book could take two to three years and, during this period, the Group's cost base will contract to reflect the reducing size of the book.

In 2009 all derivative assets and liabilities were converted into on-demand loans of £85.7 million with bank counterparties.

On 5 February 2010, Cattles announced the closure of circa 70 Local Management Branches and Local Collections Units nationwide. Welcome entered into a consultation process from that date with staff affected by the proposals, of whom approximately 450 received notice that they were at risk of redundancy and subsequently 382 will leave the business.

On 7 May 2010, Cattles announced a proposal to close 18 branches nationwide and a contraction in the current operations management and their support staff in line with the smaller number of branches. Welcome entered into a consultation process from that date, with staff affected by the proposals, of whom approximately 155 received notice that they were at risk of redundancy.

Electronic company communications
Instead of receiving printed documents through the post, shareholders can receive the Annual Report and Financial Statements, Notice of Annual General Meeting and other shareholder documents electronically, as soon as they are published. An online version of this Annual Report and Financial Statements is available on the Cattles website, www.cattles.co.uk, and can be found in the Investor Centre section, alongside copies of prior year reports. Shareholders can view, download or print all of the documents or only those pages in which they are particularly interested. Shareholders are also able to appoint a proxy (someone to vote for them at shareholder meetings) electronically.

Shareholders who would like to sign up for electronic communications should log onto www.etreeuk.com/cattlesplc and then use the option to express register for Investor Centre where they can manage their shareholding online.

It is simple to register and only takes a few minutes. Once registered, when the Company issues a document or communication to shareholders, shareholders will receive an email containing a link to a page of the Cattles website which contains the issued document or communication.

Shareholder services and helpline
Computershare Investor Services PLC operates a facility whereby shareholders in Cattles are able to access their shareholdings over the internet. Shareholders can access this service on Computershare's website, www.computershare.com. Shareholders will need their shareholder reference number, which is printed on their share certificate or tax voucher, to gain access to this information.

Shareholders who change address, have a query on their shares, or who otherwise require information about their shareholding should contact the Customer Information Unit at Computershare Investor Services PLC on the shareholder information telephone line: 0870 889 4021. Alternatively, they should write to Computershare Investor Services PLC at PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, indicating that they are a Cattles plc shareholder.

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