Cattles plc

Annual Report and
Financial Statements
2009

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INTRODUCTION

In my Chairman's Statement in the 2008 Annual Report I described the matters which came to light during 2009 in relation to our main operating business Welcome Finance (Welcome), which had a major impact on our 2008 Financial Statements. Much of the same detail is repeated below because it is also highly relevant to the 2009 Financial Statements.

Indeed it is because of the impact of these matters on Welcome's business model and on the recoverability of its loan book that I now have to report another year of very substantial losses. The loss before tax from continuing operations for 2009 is £685.4 million (2008: loss before tax £764.6 million). The loss per share for 2009 is 132.05p (2008: loss per share 156.38p).

OVERVIEW OF EVENTS DURING 2009

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 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, given the accounting issues faced by the Group, the Board 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 in May 2010.

These results were different from the unaudited results previously published in November 2009. The discussions we had with our new auditor 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 on 30 June 2009, supported in this role by Robert East who was at the time our Chief Restructuring Officer, leading 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; 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 2009 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.

BOARD CHANGES SINCE 30 JUNE 2009

Laura Barlow left the business at the end of January 2010 at which time I also became Chairman of WFS. David Lovett joined the WFS board as an independent director on 25 February 2010. Paul Mackin resigned on 28 June 2010 when Robert East took over as Managing Director of Group Operations. James Drummond Smith stepped down as Finance Director on 29 June 2010 and was replaced as Finance Director by Paul Felton-Smith. On 6 September 2010, James Drummond Smith was appointed as Chief Restructuring Officer and remains as a director of WFS.

CHANGES TO THE MANAGEMENT OF OPERATIONS AND STRENGTHENING OF CONTROLS

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 Group Human Resources Director (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 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.

FUTURE STRATEGY

Following the conclusion of the Impairment Review and the Forensic Review, the Board, together with its advisors, conducted an extensive examination of all possible routes to rebuild the lending business of our principal business, Welcome. However, it proved impossible in today's consumer lending environment and economic conditions to construct a viable business model that the Board could ask the Company's lenders to support. The Board therefore recommended to creditors a plan that focuses on collecting out Welcome's customer loans. It was envisaged that the collection of the bulk of the Welcome loan book could take two to three years and, during this period, the Company's cost base would contract to reflect the reducing size of the book.

Without a viable 'go-forward' plan for Welcome and with no overall plan for the business that envisages the Group being able to meet all of its obligations to its financial creditors, the prospect for any recovery in economic value for our shareholders is negligible. For this reason, the Board reported to the General Meeting held on 16 December 2009 that the Company's shares, which have been suspended since 23 April 2009, were likely to have little or no value.

The Group's smaller businesses, Shopacheck Financial Services (Shopacheck) and The Lewis Group, carry on trading and we continue to explore the scope to develop these businesses further.

BUSINESS UNIT PERFORMANCE

WFS

WFS is Cattles' principal operating subsidiary. During 2009, WFS comprised Welcome and Shopacheck, the Group's non-standard consumer lending businesses, and Welcome Car Finance, our car retail operation, which was closed in April 2009. WFS reported a pre-tax loss of £639.5 million (2008: pre-tax loss £757.9 million) and total net receivables at 31 December 2009 amounted to £1.2 billion (2008: £2.3 billion).

Welcome

On 7 January 2009, Cattles announced that, in light of the continuing uncertain funding environment and the need to take decisive action, it was taking a series of steps to reduce costs, preserve liquidity and significantly reshape the Group. It was announced that there would be a reduction in the volume of business that Welcome would write and that, whilst it would continue to write new business in 2009, it was expected in early January that new business volumes in Welcome would be reduced by some 75% compared with 2008.

On 23 February 2009, the Board of Cattles announced that, in order to preserve liquidity in the business, it was temporarily suspending lending to new customers in Welcome with immediate effect. At that time it was decided that Welcome would continue to offer renewal products to existing customers.

During the second half of 2009, a thorough analysis of the Group's businesses was undertaken. This analysis led the Board to announce on 16 December 2009 that there should be no further lending in Welcome and that instead the book should be collected out.

As reported in 2008, the 2009 results again include significant loan loss provisions, which have been the main cause of the large loss reported. Under International Financial Reporting Standards (IFRS), we can only make provisions against incurred losses in the loan book and cannot make provisions for future expected credit losses. Consequently, with no new lending and an ageing book, we will continue to incur trading losses. The loan loss charge for the year was £721.9 million (2008: £737.3 million). Total net receivables at 31 December 2009 were £1.1 billion (2008: £2.2 billion). The reduction reflects cash collected in the year of £730.9 million with no significant further lending, and further impairment of the book. Our current estimate of the fair value of Welcome's loans and receivables is £0.8 billion at 31 December 2009 (2008: £1.4 billion), 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
Shopacheck, our home collected credit business, tightened its credit granting criteria in late 2009 to improve credit quality. In addition, the methodology for impairing loans was revised in 2009 at a cost of £6.2 million. Shopacheck's net receivables reduced to £64.3 million (2008: £79.8 million). The loan loss charge in Shopacheck reduced by £15.9 million to £38.6 million (2008: £54.5 million).

Welcome Car Finance
Welcome Car Finance was closed in April 2009 as a result of funding constraints. Consequently its revenue reduced by 88.3% to £12.9 million (2008: £110.6 million) and unit sales fell to 1,648 vehicles (2008: 14,461).

The Lewis Group
The Lewis Group reported a pre-tax loss in 2009 of £1.8 million (2008: pre-tax loss £5.2 million). This reflects the continued cautious view of 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 £15.4 million (2008: devaluation of £14.1 million). Debt purchases during the year totalled £41.6 million (2008: £75.5 million). The Lewis Group has refocused its strategy on contingent debt collection. Its commitments to acquire further debt were completed in 2010.

Cattles Invoice Finance
On 14 September 2009, the Group sold this business for a cash consideration of £70.8 million. Revenue to this date amounted to £14.8 million (2008: £23.7 million), and its profit before tax was £5.2 million (2008: £7.7 million).

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

Dividends
During 2009, no interim dividend was paid (2008: 6.51p per share). As a result of the losses for the year, no final dividend will be declared (2008: Nil).

RESTRUCTURING

On 25 November 2009, we announced that the Company had agreed the SEA with its key financial creditors, and that this should improve the likelihood of us achieving our restructuring objectives. Since that date, we have continued to engage in discussions with representatives of our key financial creditors in order to progress proposals for a restructuring.

On 29 November 2010, we announced that the Company had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group and that the Company, WFS, certain other members of the Group and certain of their respective key financial creditors entered into a restructuring and lock-up agreement to support a restructuring of the Group in the following way.

The Company intends to propose a scheme of arrangement under Part 26 of the Companies Act 2006 (a scheme) to its shareholders, pursuant to which the shares in the Company will be acquired by Bovess Limited. Under the terms of that scheme, Cattles shareholders will receive 1p in cash for each Cattles share held by them.

The Company and WFS also each intend to propose a scheme to certain of their respective creditors. Pursuant to those schemes, the claims of those creditors will be compromised in order to facilitate a solvent restructuring of the Company and WFS.

It is currently anticipated that another member of the Group, Ewbanks Mail Order Limited (Ewbanks), will propose a scheme to certain of its creditors, pursuant to which the guarantee obligations of it and certain other members of the Group will be compromised in order to facilitate a solvent restructuring of those entities.

Further, the Company, WFS and certain other members of the Group intend to enter into bilateral agreements with certain other creditors (for example, the pension trustee) in order to facilitate the solvent restructuring.

Each scheme and bilateral agreement will be subject to obtaining the necessary approvals and it will be necessary to satisfy certain conditions precedent prior to the solvent restructuring becoming fully and finally effective in accordance with its terms.

Pursuant to the restructuring and lock-up agreement, the key financial creditors that are party to that agreement have conditionally agreed with the Company, WFS and certain other Group members that they will vote in favour of the schemes to be proposed to them and have agreed promptly to take all actions which they are reasonably requested to take, in order to support, facilitate, implement or otherwise give effect to the solvent restructuring. Therefore, we have drawn the conclusion that there is a reasonable expectation that the necessary approvals for the schemes to be proposed to the creditors of the Company, WFS and Ewbanks will be obtained.

LISTING

Many shareholders have asked whether the shares will be re-listed. You will recall that the Company's shares were suspended, at the Company's request, in April 2009 when it became clear that the Company would be unable to publish its 2008 Annual Report and Financial Statements within the timeframe required by the UK Listing Authority's Disclosure and Transparency Rules. The filing of the 2008 Annual Report and Financial Statements with Companies House did not affect the current suspension of the listing of the Company's securities. Any lifting of the suspension would require an application by the Company to the UK Listing Authority (UKLA). In light of the prospects for the Group's businesses and its financial circumstances, the Company will not seek to re-list the shares.

SHAREHOLDERS

As I said in my introduction to this statement, the further losses that Cattles has incurred in 2009 are an inevitable consequence of the matters which came to light in Welcome in February 2009 and their implications for Welcome's business model and the recoverability of its loan book. I once again repeat that I understand the anger that shareholders feel about the loss of value in their shares and the fact that their interests are subordinated to those of creditors by law. I also share your frustration over the time it is taking to establish responsibility for the events that led to this situation and the legal restrictions which prevent me from being able to comment transparently to you regarding our progress to date. However, I can reassure you that this Board will not turn its back on these challenges or this business; we will continue to act responsibly towards our shareholders, employees and creditors. The current Board is committed to limiting any further damage to these groups.

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 colleagues during 2009 and again during 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 Group.

The work we have had to do to stabilise the business and progress the complex restructuring discussions has been, and remains, intensive. I continue to be impressed by both the professionalism and commitment of our employees in these challenging times and, on behalf of the Board, I would like to thank them for their efforts on behalf of the Group.

Margaret Young

Margaret Young

Executive Chairman

29 November 2010

OVERVIEW OF THE GROUP AND ITS BUSINESSES

Cattles is a financial services group operating in the UK non-standard consumer credit and debt recovery markets.

The Group's principal subsidiary is WFS, which comprised three businesses during 2009: Welcome, Shopacheck and, until 30 April 2009, Welcome Car Finance.

- Welcome was the principal lending business, prior to its cessation of new lending in 2009, and served more than 500,000 customers, providing direct repayment loans from around 144 branches across the UK. Its product range in 2009 included unsecured personal loans, second charge secured loans and hire purchase for cars. Further details surrounding the issues in Welcome which came to light during 2009, and the subsequent cessation of new lending, are set out below.
- Shopacheck provides short-term home collected loans to 227,000 customers through around 50 branches.
- Due to funding constraints the Welcome Car Finance business was closed on 30 April 2009. Prior to this, it sold around 14,000 used cars a year from 11 sites and was the largest introducer of hire purchase business to Welcome.

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 2009, The Lewis Group purchased £41.6 million of debt portfolios (2008: £75.5 million). The Lewis Group has refocused its strategy on contingent debt collection. Its commitments to acquire further debt were completed in 2010.

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

BACKGROUND TO THE ISSUES ARISING DURING 2009

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 Income Statement 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 International Accounting Standard (IAS) 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 adopted such a policy in its financial statements for the year ended 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. The shares remain suspended at the date of this report.

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

BACKGROUND TO THE ISSUES ARISING DURING 2009 continued

businesses, Shopacheck and The Lewis Group, will continue to trade as normal. The Board continues to explore the scope to develop these businesses further.

During 2010, the Group has undertaken a programme to transfer certain contracts for services from Cattles to WFS, where the services are necessary and it is commercially reasonable to do so. The majority of such contracts have now been transferred and work is continuing on the remainder.

PERFORMANCE REVIEW

Group key performance indicators

As a result of the issues arising during 2009, the Group's key performance indicators were reviewed and revised to reflect more appropriately the performance measures used by senior management. The key performance measures are summarised below:

	2009	2008
Welcome cash collections (£m)	**730.9**	840.2
Welcome roll rates (%)	**5.5**	7.0
Group loan loss charge (£m)	**760.5**	791.7
Group operating expenses, including staff costs (£m)	**313.0**	398.1

More information relating to the Group's and its subsidiaries' performance is detailed below and also in the Directors' Report.

Roll rates relate to the percentage of up-to-date accounts moving into arrears.

Information relating to the Group's environmental and employee matters are detailed in the Directors' Report.

WFS

WFS' pre-tax loss was £639.5 million (2008 pre tax loss: £757.9 million). The losses reported in WFS are largely as a result of the significant loan loss charges made.

Welcome

The number of Welcome's customers fell by 78,000 to 501,000 (2008: 579,000), representing a reduction of 13.5% (2008: increase of 12.8%). The number of new agreements written during 2009 fell by 121,000 to 33,000 (2008: 154,000) and resulted in a reduction in total loan volumes of 93.6% to £0.1 billion (2008: £1.1 billion) as Welcome significantly reduced new lending from 7 January 2009 and ceased new lending from 23 February 2009.

There was also an increase in the number of its customers settling their agreements early. This increased by 4,700 to 27,700 (2008: 23,000), increasing the early settlement ratio to 5.5% (2008: 4.5%).

The values of average advances to new customers across each product were: unsecured personal loans £1,200 (2008: £2,400), hire purchase for cars sold by Welcome Car Finance £7,500 (2008: £9,500) and secured loans £3,900 (2008: £9,300). The average advances in 2009 fell significantly as the business limited new lending with the majority of advances being to existing customers.

- **Unsecured personal loans**

Welcome's unsecured personal loan volumes reduced by 94.4% to £25.7 million (2008: £458.1 million).

- **Secured loans**

Welcome's secured lending volumes reduced by 95.5% to £18.9 million (2008: £420.5 million) during 2009.

- **Hire purchase**

Welcome ceased writing any third party hire purchase business in April 2008. Welcome continued to write hire purchase business for its own distribution channel, Welcome Car Finance, until 30 April 2009, when that business was closed. As a result hire purchase volumes fell by 93.8% to £16.7 million (2008: £269.2 million).

Welcome Car Finance

Welcome Car Finance was closed in April 2009 as a result of funding constraints and has been shown as a discontinued operation. Prior to this it was the Group's largest introducer of hire purchase customers. Total unit sales in 2009 were 1,648 (2008: 14,461). In 2009, prior to its closure, Welcome Car Finance operated from 11 sites.

Shopacheck

After several years of a corporate strategy of reducing the home collected credit receivables, in the second half of 2009, new management were recruited to run and strategically develop the Shopacheck business. Given the conditions in the market, largely because of the recession, we initially decided to tighten our credit granting criteria in November 2009 to improve credit quality. In addition, the methodology for impairing loans was revised in 2009 at a cost of £6.2 million. Gross receivables have fallen to £114.8 million (2008: £134.3 million) and net receivables to £64.3 million (2008: £79.8 million). The number of customers decreased to 227,000 (2008: 235,000).

The Lewis Group

The Lewis Group incurred a pre-tax loss of £1.8 million (2008: pre-tax loss £5.2 million) during 2009. This reflected a devaluation on debt portfolios purchased by The Lewis Group of £15.4 million (2008: devaluation of £14.1 million) arising from a continuing cautious view on the outlook for the UK economy and housing market in particular.

Collections during the year increased by 8.8% to £96.0 million (2008: £88.3 million). Although collections arising from settlements in general and from accounts where a charge was held on the debtors' property in particular were hit by economic conditions, other accounts proved relatively resilient to the effects of the recession.

Debt purchases during the year totalled £41.6 million (2008: £75.5 million) as The Lewis Group ceased acquiring debt portfolios, other than on forward flow contractual arrangements from January 2009, because of the funding issues experienced by Cattles. The Lewis Group also gave notice on all its forward flow agreements during 2009.

The Lewis Group has refocused its strategy on contingent debt collection. Its commitments to acquire further debt were completed in 2010. The Lewis Group's commission on third-party debt collection increased by 20.3% to £7.7 million (2008: £6.4 million). The net interest margin earned by The Lewis Group increased to 4.3% (2008: 3.0%) as a result of increased interest income arising from debt purchased late in 2008 offset by the revaluation of debt portfolios referred to above.

Cattles Invoice Finance

Cattles Invoice Finance was sold on 14 September 2009 for £70.8 million and has been shown as a discontinued operation.

Cattles Invoice Finance's client base on 14 September 2009 was stable at 716 (2008: 727). Its net receivables at the date of sale were £75.6 million (2008: £86.6 million) as the business managed its clients' facilities within reduced cash targets set by the Group.

Cattles Invoice Finance's profit before tax in the period to 14 September 2009 was £5.2 million (2008: £7.7 million).

FINANCIAL REVIEW

A review of the Group's performance during 2009 is summarised in the Executive Chairman's Statement.

INCOME STATEMENT

After adjusting for discontinued operations in 2009 revenue fell by 28.2% to £511.7 million (2008: £712.7 million) as interest income fell by £140.3 million to £427.9 million (2008: £568.2 million). Non-interest income decreased by 42.0% to £83.8 million (2008: £144.5 million), largely due to a significant reduction in fee income in Welcome.

The loan loss charge has reduced to £760.5 million (2008: £791.7 million). As the loan book continues to age the loan loss charge will fall as there will be less unimpaired debt to provide against. Under IFRS we can only make provisions against incurred losses and not against expected future credit losses.

Operating expenses, including staff costs, at £313.0 million, reduced by 21.4% (2008: £398.1 million), as a result of a reduction in employment costs, lower provisions costs and a general reduction in other running costs, off-set by an increase in administration costs in the main relating to legal and professional advisor fees.

The loss before tax from continuing operations was £685.4 million (2008: £764.6 million). The loss from discontinued operations of Cattles Invoice Finance and Welcome Car Finance was £10.3 million (2008: profit £18.9 million). Basic loss per share reduced to a loss of 132.05p (2008: loss 156.38p).

INCOME

- **Interest income**

Welcome interest income fell to £328.6 million (2008: £502.3 million). Its gross book fell by £0.5 billion to £2.9 billion as a result of the significant reduction in new lending in 2009 and the impact of cash collections, as the book was collected out in the latter part of 2009. Therefore, interest income has fallen significantly.

Interest income from the Group's weekly home collected credit business, Shopacheck, decreased to £82.9 million (2008: £92.0 million) reflecting a tightening of the credit granting criteria in 2009 following the recruitment of new management to run and develop the business and the reduction in receivables.

The Lewis Group interest income increased by 13.6% to £16.4 million (2008: £14.5 million). This resulted from higher interest income arising from debts purchased late in 2008 offset by the devaluation of previously purchased portfolios of £15.4 million (2008: devaluation of £14.1 million). These devaluations arose as a result of reduced cash collections and a more cautious view taken by management on the outlook for the UK economy and the housing market in particular.

Prior to its disposal, Cattles Invoice Finance generated interest income of £4.5 million (2008: £8.7 million).

Interest income for the Group, from continuing operations, as a whole, at £427.9 million, fell by 24.7% (2008: £568.2 million).

Net interest income (after deducting £123.6 million interest expense), from continuing operations, for the Group, at £304.3 million, increased by 8.0% from £281.9 million in 2008, as the Group's average cost of borrowing (excluding amortisation of facility fees) fell from 6.64% to 5.08%.

- **Non-interest income**

Fee and related income from continuing operations of £76.2 million (2008: £136.8 million), fell by 44.3% due principally to a reduction in commission income as a result of Welcome ceasing new lending.

Commission earned by The Lewis Group for collecting other lenders' debt and providing investigation services, at £13.8 million (2008: £11.2 million), increased as the business continued to pursue its strategy of developing its commission based business.

The Group's accounting policies relating to revenue recognition are set out in the notes to the accounts on pages 47 to 54.

COSTS

- **Loan loss charge**

The Welcome loan loss charge reduced by £15.3 million in the year to £721.9 million (2008: £737.3 million). As the loans and receivables book ages, as no new business is written, the loan loss charge will fall as there is less impaired debt to provide against.

Shopacheck's loan loss charge reduced by £15.9 million in the year to £38.6 million (2008: £54.5 million). The loan loss charge in 2008 included a charge of £14.0 million as a result of a change in the methodology of calculating the provisions, which was applied in 2008.

The Group's accounting policy in relation to loan loss provisioning is set out in the notes to the accounts on page 50. Application of this policy is subject to the estimation of future cash flows associated with impaired loans as described in note 2 to the financial statements.

- **Operating expenses (including staff costs)**

Total operating expenses from continuing operations (including staff costs) fell by 21.4% to £313.0 million (2008: £398.1 million).

Staff costs for continuing operations are broadly in line with 2008, falling from £137.4 million to £136.7 million in 2009. The average monthly number of people employed by the Group in continuing operations during the year was 4,082 compared to 4,778 during 2008, a reduction of 14.6% as the Group rationalised its cost base.

Other operating expenses from continuing operations reduced by 32.4% from £260.7 million to £176.3 million mainly as a result of reduced provisions costs and other running costs partly offset by higher legal and professional advisor fees.

TAXATION

The Group's total tax credit for the year of £1.2 million (2008: charge £7.9 million) represents an effective tax rate of nil% (2008: 1.1%) and relates to deferred tax adjustments from prior 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, during 2009 the Group was able to secure repayments from HM Revenue & Customs (HMRC) of corporation tax previously paid in respect of 2009 self assessed payments on account and 2008 and prior years.

TAXATION continued

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 formal 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 £85.5 million were received from HMRC during 2009.

BALANCE SHEET

The Group balance sheet shows a deficiency of shareholders' equity at the year end of £1,113.2 million (2008: deficiency of £411.4 million). This is primarily as a result of the loan loss impairment charges.

Intangible assets fell by £0.5 million to £1.1 million (2008: £1.6 million). Intangible assets relate to those software licences held by trading operations within the Group which continue to operate, and are amortised over a period of between five to seven years. Property, plant and equipment fell to £10.6 million (2008: £22.2 million) largely as a result of increased impairment as the Group reviewed its underlying value in use.

Other assets including cash and cash equivalents (excluding loans and receivables) amounted to £92.9 million at 31 December 2009 (2008: £134.2 million).

The increase in the retirement benefit obligation from £15.0 million at 31 December 2008 to £17.6 million at 31 December 2009 was due to a net increase in the scheme's liabilities in the year, despite an additional lump sum contribution of £2.5 million being made in December 2009. Further details of the movement in the year are set out in note 25 to the financial statements.

All other liabilities, excluding borrowings, deferred income and provisions, amounted to £39.2 million at 31 December 2009 (2008: £154.4 million). This decrease reflects the close out of the derivatives and a general reduction in trade payables and other creditors.

LOANS AND RECEIVABLES

Group net loans and receivables fell by 46.1% over the year from £2.5 billion to £1.4 billion.

Welcome, which accounted for 91.8% of the Group's gross loans and receivables, reduced its gross receivables by 14.5% to £2.9 billion (2008: £3.4 billion) as a result of cash collected in the year of £730.9 million with no significant further lending. The loan loss provision increased by £547.0 million, to £1.8 billion (2008: £1.2 billion).

Shopacheck's gross loans and receivables fell by 14.5% to £114.8 million (2008: £134.3 million) as the division tightened its credit granting criteria in late 2009 to improve credit quality.

The Lewis Group reduced its purchased debt book in the year by 5.6% from £153.9 million to £145.3 million. This primarily reflected the lower levels of purchased debt and the downward revaluation in the year. Debt purchases in 2009 totalled £41.6 million (2008: £75.5 million) as The Lewis Group ceased acquiring debt portfolios, other than on forward flow contractual arrangements from January 2009, because of the funding issues experienced by Cattles. The Lewis Group also gave notice on all its forward flow agreements during 2009. In 2009 there was a downward revaluation of the portfolios of £15.4 million (2008: devaluation of £14.1 million).

Cattles Invoice Finance managed its gross receivables down by 14.0% from £87.9 million at 31 December 2008 to £75.6 million on its disposal on 14 September 2009, as focus was maintained on improving gross margin and controlling lending within tighter cash constraints.

- **Credit quality**

Group loans neither past due nor impaired fell by 45.0% to £0.8 billion (2008: £1.5 billion) representing 26.9% (2008: 40.1%) of the outstanding customer balances. Loans that are past due and impaired remained static at £2.3 billion (2008: £2.3 billion) but now represent 73.1% (2008: 59.9%) of outstanding customer balances. The increase in the proportion of past due and impaired loans reflects the fact that 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 2009 is set out in the Funding section below.

CASH FLOW

The Group's net operating cash inflow during 2009 from continuing operations was £371.4 million (2008: outflow £472.7 million). This principally reflected the start of the collect-out of Welcome's loan book during 2009.

FUNDING

As explained in more detail in the Executive Chairman's Statement, on 20 February 2009, the Group announced a delay in the release of its 2008 Preliminary Results. This announcement marked the beginning of a process, including an Impairment Review and a Forensic Review, which led to the discovery of a very significant shortfall in the Group's impairment provisions.

The events which unfolded after 20 February led to the conclusion that the Group was in breach of covenants under its borrowing arrangements. The Group's financial creditors therefore had the right to demand immediate repayment of their loans. The Group decided not to continue lending to its Welcome customers (other than on a minimal renewal basis) during 2009. Instead, a great deal of time and energy was devoted to stabilising the Group so that it could negotiate and obtain a standstill agreement with its key financial creditors. Details of the SEA are set out below.

During 2009, the Group's total gross receivables reduced by £603.3 million to £3.0 billion and borrowings reduced over the year by £359.6 million to £2.4 billion. Following the signing of the SEA, WFS repaid £384.7 million to the Group's lenders during 2009. During 2010, WFS has repaid an additional £229.9 million to the Group's lenders taking the total distributions to £614.6 million. Furthermore, as part of the sale of Cattles Invoice Finance, the Group also repaid bank borrowings of £65.6 million during 2009.

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 discussions with key financial creditors which led to the signing of the SEA in 2009.

The Group's average cost of funding fell in 2009 to 5.08% (2008: 6.64%).

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 £45.0 million was included as at 31 December 2008, in accordance with IAS39 'Financial Instruments: Recognition and Measurement' (AG8), following the ratings downgrade on 12 December 2008. Following the signing of the SEA, this step-up liability has been derecognised as at 31 December 2009.

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.

On 8 July 2009, 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 of Cattles' Long-term and Short-term Issuer Default Ratings to 'Restricted Default' (RD). An RD 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.

On 6 April 2010, Fitch upgraded Cattles' Long-term and Short-term Issuer Default Ratings to 'C' from RD. The upgrade reflected the standstill agreement in place between Cattles and its creditors, which became effective on 17 December 2009. Fitch stated that conditions that are indicative of a Long-term rating of 'C' include an issuer that has entered into a standstill agreement following a payment default.

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 were 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 key syndicated and bilateral facilities to the Company (Banks), guaranteed hedging counterparties (Guaranteed Hedging Counterparties), unguaranteed hedging counterparties (Unguaranteed Hedging Counterparties) and holders of private placement notes issued by the Company (Noteholders).

The SEA became fully 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 (Interim Distributions), 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 (which began on the Effective Date) was extended following the appeal of the first instance judgement to the Court of Appeal. The Court of Appeal hearing was on 12 May 2010 and judgement was handed down on 13 May 2010.

FUNDING continued

Standstill and Equalisation Agreement (SEA) continued
A further automatic extension of such standstill period occurred following the appeal of the Court of Appeal judgement to the Supreme Court. On 26 July 2010, the Supreme Court refused permission to appeal. Under the terms of the SEA, the standstill remains effective as at the date of this Annual Report. The standstill period for the Bondholders and the Unguaranteed Hedging Counterparties shall terminate where the SEA is terminated.

The first cash distribution made by WFS in accordance with the SEA took place in December 2009. The initial distribution, which represented the majority of the net cash generated by the Group up to 17 December 2009, amounted to £384.7 million. Further distributions amounting, in aggregate, to £229.9 million have been made on a monthly basis since December 2009 up to, and including, July 2010. Under the terms of the SEA, on 26 July 2010, the date on which the Supreme Court ordered that permission to appeal the Court of Appeal's decision be refused, interim distributions were temporarily suspended pending final determination by the Entity Priority Accountant of the relative entitlements of the creditors to Interim Distributions.

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 2009 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 2009 Cattles reviewed its risk categories and identified the following as being the principal, most relevant and material to its business:

- Credit risk
- Operational risk
- Market and liquidity risk
- Strategic risk
- Regulatory and legal risk
- Pensions risk
- Accounting and tax risk

The only category to be removed from the categories previously defined and included in the Business and Financial Review in the 2008 Annual Report and Financial Statements was Capital risk, as this was no longer considered relevant or significant enough to justify its own category. In addition, the Market and Liquidity risk categories have been merged and 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 during 2009 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.

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.

Market and liquidity risk
Market risk comprises interest rate and currency risks as the Group does not have a trading book.

- *Interest rate risk*

During 2009, 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. Historically, the Group has 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.

At 31 December 2008, 79% 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. However, 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 and treated as 'Borrowings from banks'. This step was taken in conjunction with discussions with key financial creditors which led to the signing of the SEA in 2009.

This strategy to limit exposure to interest rate movements helped to provide the Group with greater certainty and control over future funding costs. It had 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.

• *Currency risk*
During 2009, certain of the Group's funding was not in sterling. This created a potential exposure to the risk of adverse foreign exchange rate movements. At 31 December 2009, the Group had an unsecured loan note with an original value of US$70 million due originally for redemption at par in 2011, a further unsecured loan note with an original value of US$75 million due originally for redemption at par in two parts in 2011 and 2013 and an unsecured loan note with an original value of €6 million due originally for redemption at par in 2013.

Historically, 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.

However, 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 and treated as 'Borrowings from banks'. This step was taken in conjunction with discussions with key financial creditors which led to the signing of the SEA in 2009.

• *Liquidity risk*
Liquidity risk 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.

Historically, the Group sought to maintain a mixture of long-term 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 order to fund its receivables, the Group typically sought to renew and/or increase these facilities on their termination.

On 10 March 2009, the Board reported that it believed Cattles was in breach of covenants under its borrowing arrangements and, as such, its financial creditors therefore had the right to demand immediate repayment of their loans. It was decided not to continue lending to Welcome customers (other than on a minimal renewal basis) during 2009.

On 24 July 2009, Cattles announced that it had received a notice from the trustee in respect of the £400 million 7.125% bonds due 2017, stating that the trustee had been instructed by a requisite percentage of the bondholders to accelerate, with immediate effect, all amounts payable by the Company to the bondholders.

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.

On 29 November 2010, we announced that the Company had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group. Further details of the key elements of that restructuring are set out in the Executive Chairman's Statement under the heading 'Restructuring'.

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.

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.

RISKS continued

Pension risk

Pension risk is the risk to earnings or capital arising from Cattles' contractual or other liabilities to or with respect to the Group pension plans. In 2008, agreement was reached with the Trustee of the defined benefit pension plan regarding the level of the pension fund deficit on an ongoing basis 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 next formal actuarial valuation to 31 March 2009. The initial results showed that, based on the Statement of Funding Principles agreed by the Trustee and the Company for the 31 March 2007 actuarial valuation, the ongoing deficit had increased from £15.7 million. As a result of the weakening of the Company's covenant the Trustee prepared the initial results on a more prudent basis and the actuarial valuation as at 31 March 2009 has not yet been agreed between the Trustee and the Company. The Pensions Regulator has been advised that the statutory deadlines in respect of this actuarial valuation will be missed. Further, the actuary to the pension plan has estimated that, as at 25 August 2010, the pension fund deficit on a discontinuance basis was £65 million.

Although agreement on the new valuation as at 31 March 2009 has not been reached, the existing funding arrangements put in place in 2008 were revised by agreement with the Trustee on 1 October 2010. The revised arrangements have resulted in an immediate payment to the pension plan of £2.6 million (to include advance payment of the March 2011 payment set out above) being made by WFS, together with a payment of £9.1 million being made by WFS into an escrow account to be held on trust for the benefit of the pension plan.

The scheme was closed to future service accrual in May 2010, following consultation with active members. The Company continues to work with the Trustee on addressing the deficit and to liaise with the Trustee on a proposal to compromise the Group's liabilities to the defined benefit pension plan as part of the overall restructuring.

Accounting and tax risk

Accounting and tax risk comprises the risk of fines, censures and/or reputational damage resulting from failure to comply with accounting standards, financial reporting requirements and tax law.

The principal finding of the Impairment Review was that, as a result of a breakdown in internal controls, the Group's loan impairment policy had been incorrectly applied in respect of Welcome.

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, operational, legal and regulatory, market and liquidity, and accounting and tax risks. These report into the committee of the executive directors and the Group Board Risk Committee and responsibilities include the review and approval of policy and process changes. The Group Financial 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 now 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.

The directors and secretary at 29 November 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.

Robert D East, ACIB, DipFS. Managing Director of the Group's Operations. 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.

Paul J Felton-Smith, FCA. Finance Director. Age 52. Joined the Company in June 2010 and appointed to the Board on 29 June 2010. Previously held interim roles at Lupus Capital plc and Metronet Rail. He also acted as Finance Director for Yes Car Credit (a sub-prime motor finance company) during the run off of its loan book in 2006/2007.

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.

David A Haxby**, LLB, FCA. Age 69. Appointed to the Board 1999. Senior independent non-executive director. Previously a non-executive director of SIG plc and has served on the board of a number of other public and private companies. From 1991 until his retirement in 1995 he was the managing partner of the London office of Arthur Andersen.

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

Roland C W Todd, MA (Oxon), Solicitor. Company Secretary and Legal Counsel. Age 49. 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.

Robert D East was appointed to the Board on 29 July 2009. Paul J Felton-Smith was appointed to the Board on 29 June 2010. All the other directors named above were also directors for the whole of the year ended 31 December 2009. In addition, the following were also directors during the year ended 31 December 2009: Norman N Broadhurst***, Chairman, resigned on 30 June 2009; David J Postings*, Chief Executive, resigned on 30 June 2009; James Drummond Smith, Finance Director, appointed 24 April 2009 and resigned 29 June 2010; James J Corr, Finance Director, removed on 30 June 2009. Mark W G Collins, Treasury and Risk Director, removed on 30 June 2009; Ian S Cummine, Chief Operating Officer, removed on 30 June 2009.

* *Member of the Nomination Committee*

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

*** *Member of the Nomination, Remuneration and Risk Committees*

Throughout the year ended 31 December 2009, the Company complied with all relevant provisions set out in section 1 of the 2008 FRC Combined Code on Corporate Governance, except for the following provisions:

- Code provision A.2.1 (The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board). Since 30 June 2009, the Company has not complied with this provision because following the resignations on 30 June 2009 of N N Broadhurst as Chairman and D J Postings as Chief Executive, M A Young was appointed as Executive Chairman. In view of the urgent need to stabilise the Company's position and agree a standstill with the Company's financial creditors, the Board believed it was in the best interests of the Company that M A Young was appointed as Executive Chairman;
- Code provision A.3.2 (Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent). Between 24 April and 30 June 2009 the Company failed to comply with this provision because following J R Drummond Smith's appointment on 24 April 2009 the Company had five executive directors, four non-executive directors and the Chairman. However, two of the executive directors had been suspended from their duties during this period and so only three of the five executive directors were performing their duties. The Company has complied with this provision since 30 June 2009 after the resignation of D J Postings and the removal of M W G Collins, J J Corr and I S Cummine as executive directors; and
- Code provision A.6.1 (The Board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted). In 2009 the Board and its committees did not formally evaluate their performance because they devoted all their available time to reaching a standstill agreement with the Company's financial creditors and attempting to resolve all the other critical issues facing the Company.

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 prudent and effective 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

Normally, there are twelve regular Board meetings a year, with additional meetings being held as required. The Board met 68 times in 2009 to deal with the critical issues facing the Company.

The table following sets out the total number of meetings of the Board and its Committees which each director attended during 2009, together with, in brackets, the number he or she was eligible to attend.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee
M A Young	63 (68)	11 (12)	2 (4)	3 (3)	1 (1)
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	47 (48)	–	–	–	–
R D East (appointed 29 July 2009)	15 (15)	–	–	–	–
D A Haxby	67 (68)	14 (14)	8 (8)	3 (3)	4 (4)
F R Dee	68 (68)	14 (14)	8 (8)	3 (3)	4 (4)
A J McWalter	66 (68)	12 (14)	8 (8)	3 (3)	3 (4)
N N Broadhurst (resigned 30 June 2009)	31 (33)	–	4 (4)	3 (3)	1 (1)
D J Postings (resigned 30 June 2009)	33 (33)	–	–	2 (3)	–
M W G Collins (removed 30 June 2009)	32 (33)	–	–	–	–
J J Corr (suspended 9 March 2009, removed 30 June 2009)	4 (9)	–	–	–	–
I S Cummine (suspended 9 March 2009, removed 30 June 2009)	4 (9)	–	–	–	–

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 10 in 2009), 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 during the week before the meeting to give the Directors sufficient time to prepare and 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

For the six months ended 30 June 2009 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.

Since 30 June 2009, following the resignations of N N Broadhurst and D J Postings, M A Young as Executive Chairman has combined the roles of Chairman of the Board and Chief Executive.

SENIOR INDEPENDENT DIRECTOR

In 2009, 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

The Board currently comprises the Executive Chairman, two executive directors and three independent non-executive directors. The names of the directors are set out on page 13. P J Felton-Smith was appointed as a director on 29 June 2010. All the other directors served throughout 2009, except for J R Drummond Smith and R D East, who were appointed on 24 April 2009 and 29 July 2009 respectively. 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 former Chairman, 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 until his resignation on 30 June 2009. The current Executive Chairman, M A Young, works on a full-time basis and holds no other positions.

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

- has been an employee of the Group within the last five years;
- has, or has had within the previous three years, a material business relationship with the Group;
- received remuneration other than a director's fee from the Group;
- has close family ties with any of the Group's advisers, directors or senior employees (except for D A Haxby and F R Dee);
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has 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 2008 in relation to certain information technology projects. 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 2008 FRC Combined Code on Corporate Governance applied to him. D A Haxby was re-elected as a director at the 2009 and 2010 Annual General Meetings.

F R Dee's son is an employee of Scott Harris UK Limited, an investor relations consultancy, who carried out an assignment for the Company in 2008 and was a creditor at 31 December 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 2008 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 rise 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

DIRECTORS' CONFLICTS OF INTEREST continued

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. During 2009 and 2010 the directors have authorised further potential conflicts of interest, for example, on the appointment of J R Drummond Smith, R D East and P J Felton-Smith as directors, 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.

In particular, the Board is mindful of potential or actual conflicts of interest between it and its principal subsidiary, WFS, in relation to the Group's financing arrangements in the current circumstances and so the Board has designated D A Haxby, A J McWalter and R D East (none of whom is a director of WFS) to consider and, if appropriate, approve agreements or arrangements on behalf of the Company where there is an actual or potential conflict of interest between the interests of the Company and the interests of WFS.

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.

PERFORMANCE EVALUATION

The Board has established a formal process led by the Executive 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.

In 2009 the Board and the Audit, Remuneration, Nomination and Risk Committees did not formally evaluate their performance because they devoted all their available time to reaching a standstill agreement with the Company's financial creditors and attempting to resolve all the other critical issues facing the Company.

In 2010 the Nomination Committee evaluated the performance of each director in relation to his or her duties as a director of the Company, without that director being present for the evaluation of his or her performance.

Individual written personal objectives in relation to their management roles are prepared each year by each executive director. After agreement with the Executive Chairman, and in the case of the Executive Chairman with the Senior Independent non-executive director, these objectives are submitted to the Remuneration Committee for consideration and approval on behalf of the Board. The Executive Chairman conducts an annual appraisal of the performance of the other executive directors which includes an assessment of their individual performance against their personal objectives and a formal interview. The same process is conducted by the Senior Independent non-executive director in respect of the Executive Chairman. The extent to which executive directors' personal objectives have been achieved is determined during this review process, the results of which are 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: this has applied to D A Haxby since he reached nine years' service on 1 July 2008. At the Annual General Meeting held on 29 June 2010, M A Young and D A Haxby were re-elected, and R D East was re-appointed, as directors.

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Executive 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

The Board has 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 have been 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 2009 are set out in the Audit Committee Report on pages 19 to 21.

REMUNERATION COMMITTEE

Details of the Remuneration Committee and its activities during 2009 and the Group's remuneration policy are set out in the Directors' Remuneration Report on pages 24 to 33.

NOMINATION COMMITTEE

Details of the Nomination Committee and its activities during 2009 are set out in the Nomination Committee Report on page 22.

RISK COMMITTEE

Details of the Risk Committee and its activities during 2009 are set out in the Risk Committee Report on page 23.

RELATIONS WITH SHAREHOLDERS

In 2009, because of the issues described in the Executive Chairman's Statement, the Company was unable to publish its financial statements for the year ended 31 December 2008 and its interim results for the six months ended 30 June 2009. As a result the usual presentations to analysts and private meetings between the executive directors and major shareholders did not take place. In addition, there were significant changes to the Company's share register following share sales by many of the Company's major shareholders.

The Company held its Annual General Meeting on 29 July 2009 and held additional General Meetings on 27 August 2009 and 16 December 2009 to approve the sale of Cattles Invoice Finance Limited and consider the Company's serious loss of capital respectively. At the Annual General Meeting and the 16 December 2009 General Meeting the Chairman gave a presentation on recent events at the Company and the directors answered numerous questions from shareholders.

Following the publication of its financial statements for the year ended 31 December 2008, the Company held its Annual General Meeting on 29 June 2010, at which such financial statements were received. The executive directors gave presentations on recent events at the Company and the directors answered numerous questions from shareholders at the Annual General Meeting. These financial statements for the year ended 31 December 2009 will be received at a General Meeting of the Company expected to be convened shortly.

In addition, 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, includes a section focusing specifically on investor relations and all Stock Exchange announcements are accessible on the website once made within the investors section.

SUBSTANTIAL SHAREHOLDINGS, SHARE CAPITAL AND DIRECTORS

The information required by rule 7.2.6 R of the Disclosure and Transparency Rules is set out in the Directors' Report under the headings 'Substantial shareholdings' and 'Share capital' on page 38 and 'Directors' on page 35.

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 37. 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.

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 2009, is regularly reviewed by the Board and accords with the Turnbull guidance.

In particular, against a background of an increased risk of key internal control failures as a result of restructuring to reduce the Group's costs, the Executive Team asked the internal auditor to carry out a key controls review to assess whether the controls in place across the Group against specific risk areas identified by management were designed and operating effectively and whether any key control gaps existed. The Audit Committee considered the outcome of the review at its November 2009 meeting. The review had identified a number of critical and important control gaps and failures across a number of key risk areas in the business. A project team led by J R Drummond Smith was formed to ensure that the relevant senior managers implemented all the recommended actions relating to the areas of the business for which they were responsible. The issues that were identified have largely been addressed, and plans are in place to ensure that all remaining matters are addressed appropriately. The Audit Committee does not consider that the remaining matters identified are material to the internal control framework in place.

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 2009. The principal features of the Group's internal control system in 2009 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.
- 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 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 Group Operations and Operational Risk Committee and the Group Credit Committee, which are both committees of executive directors and senior management: these two Committees' duties included producing proposals for identifying, measuring and mitigating potential risks to

INTERNAL CONTROL AND RISK MANAGEMENT continued

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.
- Operation of a well defined financial reporting system in order to produce the consolidated financial statements of the Company and its subsidiary undertakings. The Audit Committee considers going concern basis of accounting issues and the external auditor's audit approach memorandum before the start of the audit. Preparation of specified sections of the Annual Report and Financial Statements is then delegated to appropriate members of the senior management team. The executive directors and members of the Audit Committee then review successive drafts of the Annual Report and Financial Statements. Members of the Audit Committee then meet to consider a draft key issues memorandum produced by the external auditor during the audit of the draft Annual Report and Financial Statements. The Audit Committee next holds a further meeting to consider and, if appropriate, recommend the Annual Report and Financial Statements for approval to the Board, which will then decide whether or not to approve the Annual Report and Financial Statements for publication.
- 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.

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 FSA and any other interested regulatory bodies.

APPROVAL

This report was approved by the Board on 29 November 2010 and signed on its behalf by:

Margaret Young

Margaret Young

Executive Chairman

29 November 2010

AUDIT COMMITTEE REPORT

For the year ended 31 December 2009

INTRODUCTION

This report to shareholders has been prepared in accordance with the requirements of paragraph C.3.3 of the 2008 FRC Combined Code on Corporate Governance and paragraphs 5.1 and 5.2 of the 2008 FRC Guidance on Audit Committees. This report gives details of the work of the Committee in discharging its responsibilities in 2009.

TERMS OF REFERENCE

The Committee's terms of reference, which can 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 are:

- 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 auditor.
- Overseeing the relationship with the external auditor, including (but not limited to) approving its remuneration, assessing annually its independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

MEMBERSHIP

The three independent non-executive directors, D A Haxby, F R Dee and A J McWalter, were members of the Committee throughout 2009. M A Young was the chairman of the Committee until 15 July 2009 when she resigned as chairman and as a member of the Committee, D A Haxby was appointed as chairman of the Committee following M A Young's appointment as Executive Chairman 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 a partner in Arthur Andersen from 1978 to 1995 and Managing Partner of its London office from 1991 to 1995. He was chairman of the audit committee of SIG plc from 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.

The chairman of the Committee until 15 July 2009, M A Young, qualified and practised as a Chartered Accountant (ACA) 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).

MEETINGS

The Committee historically met three times a year but the Committee took responsibility for investigating the serious issues which arose in 2009 and therefore met 14 times in 2009 on a formal basis and many more times informally, including daily towards the conclusion of the Forensic Review.

Details of attendance by members of the Committee at its formal meetings in 2009 are set out in the Corporate Governance Report on page 14. A J McWalter missed two meetings which were arranged at short notice due to pre-existing other business commitments and M A Young missed one meeting due to holiday.

Both the external auditor and internal auditor and the Finance Director would historically attend all regular meetings of the Committee. However, because the Committee took responsibility for investigating the serious issues which arose in 2009, the external auditor, internal auditor and the Finance Director did not attend all the meetings of the Committee.

The Executive Chairman and the Group Risk and Compliance Director usually attend meetings of the Committee at the invitation of the Committee chairman.

The external auditor and internal auditor had a confidential discussion with members of the Committee without any executive directors being present during part of certain meetings.

WORK OF THE COMMITTEE

The Committee discharged its duties in 2009 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 at the time (PwC). The members of the Committee also discussed the impairment issues with the internal auditor.
- 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 an update 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.

WORK OF THE COMMITTEE continued

- 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 WFS 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.
- A report from the internal auditor was reviewed at the meetings in February, September and November. In particular, at its November meeting the Committee reviewed the findings of the key controls review and established a project team to ensure that all its recommended actions were implemented.
- At its February, May, June, September and November meetings the Committee considered reports produced by the Group Risk and Compliance Director in relation to whistleblowing and other risk and compliance issues.
- The Committee reviewed the fees paid to the external auditor for audit and non-audit services at its February meeting.
- At its November 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 AUDITOR

Both the Audit Committee and the external auditor, Grant Thornton, have put in place safeguards to avoid the auditor's objectivity and independence being compromised. The Group's policy with regard to services provided by its external auditor is as follows:

- **Statutory audit services**

The external auditor is usually appointed annually by the shareholders. However, Grant Thornton was appointed by the Board on 7 December 2009 to fill the casual vacancy following the resignation of PwC in November 2009.

PwC commenced the audit of the financial statements for the year ended 31 December 2008. 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. PwC'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 PwC to resign as auditor. Given the accounting issues faced by the Company, the Board did not consider it appropriate for PwC to audit the Company's 2008 Annual Report and Financial Statements.

The Audit Committee evaluated the performance of Grant Thornton in auditing the Annual Report and Financial Statements for the year ended 31 December 2008 and, in view of the results of that evaluation, recommended to the Board that Grant Thornton should be re-appointed as the Company's auditor at the Annual General Meeting on 29 June 2010. The Board agreed with this recommendation and as Grant Thornton had expressed its willingness to continue in office, resolutions proposing its re-appointment as auditor and authorising the directors to determine the auditor's remuneration were passed at the Annual General Meeting on 29 June 2010.

The Audit Committee has evaluated the performance of Grant Thornton in auditing the Annual Report and Financial Statements for the year ended 31 December 2009 and, in view of the results of that evaluation, has recommended to the Board that Grant Thornton should be re-appointed as the Company's Auditor at a General Meeting expected to be convened shortly to receive the Annual Report and Financial Statements for the year ended 31 December 2009. The Board agreed with this recommendation and as Grant Thornton has expressed its willingness to continue in office, resolutions proposing its re-appointment as auditor and authorising the directors to determine the auditor's remuneration will be proposed at that General Meeting.

Grant Thornton now provides the statutory audit services.

The external auditor also provides services in respect of the provision of an independent review report on the Company's Interim Results, performs work in its capacity as reporting accountant in accordance with the Prospectus Rules and provides regulatory services and formalities relating to other circulars. The Audit Committee reviews the auditor's performance on an ongoing basis.

- **Tax compliance and tax advisory services**

Tax compliance involves dealing with the Group's corporation tax returns and until March 2009 this work was carried out by PwC, when they were replaced by Deloitte. 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 auditor to undertake this work because of its knowledge and experience of the business. However, the Board reviews its independence and expertise on every assignment.

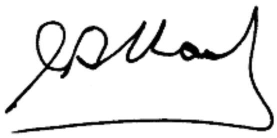
The external auditor is not permitted to provide internal audit, risk management, litigation support, remuneration advice or legal advice services. The provision of other non-audit services is awarded on a case-by-case basis, depending on which professional services firm is considered best suited to perform the work.

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

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. Grant Thornton has formally confirmed its independence to the Board, in respect of the period since its appointment.

The disclosure of the non-audit fees paid to PwC and Grant Thornton is included in note 9 to the financial statements.

APPROVAL
This report was approved by the Audit Committee on 29 November 2010 and signed on its behalf by:



David Haxby

Chairman of the Audit Committee

29 November 2010

NOMINATION COMMITTEE REPORT

For the year ended 31 December 2009

INTRODUCTION
This report to shareholders has been prepared in accordance with the requirements of paragraph A.4.6 of the 2008 FRC Combined Code on Corporate Governance. This report gives details of the work of the Committee in discharging its responsibilities in 2009.

TERMS OF REFERENCE
The Committee's terms of reference, which can 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 are:

- 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
The Executive Chairman, M A Young, and the three independent non-executive directors, D A Haxby, F R Dee and A J McWalter, were members of the Committee throughout 2009. The former Chairman, N N Broadhurst, and Chief Executive, D J Postings, were chairman and a member of the Committee respectively until their resignations on 30 June 2009. M A Young was appointed as Chairman of the Committee on 15 July 2009.

MEETINGS
The Committee met formally on three occasions during 2009. Details of attendance by members of the Committee at its meetings in 2009 are set out in the Corporate Governance Report on page 14. D J Postings missed one meeting because he was dealing with another issue on behalf of the Company.

WORK OF THE COMMITTEE
The main work undertaken by the Committee during 2009 was as follows:

- at its March meeting the Committee recommended the appointment of J R Drummond Smith as the Company's Finance Director after J J Corr's suspension from his duties as Finance Director earlier in March. J R Drummond Smith had previously held two other interim finance director roles after retiring as a partner from Deloitte. He had joined the Company three weeks earlier following a recommendation, in view of the need to restructure the Group following the announcement of the Impairment Review in February. The Committee recommended that R D East, whom it had previously recommended should succeed J J Corr, should instead concentrate on leading the restructuring as Chief Restructuring Officer;
- at its May meeting the Committee recommended that P Mackin should be appointed as WFS' Chief Operating Officer; and
- at its June meeting the Committee recommended that L Barlow should be appointed as a director and chairman of WFS.

APPROVAL
This report was approved by the Nomination Committee on 29 November 2010 and signed on its behalf by:

Margaret Young

Margaret Young

Chairman of the Nomination Committee

29 November 2010

RISK COMMITTEE REPORT

For the year ended 31 December 2009

INTRODUCTION

This report to shareholders gives details of the work of the Risk Committee in discharging its responsibilities in 2009.

TERMS OF REFERENCE

The Committee's terms of reference, which can 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 are:

- reviewing and approving the Group risk and control framework;
- reviewing and approving the Group risk appetite;
- reviewing and approving proposals brought forward by the Group Operational Risk Committee (previously called the Group Operations and Operational Risk Committee) and the Group Financial Risk Committee (previously called the Group Credit Committee) (which were both executive committees) for identifying, measuring and mitigating material risks to ensure that they stay within the limits of the Group's risk appetite;
- reviewing and approving the Group's material risk profile and related reporting brought to it by the Group risk and compliance function detailing:
  - executive management's summary assessment of the key risks facing the Group and the trend of these risks;
  - the likelihood of the risk concerned materialising;
  - the appropriateness of mitigating actions and timeframes; and
  - the completeness of the Group's systems and processes of managing and controlling these risks;
- considering any breaches of the Group risk appetite and each of the approved risk types' limits and approving the reduction plan and/or ratifying the excess request brought forward by the Group Operational Risk Committee and the Group Financial Risk Committee;
- reviewing and approving all Group risk policies brought forward by the Group Operational Risk Committee and the Group Financial Risk Committee;
- receiving and reviewing regular reports on non-financial internal controls from the Group Operational Risk Committee and, as appropriate, the Group internal audit function or external advisers; and
- overseeing and promoting a strong risk and control culture and environment within the Group.

MEMBERSHIP

The three independent non-executive directors, F R Dee, D A Haxby and A J McWalter, were members of the Committee throughout 2009. The former Chairman of the Board, N N Broadhurst, was Chairman of the Committee until his resignation on 30 June 2009. On 15 July 2009 F R Dee was appointed as Chairman of the Committee and M A Young resigned as a member of the Committee following her appointment as Executive Chairman on 30 June 2009.

MEETINGS

The Committee met formally four times in 2009. Details of attendance by members of the Committee at its meetings in 2009 are set out in the Corporate Governance Report on page 14. A J McWalter missed one meeting, which was arranged at short notice, due to a pre-existing other business commitment.

WORK OF THE COMMITTEE

The main work undertaken by the Committee in 2009 was as follows:

- at all its meetings, members of the Committee reviewed in detail and agreed changes to the Group material risk register in response to the changing risks facing the Group during the year;
- at its March meeting the Committee approved changes to the Group's risk governance arrangements and, in particular, the formation of the Group Operations and Operational Risk (now called the Group Operational Risk) and Group Credit (now called the Group Financial Risk) Committees in place of the Risk Oversight Committee;
- at its August meeting the Committee approved changes to its terms of reference to reflect the new risk governance arrangements; and
- at its August and November meetings the Committee considered reports in relation to operational and credit risk and at its November meeting the Committee also considered a report on legal and regulatory risk.

APPROVAL

This report was approved by the Risk Committee on 29 November 2010 and signed on its behalf by:

Frank Dee

Chairman of the Risk Committee

29 November 2010

INTRODUCTION

This report contains the information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 2009 and a resolution to approve this report will be proposed at a General Meeting of the Company in early 2011.

The Companies Act 2006 requires the auditor to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in its opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has therefore been divided into separate sections for audited and unaudited information with the 'auditable part' being on pages 30 to 33.

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The three independent non-executive directors, A J McWalter, D A Haxby and F R Dee, were members of the Committee throughout 2009. The former Chairman of the Board, N N Broadhurst, was also a member of the Committee until his resignation on 30 June 2009. On 15 July 2009, A J McWalter was appointed Chairman of the Committee in place of F R Dee and M A Young ceased to be a member of the Committee following her appointment as Executive Chairman of the Company on 30 June 2009.

Details of attendance by members of the Committee at its meetings in 2009 are set out in the Corporate Governance Report on page 14. M A Young missed one meeting, which was arranged at short notice, due to holidays and one meeting because she was at another meeting on the Company's business.

None of the Committee members has any personal financial interest in the Company other than as a shareholder, nor have they any day-to-day involvement in the running of the business or conflicts of interest 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 can 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.

Before 30 June 2009, the Chairman of the Board, N N Broadhurst, did not participate in any discussions relating to his own remuneration and absented himself from the meeting when his own remuneration was being considered. Before 30 June 2009, the Chief Executive, D J Postings, was consulted by the Committee but did not participate in any discussions relating to his own remuneration. After 30 June 2009, the Executive Chairman was consulted by the Committee but did not participate in any discussions in relation to her own remuneration.

REMUNERATION POLICY

During the year ended 31 December 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.

As at 1 January 2009, there were four main elements of the remuneration packages of the executive directors:

- basic salary and benefits;
- annual bonus;
- long-term incentives; and
- pension and life assurance arrangements.

However, the former executive directors, D J Postings, M W G Collins, J J Corr and I S Cummine, did not participate in any annual bonus scheme for 2009 and no awards were made to, and no shares vested in, them during 2009 under the Company's long-term incentive schemes.

After 30 June 2009, there were two main elements of the remuneration packages of the executive directors:

- basic salary and benefits; and
- performance and retention bonus.

The Company's policy is that a substantial proportion of the remuneration of the executive directors should be performance-related. Each of the executive directors in office after 30 June 2009, namely M A Young, J R Drummond Smith and R D East, received a performance and retention bonus.

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

Until 30 June 2009, the fee paid to the Chairman of the Board, N N Broadhurst, was determined by the Remuneration Committee (excluding the Chairman) in consultation with the Chief Executive, D J Postings. The fees paid to the non-executive directors, other than the Chairman, were determined by a sub-committee of the Board comprising of the Chairman of the Board, the Chief Executive and the Finance Director.

After 30 June 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 are determined by the Remuneration Committee, prior to the beginning of each year or on appointment, taking into account the responsibilities and performance of the individual director.

In view of the financial position of the Group, the Committee reviewed but decided not to make any changes to the executive directors' basic salaries in December 2009 and so the Board agreed to make no changes to the annual salaries of the executive directors with effect from 1 January 2010:

	1 January 2010 £000	1 January 2009 £000
M A Young (appointed Executive Chairman 30 June 2009)	*	–
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	**	–
R D East (appointed 29 July 2009)	420	–
D J Postings (resigned 30 June 2009)	–	525
M W G Collins (removed 30 June 2009)	–	320
J J Corr (removed 30 June 2009)	–	320
I S Cummine (removed 30 June 2009)	–	390

* M A Young was employed under terms where she received a daily rate for the number of days worked for the Company. The daily rate from 1 January 2010 was £2,230. From the date of her appointment as an executive director on 30 June 2009 until 31 December 2009 the daily rate was £2,500 but during this time M A Young was a consultant and not an employee and was not entitled to paid holiday. The daily rate was reduced from £2,500 to £2,230 from 1 January 2010 so that M A Young was paid the same amount as previously after taking account of paid holidays. M A Young entered into an employment service contract with the Company on 30 March 2010.

** J R Drummond Smith was employed under terms where he received a daily rate for the number of days worked for the Company. The daily rate from 1 January 2010 was £1,785. From the date of his appointment as an executive director on 24 April 2009 until 31 December 2009 the daily rate was £2,000 and during this time J R Drummond Smith was a consultant and not an employee and was not entitled to paid holiday. The daily rate was reduced from £2,000 to £1,785 from 1 January 2010 so that J R Drummond Smith was paid the same amount as previously after taking account of paid holidays. J R Drummond Smith entered into an employment service contract with the Company on 30 March 2010.

Since his appointment on 29 July 2009, R D East has received an annual salary of £300,000 and an additional monthly payment of £10,000.

Other than an annual performance and retention bonus, M A Young and J R Drummond Smith received no other benefits.

In addition to his basic salary, R D East received certain benefits in kind, being a car and fuel provision (or a cash allowance), pension contributions, private medical insurance and permanent health insurance.

ANNUAL BONUS

The targets which trigger annual performance and retention bonuses are set by the Remuneration Committee. For 2009 the Remuneration Committee agreed that M A Young, J R Drummond Smith and R D East could earn an annual performance and retention bonus up to a maximum of £162,500, £200,000 and £160,000 respectively, dependent on the achievement by them of objectives set for each of them by the Committee. The former executive directors, D J Postings, M W G Collins, J J Corr and I S Cummine, did not participate in any annual bonus scheme for 2009.

Bonuses do not form part of pensionable earnings.

LONG-TERM INCENTIVES

Before 2009, 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.

No awards have been made under any of the Company's long-term incentive schemes since 31 December 2008.

LONG-TERM INCENTIVE PLAN (LTIP)

The LTIP was adopted in May 2005. Participation was at the discretion of the Committee and 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 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 shares using their annual bonus (Investment Shares).

LONG-TERM INCENTIVE PLAN (LTIP) continued

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 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 2:1 ratio. No award of Matching Shares was made to D J Postings in 2008.

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 earnings per share (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 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.

No Awards were made under the LTIP in 2009.

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. The directors of the trustee Company were the three members of the Committee, 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 will at no time hold more than 5% of the issued share capital of Cattles. The LTIP was funded by loans from the Company to the Trust, which then acquired Cattles 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. 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 adjustment as it considered appropriate to the number of shares 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 has been made under the Management Share Plan since June 2007.

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% were due to vest on 21 June 2010, subject to the senior executives remaining in the employment of a member of the Group or being classified as a 'good leaver'. These awards did not vest on 21 December 2008 and 21 June 2010 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 or being classified as a 'good leaver'. However, six of the nine awards have lapsed because the relevant senior non-main Board executives have subsequently ceased to be in the employment of a member of the Group and were not classified as 'good leavers'.

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 Save As You Earn (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 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.

No options have been granted under this scheme since 2008.

As at 31 December 2009, options to subscribe for 6,756,312 (2008: 17,859,666) 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.

No awards have been made under this plan since 2008.

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 has options outstanding or unexercised under any of the Executive Share Option Schemes.

As at 31 December 2009, no options had been granted under the 2005 Scheme. As at 31 December 2009, options to subscribe for 32,120 (2008: 66,459) and nil (2008: 30,370) 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 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 auditor at the time, PwC, reviewed the conversion of the EPS growth targets from UK Generally Accepted Accounting Practice (UK GAAP) to IFRS.

PENSION AND LIFE ASSURANCE ARRANGEMENTS

R D East received a salary supplement of 20% of his basic salary in lieu of a pension contribution because his pension plans were already funded up to the HMRC maximum limit. Neither M A Young nor J R Drummond Smith received pension contributions or a salary supplement in lieu of a pension contribution.

PENSION AND LIFE ASSURANCE ARRANGEMENTS continued

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 2009, 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.

R D East and the former executive directors, D J Postings, M W G Collins, J J Corr and I S Cummine, were provided with death-in-service life assurance cover of four times basic salary. Neither M A Young nor J R Drummond Smith had death-in-service life assurance cover.

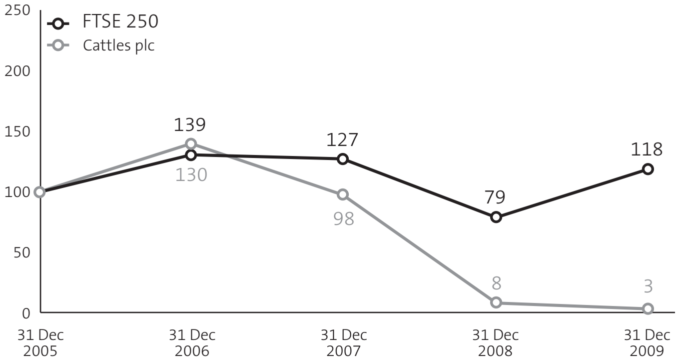
PERFORMANCE GRAPH OF TOTAL SHAREHOLDER RETURN

Five Years to 31 December 2009

In the opinion of the Committee, the FTSE 250 index was the most appropriate index against which the total shareholder return of Cattles for the five years to 31 December 2009 should be measured because it is an index containing companies which were similar in size to Cattles for the four years to 31 December 2008 and the Company has a limited number of direct comparator companies.

The graph below shows the value of £100 invested in Cattles on 31 December 2005 compared with the value of £100 invested in the FTSE 250 index.

TOTAL SHAREHOLDER RETURN



SERVICE CONTRACTS

Director	Date of service contract	Notice period
M A Young	30 March 2010	1 month either party
J R Drummond Smith (appointed 24 April 2009. resigned 29 June 2010)	30 March 2010	1 month either party
R D East	16 June 2008 (amended)	12 months from the Company, 6 months from the individual
P J Felton-Smith	23 July 2010	1 month either party
D J Postings (resigned 30 June 2009)	18 May 2007	12 months either party
M W G Collins (removed 30 June 2009)	5 March 2003 (amended)	12 months from the Company, 6 months from the individual
J J Corr (removed 30 June 2009)	5 March 2003 (amended)	12 months from the Company, 6 months from the individual
I S Cummine (removed 30 June 2009)	5 March 2003 (amended)	12 months from the Company, 6 months from the individual

Before 30 June 2009, it was the Company's policy that executive directors' service contracts should normally 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 former executive directors (apart from D J Postings) entered into service contracts, including these terms as to notice, 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 former 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.

R D East entered into a service contract including these terms as to notice when he joined the Company on 16 June 2008. The terms of R D East's service contract (but not the terms as to notice) were varied on 30 March 2010.

M A Young entered into a consultancy agreement with the Company on 30 September 2009 following her appointment as Executive Chairman on 30 June 2009. M A Young entered into a service agreement with the Company on 30 March 2010 which replaced the consultancy agreement.

J R Drummond Smith entered into a consultancy agreement with the Company on his appointment to the Board on 24 April 2009. The terms of the consultancy agreement were varied on 30 September 2009. J R Drummond Smith entered into a service agreement with the Company on 30 March 2010 which replaced the consultancy agreement with effect from 1 January 2010 and was for the period to 30 June 2010.

P J Felton-Smith entered into a service agreement with the Company on 23 July 2010 which took effect from his appointment to the Board on 29 June 2010.

M A Young's employment will terminate on such date as the Committee decides the Company has reached agreement with its stakeholders in relation to the critical issues facing the Company or on one month's notice. If it is terminated or notice to terminate has been given before the end of the term, any bonus payment will be at the sole discretion of the Committee.

J R Drummond Smith's employment by the Company terminated on 30 June 2010. J R Drummond Smith could not become a director of another company without the prior written consent of the Board, which had consented to his non-executive directorships of Caley Limited, Barbon Insurance Group Limited and Propgen Insurance Limited.

P J Felton-Smith's employment will terminate on one month's notice. If it is terminated or notice to terminate has been given before any bonus payment has been made, any such bonus payment will be at the sole discretion of the Committee. P J Felton-Smith cannot become a director of another company without the prior written consent of the Board, which has consented to his non-executive directorships of DNick Holding plc and PSE Newco Limited.

The Company has the right to terminate R D East's employment by paying him the remuneration which he would have been entitled to receive from the Company in respect of the relevant period of notice. If R D East ceases 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 is 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 is possible to do so under the terms of the relevant contract. R D East may not become a director of another company without the prior written consent of the Board.

No executive director is, or in 2009 was, a non-executive director of any other company, except that P J Felton-Smith is a non-executive director of DNick Holding plc and PSE Newco Limited and retains the fees of £5,833 per month he is paid in respect of these appointments and J R Drummond Smith was a non-executive director of Caley Limited, Barbon Insurance Group Limited and Propgen Insurance Limited and he retained the fees of £3,000 per month he was paid in respect of those appointments for the period from 24 April 2009 to 29 June 2010.

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 2009, the dates of their then current letters of appointment were: D A Haxby 22 June 1999; F R Dee 30 June 2004; and A J McWalter 6 September 2005.

In 2009, the former Chairman, N N Broadhurst, received a fee of £92,500 for the six months to 30 June 2009 being one half of his annual 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 2009, the non-executive directors' basic fee (calculated by reference to practice adopted in the market generally) was £47,500 with an extra fee of £10,000 being paid to the Chairman of a Committee and an extra fee of £2,500 being paid to the Senior Independent Director. M A Young received a fee of £28,750 for the six months to 30 June 2009 being one half of her annual fee as a non-executive Director and Chairman of the Audit Committee. Until 15 July 2009 D A Haxby's annual fee was £50,000 as a non-executive director and Senior Independent Director, F R Dee's annual fee was £57,500 as a non-executive Director and Chairman of the Remuneration Committee and A J McWalter's annual fee was £57,500 as a non-executive Director and as the previous Chairman of the WFS Regulatory Oversight Committee. From 15 July 2009 D A Haxby's annual fee was changed to £60,000 as Chairman of the Audit Committee, Senior Independent Director and a non-executive director, F R Dee's annual fee was changed to £67,500 as Chairman of the Risk Committee and of the WFS Audit Committee and a non-executive director and A J McWalter's annual fee continued to be £57,500 as Chairman of the Remuneration Committee and a non-executive Director.

Reasonable expenses that non-executive directors may incur in the furtherance of their duties are repaid by the Company.

In view of the financial position of the Group, the sub-committee of the Board, comprising the Executive Chairman and the Finance Director, reviewed but decided not to make any changes to the non-executive directors' fees in December 2009 and so the Board agreed to make no changes to the annual fees of the non-executive directors with effect from 1 January 2010:

	1 January 2010 £000	1 January 2009 £000
D A Haxby	60	50
F R Dee	68	58
A J McWalter	58	58
M A Young (appointed Executive Chairman 30 June 2009)	–	58
N N Broadhurst (resigned 30 June 2009)	–	185

The changes in the non-executive directors' fees in the table are due to the changes in their roles as Chairmen of the various Committees and not to an increase in the components used to calculate the non-executive directors' fees.

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 2009 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 2009 £000	Total 2008 £000
Executive directors								
M A Young (non-executive director until 30 June 2009, Executive Chairman from 30 June 2009)	–	339	–	140	–	–	**479**	58
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	–	385	–	165	–	–	**550**	–
R D East (appointed 29 July 2009)	187	–	–	149	6	25	**367**	–
D J Postings (resigned 30 June 2009)	278	–	19	–	–	65	**362**	697
M W G Collins (removed 30 June 2009)	164	–	12	–	5	20	**201**	355
J J Corr (removed 30 June 2009)	169	–	16	–	–	–	**185**	354
I S Cummine (removed 30 June 2009)	206	–	17	–	–	–	**223**	425
Non-executive directors								
D A Haxby	–	55	–	–	–	–	**55**	50
F R Dee	–	62	–	–	–	–	**62**	58
A J McWalter	–	58	–	–	–	–	**58**	58
N N Broadhurst (resigned 30 June 2009)	–	93	–	–	–	–	**93**	185
Total	**1,004**	**992**	**64**	**454**	**11**	**110**	**2,635**	**2,240**

The expense allowances received by R D East comprised his car and fuel allowance. The other remuneration received by R D East comprised a salary supplement of 20% of his basic salary in lieu of a pension contribution.

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

The expense allowances received by M W G Collins comprised his car and fuel allowance. The other remuneration received by M W G Collins comprised a salary supplement of 20% of the difference between his basic salary and the Cattles Staff Pension Fund cap, in lieu of a pension contribution.

Fees relating to M A Young and J R Drummond Smith include those fees payable to them or to the service companies which have provided the Group with their services.

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 2009:

	Award	No. of shares notionally held at 1 January 2009 (or date of appointment, if later)	Lapsed in the year	**Potential interest in shares at 31 December 2009 (or date of resignation or removal, if earlier)**	Share price at date of notional award (p)	Amount charged against profit in the year £000	Notional award date	Earliest vesting date
Executive directors								
M A Young (non-executive director to 30 June 2009, Executive Chairman from 30 June 2009)	–	–	–	**–**	–	–	–	–
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	–	–	–	**–**	–	–	–	–
R D East (appointed 29 July 2009)	LTIP	209,737	–	**209,737**	133.50	–	30.06.08	30.06.11
D J Postings (resigned 30 June 2009)	LTIP	312,743	312,743	**–**	373.50	–	17.09.07	17.09.10
	RSA	160,123	160,123	**–**	373.50	–	17.09.07	09.10.09
	RSA	160,123	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 (removed 30 June 2009)	LTIP	157,789	157,789	**–**	406.50	–	23.11.06	23.11.09
	LTIP	152,626	152,626	**–**	400.90	–	24.04.07	24.04.10
	DSBP	12,735	12,735	**–**	428.75	–	23.03.07	23.03.10
	LTIP	91,233	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 (removed 30 June 2009)	LTIP	157,789	157,789	**–**	406.50	–	23.11.06	23.11.09
	LTIP	152,626	152,626	**–**	400.90	–	24.04.07	24.04.10
	DSBP	12,735	12,735	**–**	428.75	–	23.03.07	23.03.10
	LTIP	91,233	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 (removed 30 June 2009)	LTIP	190,433	190,433	**–**	406.50	–	23.11.06	23.11.09
	LTIP	185,192	185,192	**–**	400.90	–	24.04.07	24.04.10
	DSBP	14,983	14,983	**–**	428.75	–	23.03.07	23.03.10
	LTIP	110,677	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 – executive directors		3,957,315	3,747,578	**209,737**		–		
Other executives	LTIP	249,530	119,985	**129,545**	406.50	–	23.11.06	23.11.09
	LTIP	256,468	123,754	**132,714**	400.90	–	24.04.07	24.04.10
	MSP	186,763	106,804	**79,959**	405.75	–	21.06.07	21.12.08
	MSP	186,763	106,805	**79,958**	405.75	–	21.06.07	21.06.10
	LTIP	1,036,229	552,057	**484,172**	133.50	–	30.06.08	30.06.11
Total – other executives		1,915,753	1,009,405	**906,348**		–		
Total		5,873,068	4,756,983	**1,116,085**		–		

In the year no shares were notionally awarded or vested.

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

Given the performance of the Group in the year ended 31 December 2009, no charge was made to income for the year as vesting conditions were not met.

DIRECTORS' LONG-TERM INCENTIVES continued

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 or being classified as a 'good leaver'. However, six of the nine senior executives have subsequently ceased to be in the employment of the Group and were not classified as 'good leavers' and so their awards have lapsed.

The 79,958 shares which were due to vest in one senior executive and two former 'good leaver' senior executives under the MSP on 21 June 2010 did not vest because the Company continued to be 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 executive remaining in the employment of a member of the Group or being classified as a 'good leaver'.

The performance criteria attaching to the LTIP are set out in the 'LTIP' section of this report on pages 25 to 26.

As at 1 January and 31 December 2009 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 2009:

	1 January 2009 (or date of appointment, if later)	Exercise price (p) as at 1 January 2009	Lapsed during the year	**31 December 2009 (or date of resignation or removal, if earlier)**	Date from which exercisable	Expiry date
Executive directors						
M A Young (non-executive director to 30 June 2009, Executive Chairman from 30 June 2009)	–	–	–	**–**	–	–
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	–	–	–	**–**	–	–
R D East (appointed 29 July 2009)	–	–	–	**–**	–	–
D J Postings (resigned 30 June 2009)	35,944	46.60	35,944	**–**	01.12.13	01.06.14
M W G Collins (removed 30 June 2009)	35,944	46.60	35,944	**–**	01.12.13	01.06.14
J J Corr (removed 30 June 2009)	6,481	244.47	6,481	**–**	01.12.08	01.06.09
I S Cummine (removed 30 June 2009)	3,992	244.47	3,992	**–**	01.12.08	01.06.09
I S Cummine (removed 30 June 2009)	2,526	255.25	2,526	**–**	01.12.12	01.06.13
Total	84,887		84,887	**–**		

No options were granted to, or exercised by the executive Directors during the year.

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 income of the previous year:

	2009 £000	2008 £000
Executive directors		
M A Young (non-executive director to 30 June 2009, Executive Chairman from 30 June 2009)	**–**	–
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	**–**	–
R D East (appointed 29 July 2009)	**–**	–
D J Postings (resigned 30 June 2009)	**–**	–
M W G Collins (removed 30 June 2009)	**–**	3
J J Corr (removed 30 June 2009)	**–**	3
I S Cummine (removed 30 June 2009)	**–**	3
Total	**–**	9

DIRECTORS' PENSION ENTITLEMENTS

Company contributions during the year were as follows:

	2009 £000	2008 £000
Executive directors		
M A Young (non-executive director to 30 June 2009, Executive Chairman from 30 June 2009)	**–**	–
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	**–**	–
R D East (appointed 29 July 2009)	**–**	–
D J Postings (resigned 30 June 2009)	**–**	–
M W G Collins (removed 30 June 2009)	**14**	46
J J Corr (removed 30 June 2009)	**32**	64
I S Cummine (removed 30 June 2009)	**39**	78
Total	**85**	188

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 2009.

	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) net of director's contribution (i) £000	Accrued pension entitlement at 31 December 2009 £000	Transfer value of accrued pension entitlement at 31 December 2009 £000	Transfer value of accrued pension entitlement at 31 December 2008 £000	Increase in transfer value of accrued pension entitlement £000	Increase in transfer value of accrued pension entitlement net of director's contribution £000
Executive director								
M W G Collins (removed 30 June 2009)	1	1	16	24	298	264	34	31

(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 29 November 2010 and signed on its behalf by:

Alan McWalter

Chairman of the Remuneration Committee

29 November 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 2009.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year ended 31 December 2009 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 2009 is set out in note 34 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 2009 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. The Executive Chairman's Statement and the Business and Financial Review constitute the 'management report' which is required to be included in this Annual Report by rules 4.1.5R and 4.1.8R of the Disclosure and Transparency Rules and are incorporated by reference into and so form part of this report.

CORPORATE GOVERNANCE

A review of the Company's corporate governance arrangements is set out in the Corporate Governance Report on pages 14 to 18 and reports as to the activities of the Audit, Nomination and Risk Committees in 2009 are set out on pages 19 to 23. The Corporate Governance Report and the Audit, Nomination and Risk Committee Reports are incorporated by reference into and so form part of this report.

RESULTS AND DIVIDENDS

Total revenue for the year from continuing operations amounted to £511.7 million (2008: £712.7 million) and loss before taxation from continuing operations was £685.4 million (2008: £764.6 million) as set out in the Group Income Statement on page 42. An analysis of income and loss before taxation, by operating segment, is set out in note 3 of the Financial Statements. Details of the taxation charge for the year are set out in note 10 of the Financial Statements.

Given the losses reported by the Group, no interim dividend was paid in respect of the six months ended 30 June 2009 and no final dividend can be proposed in respect of the year ended 31 December 2009.

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. The Trustee waived dividends of less than £0.1 million on the shares held during the year ended 31 December 2008.

POST BALANCE SHEET EVENTS

On 5 February 2010, Cattles announced the closure of 65 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 left the business.

On 5 March 2010, Welcome sold £0.4 billion of heavily impaired debt to a third party.

On 6 April 2010, Fitch upgraded Cattles' Long-term and Short-term Issuer Default Ratings to 'C' from 'Restricted Default' (RD). The upgrade reflected the standstill agreement in place between Cattles and its creditors, which became effective on 17 December 2009. Fitch stated that conditions that are indicative of a Long-term rating of 'C' include an issuer that has entered into a standstill agreement following a payment default.

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 and subsequently 139 left the business.

On 12 May 2010, the Court of Appeal heard the appeal of Party A and the subsequent cross-appeal of the Royal Bank of Scotland Plc of the decision of the High Court on 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 appeal and a cross-appeal were brought as part of consensual discussions between all parties. On 13 May 2010, the Court of Appeal unanimously handed down a decision that upheld the decision of the High Court which was explained in the Company's announcement dated 14 December 2009. The cross-appeal in relation to the Cherry v Boultbee issues was stayed. After judgment was handed down, Party A sought permission from the Court of Appeal to appeal this decision to the Supreme Court. The Court of Appeal did not give such permission and Party A had 28 days to appeal to the Supreme Court for permission to appeal the Court of Appeal's decision.

On 2 June 2010, the Company announced that one of the options being discussed with representatives of its key financial creditors concerning a consensual restructuring of its liabilities includes a proposal under which a newly incorporated company, formed and managed by a corporate service provider and ultimately owned by a charitable trust, would make an offer to acquire the entire issued share capital of Cattles (which would be effected by a shareholder scheme of arrangement). The Company added that, given the existing deficit in shareholders' funds and the significant losses Cattles' financial creditors will incur, Cattles would not expect any payment to shareholders to exceed 1.0p per share. Any such offer would be likely to comprise solely cash consideration. However, there can be no certainty that any offer will ultimately be made or as to the terms or timing of any offer. The making of any such offer is subject to a number of matters, including obtaining all necessary approvals.

On 28 July 2010, the Company was notified that, on 26 July 2010, the Supreme Court ordered that permission to appeal the Court of Appeal's decision be refused because the application to appeal 'does not raise an arguable point of law of general public importance which ought to be considered by the Supreme Court at this time, bearing in mind that the case has already been the subject of judicial decision and reviewed on appeal'. Consequently, the application of the Company has been finally determined to the effect that the Company's claims against its subsidiaries are subordinated to the claims of certain bank creditors.

On 15 September 2010, the Company announced that it had been informed by the advisers to the steering committees of the bondholder creditors of Cattles (which Cattles understands hold approximately one third of the nominal value of the outstanding bonds) that such steering committees and their advisers have ceased and do not intend to re-instigate negotiations with Cattles' other key financial creditors in respect of any solvent restructuring of Cattles. Notwithstanding this, Cattles believes that it remains in the interests of all parties to reach an agreement. Therefore, Cattles and its advisers continue to engage in ongoing constructive discussions with representatives of certain of its key financial creditors still with a view to achieving a consensual restructuring of Cattles' liabilities, including an offer to acquire the share capital of Cattles at up to 1.0p per share.

On 22 October 2010, Cattles announced that it continued to engage in discussions with representatives of certain of its key financial creditors and other stakeholders in order to progress proposals for a consensual restructuring which then envisaged that, as part of a restructuring, Cattles would compromise its subordinated inter-company claims against WFS and other subsidiaries in the Group for not less than £39.0 million. Such compromise would occur in the event of a sale to a newly incorporated company of either: (i) the entire issued share capital of Cattles (at a price of up to 1p per share); or (ii) certain of its subsidiaries (including WFS) for a nominal payment to Cattles (with no offer to Cattles' shareholders), in either case, together with a creditor scheme of arrangement of WFS. Cattles would use the payment of not less than £39.0 million to meet its own costs and to compromise amounts it owes to its creditors (which at the last audited balance sheet date of 31 December 2008 totalled £2.8 billion).

On 22 November 2010, Cattles announced that it had been informed by representatives of certain of the key financial creditors of WFS that they continue to support proposals for a consensual restructuring including a compromise of Cattles' subordinated inter-company claims against WFS and other subsidiaries in the Group, however, for an amount which may be less than £39.0 million. Cattles also announced that it was continuing to discuss this matter further with WFS and the representatives of those key financial creditors.

On 29 November 2010, we announced that the Company had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group. Further details of the key elements of that restructuring are set out in the Executive Chairman's Statement under the heading 'Restructuring'.

DIRECTORS

Since 29 July 2009, the Board has comprised the Executive Chairman, two executive directors and three independent non-executive directors, details of whom are set out on page 13. P J Felton-Smith succeeded J R Drummond Smith as Finance Director on 29 June 2010. N N Broadhurst and D J Postings were directors until their resignation, and M W G Collins, J J Corr and I S Cummine were directors until their removal, on 30 June 2009.

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 2009 are set out in the Directors' Remuneration Report on pages 24 to 33. 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 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 has had a contract of significance, other than a service contract or a consultancy agreement and a qualifying third-party indemnity provision, with the Company or any subsidiary undertaking during the year ended 31 December 2009.

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.

DIRECTORS continued

The Directors have general powers 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.

In particular, the directors have power to propose amendments to the Company's Articles of Association but any such amendments may only be made by a special resolution passed by the Company's shareholders. In addition, the holders of 5% of the issued share capital may requisition a General Meeting for any purpose including amending the Articles.

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. The directors currently have no authority from the Company's shareholders to offer, allot, grant options over, or otherwise dispose of the Company's unissued shares.

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. The Company currently has no power from the shareholders to purchase its own shares.

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 2009, 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:

	29 November 2010	31 December 2009	31 December 2008
M A Young	7,250	7,250	7,250
J R Drummond Smith (appointed 24 April 2009, resigned 29 June 2010)	–	–	–
R D East (appointed 29 July 2009)	–	–	–
D A Haxby	12,059	12,059	12,059
F R Dee	24,500	24,500	24,500
A J McWalter	–	–	–
N N Broadhurst (resigned 30 June 2009)	n/a	n/a	6,450
D J Postings (resigned 30 June 2009)	n/a	n/a	90,000
M W G Collins (removed 30 June 2009)	n/a	n/a	149,900
J J Corr (removed 30 June 2009)	n/a	n/a	183,832
I S Cummine (removed 30 June 2009)	n/a	n/a	221,971
Total	**43,809**	**43,809**	**695,962**

GOING CONCERN BASIS

On 25 November 2009, the Company announced that it had agreed the SEA with its key financial creditors, and that this should improve the likelihood of the Company achieving its restructuring objectives. Since that date, we have continued to engage in discussions with representatives of our key financial creditors in order to progress proposals for a solvent restructuring.

On 29 November 2010, we announced that the Company had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group. Further details of the key elements of that restructuring are set out in the Executive Chairman's Statement under the heading 'Restructuring'.

Each scheme, including the shareholders' scheme, will be subject to obtaining the necessary approvals and the solvent restructuring will be subject to the satisfaction of certain conditions precedent. Therefore, a material uncertainty exists as to whether the solvent restructuring will become fully and finally effective in accordance with its terms. 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 certain of the key financial creditors of the Cattles Group, including in particular under a restructuring and lock-up agreement and the progress being made with them and others in furtherance of the implementation and conclusion of a solvent restructuring. Under the restructuring and lock-up agreement, certain of the key financial creditors have conditionally agreed to vote in favour of the schemes and support, facilitate, implement or otherwise give effect to the solvent restructuring. However, for the reasons set out above, there is a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

However, 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 the Company of £2.7 billion (2008: £2.9 billion). However, the Company is also party to the standstill contained within the SEA and the Company has agreed not to demand repayment of the inter-company liability while the SEA continues. Further, as part of the scheme to be proposed by WFS, the Company has agreed to compromise the inter-company liability for either (i) £49 million or (ii) between £30 million and £39 million, depending on the circumstances.

After making enquiries regarding the circumstances outlined above, the Directors have concluded that there is a reasonable expectation that the Company and its subsidiaries can continue to pay their operational debts as they fall due for the foreseeable future. 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 have been applied consistently by the Company and its subsidiary undertakings to all periods presented in these consolidated and Company 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 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 adequate 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 2009 comply with the Companies Act 2006 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
Paul J Felton-Smith, Finance Director
Robert D East, Director, Managing Director of the Group's Operations
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 2009; 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 2009, together with a description of the principal risks and uncertainties that they faced as at 31 December 2009.

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 website is the responsibility of the Directors. The work carried out by the Auditor 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 regarding Group objectives and expectations relating to its future financial condition and performance as at 31 December 2009. 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, projected costs, estimates of capital expenditures, 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, 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 2009.

Any forward-looking statements made by or on behalf of the Company speak only as of the date on which they were made. 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 THE AUDITOR

So far as each director who held office on 29 November 2010 (the date of the approval of this report) is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is 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' and 'Market and liquidity 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 27 to the Financial Statements.

At 31 December 2009, 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 and the Management Share Plan. 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 the year, there were no changes to the issued ordinary share capital of the Company of 526,066,902 ordinary shares. Details of the issued share capital are shown in note 27 to the financial statements.

As at 31 December 2009, the Company had no power to purchase its own shares.

SUBSTANTIAL SHAREHOLDINGS

As at 29 November 2010 the Company had been notified of the following interests pursuant to the Disclosure and Transparency Rules representing 3% or more of the issued share capital of the Company:

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 22 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.

ESSENTIAL CONTRACTS

Other than the agreements relating to the Company's bank facilities and debt facilities in issue and other borrowings, details of which are set out in note 22 to the Financial Statements, there are no persons with whom the Company has contractual or other arrangements which are essential to the business of the Company.

CORPORATE RESPONSIBILITY

In 2008 and prior years Cattles developed a Corporate Responsibility strategy based on the three cornerstones: being a responsible financial services organisation, being a good people business and being environmentally responsible. In 2009 activities in these areas (in particular, in relation to social and community issues) were significantly reduced in view of the financial difficulties experienced by the Group.

DONATIONS

Charitable donations during 2009 amounted to £0.1 million (2008: £0.4 million) of which £0.1 million (2008: £0.3 million) were made to organisations seeking to improve the financial skills and general welfare of young people and £nil (2008: £0.1 million) were made to organisations addressing the issues of social disadvantage in the communities served by the Group's businesses.

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. Sixty employee volunteers from across the Group were recruited and trained and passed on their expertise to 1,755 students in 73 sessions in 2009.

In 2009, 20% of employees participated in the Cattles 50/50 Club, a Give As You Earn (GAYE) scheme where employees voted for their choice of charities and their contributions were matched by the Company.

Through these community activities, the Group invested £0.1 million (2008: £0.6 million) in community activities and initiatives during 2009. This included financial donations and the value of donations of time.

EMPLOYEES

Since February 2009 the number of employees working for the Group has reduced significantly as a result of the financial difficulties experienced by the Group. The Group has formulated policies both to support those employees who are put at risk of redundancy and to retain and incentivise those employees who remain with the Group.

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 2009, 558 days of training were delivered to employees.

In 2008, Welcome Car Finance gained Investors in People (IiP) accreditation for the first time. Welcome and Shopacheck were also reaccredited and so the majority of the Group's employees were working under the IiP Standard in 2009.

Employees who hold shares to which scheme rights are attached receive a Form of Direction, which he or she can use to direct their votes to be cast.

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 2009, Cattles used 8.2 million kWh of electricity (2008: 5.7 million kWh), an increase of 44% on 2008 in part reflecting the installation of new information technology equipment at one of the Nottingham sites, the opening of a new Nottingham site during 2008 which was in use throughout 2009 and revised billing arrangements.

One of the largest impacts relates to fuel use by the Company car fleet. During 2009, fuel consumption reduced by 26% to 1.6 million litres. This reduction mostly resulted from the closure of Welcome Car Finance. As a consequence, carbon dioxide (CO_2) emissions generated by the Group remained at similar levels to 2008 at 8,656 tonnes (2008: 8,617 tonnes) as increased emissions from building energy were almost offset by a reduction in emissions from company car fuel use.

During 2009, the Group generated 1,243 tonnes of waste, of which 62% 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. Trade creditors of the Group at 31 December 2009 were equivalent to 9 days (2008: 21 days) purchases, reducing significantly in the year due to reduced trade creditor volumes and balances at 31 December 2009.

INDEPENDENT AUDITOR

The external auditor is appointed annually by the shareholders. Grant Thornton was appointed by the Shareholders on 29 June 2010.

The Audit Committee evaluated the performance of Grant Thornton in auditing the Annual Report and Financial Statements for the year ended 31 December 2009 and, in view of the results of that evaluation, recommended to the Board that Grant Thornton should be re-appointed as the Company's auditor at the General Meeting to receive the Annual Report and Financial Statements for the year ended 31 December 2009. The Board agreed with this recommendation and as Grant Thornton has expressed its willingness to continue in office, resolutions proposing its re-appointment as auditor and authorising the Directors to determine the auditor's remuneration will be proposed at that General Meeting.

By order of the Board

Roland Todd

Company Secretary

29 November 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CATTLES PLC

We have audited the financial statements of Cattles plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statements of Changes in Equity, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the Statement of accounting policies on page 47 and note 35 to the financial statements concerning the Group and the Company's ability to continue as a going concern. The Group incurred a net loss of £694.5 million during the year ended 31 December 2009 and, at that date, the Group's current liabilities exceeded its total assets by £1,005.6 million.

As explained in the Statement of accounting policies on page 47 and note 35 to the financial statements, the Group and the Company are 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 the Statement of accounting policies on page 47 and note 35 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group 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 was unable to continue as a going concern.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 14 to 18 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 36, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Grant Thornton UK LLP

Mark Cardiff

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,

Statutory Auditor
Chartered Accountants

London

29 November 2010

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PRIMARY STATEMENTS

NOTES TO THE ACCOUNTS

GROUP INCOME STATEMENT

For the year ended 31 December 2009

	Notes	Group 2009 £m	2008 £m
Interest income	5	**427.9**	568.2
Fee and related income		**76.2**	136.8
Revenue from sale of goods		**–**	1.5
Other operating income		**7.6**	6.2
Revenue		**511.7**	712.7
Interest expense	6	**123.6**	286.3
Purchase of goods		**–**	1.2
Loan loss charge	17	**760.5**	791.7
Staff costs	7	**136.7**	137.4
Other operating expenses	8	**176.3**	260.7
Loss before taxation		**(685.4)**	(764.6)
Taxation	10	**1.2**	(7.9)
Loss for the year from continuing operations		**(684.2)**	(772.5)
(Loss)/profit for the year from discontinued operations	11	**(10.3)**	18.9
Loss for the year attributable to equity holders of the Company		**(694.5)**	(753.6)

Loss per share			
Basic and diluted:			
Loss from continuing operations		**130.09p**	160.29p
Loss/(profit) from discontinued operations		**1.96p**	(3.91)p
	13	**132.05p**	156.38p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	Group 2009 £m	Group 2008 £m
Loss for the year		**(694.5)**	(753.6)
Other comprehensive income			
Actuarial losses on defined benefit pension scheme	25	**(7.6)**	(9.9)
Reversal of deferred tax previously recognised	19	**–**	(6.3)
Other comprehensive income for the year net of tax		**(7.6)**	(16.2)
Total comprehensive income for the year attributable to equity holders of the parent		**(702.1)**	(769.8)

GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2009

Group	Share capital £m	Share premium account £m	Own shares held reserve £m	Retained earnings £m	**Total equity £m**
At 1 January 2008	36.3	269.5	(0.8)	(70.7)	**234.3**
Dividends	–	–	–	(71.1)	**(71.1)**
Employee share-based payment options	–	–	–	(1.5)	**(1.5)**
Issue of share capital	16.3	179.9	–	–	**196.2**
Purchase of own shares	–	–	(0.5)	–	**(0.5)**
Vesting of shares	–	–	1.0	–	**1.0**
Transactions with owners	16.3	179.9	0.5	(72.6)	**124.1**
Loss for the year	–	–	–	(753.6)	**(753.6)**
Other comprehensive income					
Actuarial losses on defined benefit pension scheme	–	–	–	(9.9)	**(9.9)**
Reversal of deferred tax previously recognised	–	–	–	(6.3)	**(6.3)**
Total comprehensive income for the year	–	–	–	(769.8)	**(769.8)**
At 1 January 2009	52.6	449.4	(0.3)	(913.1)	**(411.4)**
Elimination of own shares	–	–	0.3	–	**0.3**
Transactions with owners	–	–	0.3	–	**0.3**
Loss for the year	–	–	–	(694.5)	**(694.5)**
Other comprehensive income					
Actuarial losses on defined benefit pension scheme	–	–	–	(7.6)	**(7.6)**
Total comprehensive income for the year	–	–	–	(702.1)	**(702.1)**
At 31 December 2009	**52.6**	**449.4**	**–**	**(1,615.2)**	**(1,113.2)**

Company	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2008	36.3	269.5	4.2	94.9	404.9
Dividends	–	–	–	(71.1)	(71.1)
Employee share-based payment options	–	–	–	(2.6)	(2.6)
Issues of share capital	16.3	179.9	–	–	196.2
Transactions with owners	16.3	179.9	–	(73.7)	122.5
Loss for the year	–	–	–	(2,205.4)	(2,205.4)
Other comprehensive income					
Actuarial losses on defined benefit pension scheme	–	–	–	(9.9)	(9.9)
Total comprehensive income for the year	–	–	–	(2,215.3)	(2,215.3)
At 1 January 2009	52.6	449.4	4.2	(2,194.1)	**(1,687.9)**
Loss for the year	–	–	–	(40.2)	**(40.2)**
Other comprehensive income					
Actuarial losses on defined benefit pension scheme	–	–	–	(7.6)	**(7.6)**
Total comprehensive income for the year	–	–	–	(47.8)	**(47.8)**
At 31 December 2009	**52.6**	**449.4**	**4.2**	**(2,241.9)**	**(1,735.7)**

GROUP AND COMPANY BALANCE SHEETS

As at 31 December 2009

	Notes	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
ASSETS					
Non-current assets					
Intangible assets	14	**1.1**	1.6	**–**	–
Property, plant and equipment	15	**10.6**	22.2	**0.1**	0.2
Subsidiary undertakings	16	**–**	–	**–**	1.1
Loans and receivables	17	**814.6**	1,168.4	**425.9**	–
Trade and other receivables	18	**1.7**	–	**1.6**	1.1
Tax assets	19	**2.4**	1.6	**–**	–
Derivative financial instruments	20	**–**	17.1	**–**	17.1
		830.4	1,210.9	**427.6**	19.5
Current assets					
Inventories		**–**	7.0	**–**	–
Loans and receivables	17	**536.5**	1,336.3	**317.1**	1,251.5
Trade and other receivables	18	**7.0**	13.7	**1.6**	2.3
Tax assets	19	**–**	85.1	**–**	–
Cash and cash equivalents	21	**81.8**	9.7	**0.7**	4.5
		625.3	1,451.8	**319.4**	1,258.3
Total assets		**1,455.7**	2,662.7	**747.0**	1,277.8
LIABILITIES					
Current liabilities					
Borrowings	22	**2,365.6**	2,716.7	**2,441.2**	2,820.0
Current tax liabilities		**–**	–	**3.0**	1.0
Derivative financial instruments	20	**–**	1.0	**–**	1.0
Trade and other payables	23	**34.7**	59.5	**6.3**	5.5
Deferred income		**12.4**	33.1	**–**	–
Provisions	24	**48.6**	16.6	**0.1**	–
		2,461.3	2,826.9	**2,450.6**	2,827.5
Non-current liabilities					
Borrowings	22	**20.2**	28.7	**14.5**	20.5
Derivative financial instruments	20	**–**	89.1	**–**	89.1
Trade and other payables	23	**4.5**	4.8	**–**	13.6
Deferred income		**11.1**	29.4	**–**	–
Provisions	24	**54.2**	80.2	**–**	–
Retirement benefit obligation	25	**17.6**	15.0	**17.6**	15.0
		107.6	247.2	**32.1**	138.2
Total liabilities		**2,568.9**	3,074.1	**2,482.7**	2,965.7
Net liabilities		**(1,113.2)**	(411.4)	**(1,735.7)**	(1,687.9)
SHAREHOLDERS' EQUITY					
Share capital	27	**52.6**	52.6	**52.6**	52.6
Share premium account		**449.4**	449.4	**449.4**	449.4
Other reserves		**–**	(0.3)	**4.2**	4.2
Retained earnings		**(1,615.2)**	(913.1)	**(2,241.9)**	(2,194.1)
Total equity		**(1,113.2)**	(411.4)	**(1,735.7)**	(1,687.9)

The financial statements were approved by the Board on 29 November 2010 and were signed on its behalf by:

P J Felton-Smith
Director

Registered in England Number 543610

GROUP AND COMPANY CASH FLOW STATEMENTS

For the year ended 31 December 2009

	Notes	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Cash flows from continuing operations					
Cash inflow/(outflow) from operations	30	**371.4**	(472.7)	**(30.0)**	15.2
Tax repaid/(paid)		**85.5**	(45.9)	**2.0**	3.0
Net cash inflow/(outflow) from continuing operations		**456.9**	(518.6)	**(28.0)**	18.2
Cash flows from investing operations					
Proceeds from disposal of subsidiary undertakings	11	**68.2**	–	**–**	–
Purchase of property, plant and equipment		**(2.8)**	(1.3)	**–**	–
Purchase of intangible assets		**(4.0)**	(15.0)	**–**	–
Dividends received		**–**	–	**–**	44.6
Net cash inflow/(outflow) from investing operations		**61.4**	(16.3)	**–**	44.6
Cash flows from financing operations					
Proceeds from issue of share capital		**–**	208.9	**–**	208.9
Costs incurred in relation to the issue of equity shares		**–**	(12.7)	**–**	(12.7)
Purchase of own shares		**–**	(0.5)	**–**	–
Issue of new borrowings		**25.0**	419.2	**25.0**	381.4
Repayment of borrowings		**(464.1)**	(37.4)	**(34.4)**	(31.3)
Repayment of intra-group loans		**–**	–	**77.1**	–
Issue of intra-group loans		**–**	–	**–**	(570.4)
Dividends paid to shareholders	12	**–**	(71.1)	**–**	(71.1)
Net cash (outflow)/inflow from financing operations		**(439.1)**	506.4	**67.7**	(95.2)
Net increase/(decrease) in cash and cash equivalents from continuing operations		**79.2**	(28.5)	**39.7**	(32.4)
Net cash flows from discontinued operations	11	**(5.3)**	0.6	**–**	–
Net increase/(decrease) in cash and cash equivalents		**73.9**	(27.9)	**39.7**	(32.4)
Cash and cash equivalents at 1 January		**7.9**	35.8	**(39.0)**	(6.6)
Cash and cash equivalents at 31 December		**81.8**	7.9	**0.7**	(39.0)
For the purposes of the cash flow statement, cash and cash equivalents comprise:					
Cash at bank and in hand	21	**78.5**	6.8	**0.7**	4.5
Short-term bank deposits	21	**3.3**	2.9	**–**	–
Cash and cash equivalents	21	**81.8**	9.7	**0.7**	4.5
Bank overdrafts included within borrowings		**–**	(1.8)	**–**	(43.5)
		81.8	7.9	**0.7**	(39.0)

1. STATEMENT OF ACCOUNTING POLICIES

Cattles plc (the Company), the Group's ultimate parent 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 2009 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 International Financial Reporting Interpretations Committee (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 2006 as applicable to companies reporting under IFRS.

Basis of preparation
On 25 November 2009, the Company announced that it had agreed the SEA with its key financial creditors, and that this should improve the likelihood of the Company achieving its restructuring objectives. Since that date, we have continued to engage in discussions with representatives of our key financial creditors in order to progress proposals for a solvent restructuring.

On 29 November 2010, we announced that the Company had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group. Further details of the key elements of that restructuring are set out in the Executive Chairman's Statement under the heading 'Restructuring'.

Each scheme, including the shareholders' scheme, will be subject to obtaining the necessary approvals and the solvent restructuring will be subject to the satisfaction of certain conditions precedent. Therefore, a material uncertainty exists as to whether the solvent restructuring will become fully and finally effective in accordance with its terms. 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 certain of the key financial creditors of the Cattles Group, including in particular under a restructuring and lock-up agreement and the progress being made with them and others in furtherance of the implementation and conclusion of a solvent restructuring. Under the restructuring and lock-up agreement, certain of the key financial creditors have conditionally agreed to vote in favour of the schemes and support, facilitate, implement or otherwise give effect to the solvent restructuring. However, for the reasons set out above, there is a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

However, 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 the Company of £2.7 billion (2008: £2.9 billion). However, the Company is also party to the standstill contained within the SEA and the Company has agreed not to demand repayment of the inter-company liability while the SEA continues. Further, as part of the scheme to be proposed by WFS, the Company has agreed to compromise the inter-company liability for either (i) £49 million or (ii) between £30 million and £39 million, depending on the circumstances.

After making enquiries regarding the circumstances outlined above, the Directors have concluded that there is a reasonable expectation that the Company and its subsidiaries can continue to pay their operational debts as they fall due for the foreseeable future. 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 following accounting policies have been applied consistently by the Company and its subsidiary undertakings to all periods presented in these consolidated and Company Financial Statements.

Accounting developments
Standards and interpretations which have been adopted by the Group in 2009
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:

- IAS 1 'Presentation of Financial Statements' (revised 2007) has introduced a number of changes in the format and content of the financial statements. In addition, the revised Standard requires presentation of a third balance sheet where the entity applies certain changes in accounting policies retrospectively. As the effect of the adoption of Standards in the year has been presentational only, the opening comparative balance sheet has not been presented as the information is unchanged from that presented previously. The statement of changes in equity has been presented as a primary statement for the first time where previously it was presented in the notes to the Financial Statements.
- IAS 27 (revised) 'Consolidated and separate financial statements'. A parent is required to present consolidated financial statements in which it consolidates its investments in subsidiaries. The Group and Company has applied IAS 27 (revised); it has not had an 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 has applied IAS 36 (amendment); it has not had an impact on the Group or Company's Financial Statements;

1. STATEMENT OF ACCOUNTING POLICIES continued

Accounting developments continued
Standards and interpretations which have been adopted by the Group in 2009 continued

- 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 fair value at grant date 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 the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company has applied IFRS 2 (amendment) from 1 January 2009, although it has not had a material impact on the Group or Company's Financial Statements;
- 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. The Group has applied IFRS 8 to its 2009 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 have applied IAS 19 (amendment) from 1 January 2009, subject to endorsement by the EU, although it has not had an impact on the Group or Company's Financial Statements; and
- 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 interpretations which have not been adopted
The following relevant standards and interpretations were issued but are not effective for the year ended 31 December 2009:

- 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;
- IFRS 9 Financial Instruments (effective 1 January 2013);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010);
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011).

In all instances, the Board is considering the impact that these standards will have on the Group's 31 December 2010 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 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
In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group. For management reporting purposes, the Group is organised into three main operating segments, comprising Welcome, Shopacheck and The Lewis Group. Each of the segments is managed separately as they require different technologies, resources and marketing approaches.

On 30 April 2009 the car retail business, Welcome Car Finance, was closed, which was included in Welcome. On 14 September 2009, Cattles Invoice Finance was sold, which was a separate business segment. Both businesses are shown in discontinued operations.

All inter-segment transactions are carried out at arm's length prices. Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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:

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.

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 brokering 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.

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

Other operating income
Other operating income primarily comprises commission charged to clients for the collection of debts and fees 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, the cost of undrawn facilities and any gain or loss arising from any foreign exchange rate movements.

Financial assets
Financial assets are measured initially at fair value plus transactions costs, except for those financial assets, which are carried at fair value through profit or loss, which are measured initially at fair value. 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.

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.

1. STATEMENT OF ACCOUNTING POLICIES continued

Financial assets at fair value through profit and 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. The fair value is calculated at each reporting date, any gains or losses are recognised through the income statement.

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 2009, management has used a reduced data set of more recent information to more accurately reflect current economic conditions.

In 2008, the Group carried an IBNR provision for debt less than 120 days in arrears. In 2009, with lending activity significantly reduced, and in December stopped, the Company has been better able to identify specific loss events at an earlier stage, and as such is now calculating a specific loan provision from 1 day overdue. As such, IBNR now only refers to debt that is up-to-date.

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

120 days contractual 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. All expected credit losses are deemed to be fully incurred at this point.

Less than 120 days contractual arrears
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 credit losses are deemed to be partially incurred at this point and are calculated based on the probability of a customer's propensity to default.

Incurred but not reported (IBNR)
A provision is also made against accounts which are prepaid and up-to-date based on credit loss events that have occurred but which are not yet reported. This is calculated based on the probability of default and the loss given default. Future credit losses are not recognised.

In Shopacheck, home collect accounts are reviewed based upon recent cash collection performance over a 13-week period. Where the payment performance at each reporting date is fewer than 12 payments over the preceding 13 weeks, an impairment provision is made where future expected cash flows are lower than the carrying value of the loan.

Cattles Invoice Finance determined that there was objective evidence of an impairment loss as part of a process termed collect out. This process commenced should a client have served notice that they wish to end their facility or when management become aware that the client was encountering trading difficulties. At this point the client's facilities were withdrawn, no further funds were made available and client managers began the process of recovering the outstanding balance. Where, based upon an individual assessment of each client in collect out, it was apparent that there were no further routes to recovery and that as a consequence funds would not be recovered in full, a provision was made which was 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 and subject to a substantial modification in terms, are no longer regarded as past due or impaired and are disclosed as new loans. The renegotiated loan is considered to be past due only if further performance issues arise, based on the new contractual terms. For renegotiated loans, an initial write down is calculated by comparing the revised future contractual cash flows arising from the renegotiated loan, discounted at the original EIR, with the carrying value of the loan. Any difference is charged as a loan loss provision to the income statement.

On initial recognition, renegotiated loans are recognised at their fair value.

Collateral
Loans classified as secured loans relate to those loans on which a charge is applied to customers' property. These charges typically comprise 2nd, 3rd or lesser charges on the customers' residential property and, as such, collateral does not represent a significant proportion of the loans' fair value. Accordingly Welcome does not maintain records of customers' property values and does not calculate a fair value of this collateral in respect of its secured loans as it is deemed immaterial. The collateral in respect of hire purchase loans relates to second hand motor vehicles. Given the number of variables such as age, state and re-sale value of the vehicle and relatively immaterial amounts recovered from hire purchase collateral, Welcome does not calculate the value of hire purchase collateral.

Foreign currency translation
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.

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 each reporting date 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.

Staff costs
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.

Pension obligations
The Group has both a defined benefit pension plan (which closed to future service accrual in May 2010) 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 Comprehensive Income. 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 pension plans, these are privately administered and the Group pays contributions 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.

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.

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.

1. STATEMENT OF ACCOUNTING POLICIES continued

Staff costs continued

Share-based payments continued

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 reporting 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.

Tax

The charge or credit for current tax is based on the taxable profit or loss for the year as adjusted for items which are non-assessable or disallowed. The charge or credit is calculated using rates of tax applicable 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.

Discontinued operations

A discontinued operation is a component of the Group, which has either been disposed of, or is classified as held for sale at the reporting date: and

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The profit or loss from discontinued operations, including prior year components of profit or loss, is presented as a single amount in the Income Statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale, is further analysed in note 11.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

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

Prior to their close out, derivatives were initially recognised at fair value on the date the derivative contract was entered into and were subsequently re-measured at fair value. The fair value of derivatives was determined by using a valuation model that was primarily based on observable market data. The method of recognising the resulting gain or loss from the re-measurement depended upon whether the derivative was designated as a hedging instrument, and if so, the nature of the hedged item.

Historically the Group's policy was to designate on the date that the derivative contract was committed to. The Group designated its 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 was required, at inception, to document its risk management objectives and strategy for undertaking hedging transactions, together with documentation on the relationship between the hedged item and the hedging instrument. The Group was also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which showed that the hedge was highly effective in offsetting changes in fair values or cash flows of the hedged item on an ongoing basis. This effectiveness testing was performed at each reporting date to ensure that the hedge remained highly effective.

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

Changes in the fair value of derivatives designated as highly effective fair value hedging instruments were 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 was 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 was recognised in equity within the hedging reserve. The change in the fair value relating to the ineffective portion was recognised immediately in the Income Statement within interest expense.

When a cash flow hedging instrument expired or was sold, or when a cash flow hedge no longer met the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remained in equity and was recognised when the forecast transaction was ultimately recognised in the Income Statement. When a forecast transaction was no longer expected to occur, the cumulative gain or loss that was reported in equity was immediately transferred to the Income Statement.

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

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 and treated as 'Borrowings from banks'.

Embedded derivatives
Separable embedded derivatives are recognised in the Financial Statements at the fair value, based upon the estimated future cash flows of the underlying contract. Any fair value gain/loss arising at each reporting date is recognised in the Income Statement together with any subsequent gains/losses arising from the movement in the derivatives fair value.

Investments in subsidiaries
Investments in subsidiaries are initially recognised at cost.

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
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 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 reporting date.

All other software development costs, 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% p.a.
Leasehold buildings	2% to 20% p.a.
Fixtures and equipment	Shorter of 10% to 33.33% p.a. or the lease term
Motor vehicles	Shorter of 20% p.a. or the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 borrowings in the Balance Sheet.

Leasing – as lessor
Where advances are 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, 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 comprised vehicles held for resale and were stated at the lower of actual cost and net realisable value. Net realisable value was the estimated selling price in the ordinary course of business less variable selling expenses.

1. STATEMENT OF ACCOUNTING POLICIES continued

Trade and other receivables
Trade and other receivables, which do not include loans and receivables to customers of the Group, are recognised initially at fair value and, subsequently, 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 reporting 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 pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to 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 Cash Generating Unit (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 can be 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. 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 2009 are set out in note 25.

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 1-29 days, 30-59 days, 60-89 days, and 90-119 days a proportion of the full expected loss is recognised, reflecting only those credit loss events incurred within those respective bands. The proportion of the full expected loss deemed as incurred is calculated by reference to the percentage probability of more than 50% of each arrears band rolling to the 120 days arrears band.

If the percentages applied are removed from the 1-29 days, 30-59 days, 60-89 days and 90-119 days bands, and the full expected loss is recognised, then based on management's assumptions, the provision would increase by £95.5 million. If the losses were only deemed incurred at the 120 day arrears band, then the provision would reduce by £161.0 million.

For accounts which are up-to-date or prepaid, an IBNR provision is calculated based on management's estimate of the propensity of these accounts to roll through to the 120 days arrears band, where credit losses are deemed to be fully incurred.

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 £27.9 million.

Fair value
Fair value of 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 reporting 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.

3. SEGMENTAL REPORTING

Group segmental income and results from continuing operations for the year ended 31 December 2009 and segment assets as at that date are as follows:

	Welcome £m	Shopacheck £m	The Lewis Group £m	Other £m	**Total £m**
Revenue					
Revenue from external customers as originally reported	560.8	69.8	23.3	–	**653.9**
Adjustment to derecognise interest on impaired loans[1]	(179.3)	9.4	–	–	**(169.9)**
Other adjustments to revenue	17.1	3.7	6.9	–	**27.7**
Total segmental revenue	**398.6**	**82.9**	**30.2**	**–**	**511.7**
(Loss)/profit before taxation					
As originally reported	(409.2)	11.5	(2.8)	(83.5)	**(484.0)**
Other adjustments to revenue	14.1	–	–	–	**14.1**
Increase in loan loss provision[1]	(263.7)	(6.2)	–	–	**(269.9)**
Administrative expenses[1]	10.2	–	3.3	(1.2)	**12.3**
Adjustments to interest expense[1]	2.7	–	(1.8)	41.2	**42.1**
Inter-segmental transactions[2]	10.9	(9.8)	(0.5)	(0.6)	**–**
Total segmental loss before taxation	**(635.0)**	**(4.5)**	**(1.8)**	**(44.1)**	**(685.4)**
Assets					
As originally reported	1,567.7	87.6	160.1	21.8	**1,837.2**
Increase in loan loss provision[1]	(321.0)	(6.2)	–	–	**(327.2)**
Impairment charges[1]	(21.1)	–	–	(2.9)	**(24.0)**
Increase in tax assets	–	–	6.7	–	**6.7**
Adjustments to other assets	(30.2)	–	–	(6.8)	**(37.0)**
Total segmental assets	**1,195.4**	**81.4**	**166.8**	**12.1**	**1,455.7**

Additional information	Welcome £m	Shopacheck £m	The Lewis Group £m	Other £m	Group £m
Interest expense	145.0	–	10.0	(31.4)	123.6
Loan loss charge	721.9	38.6	–	–	760.5
Staff and administrative costs	176.5	42.0	22.1	72.4	313.0
Taxation	(1.0)	–	(0.5)	0.3	(1.2)
Additions to property, plant and equipment	2.7	–	0.1	–	2.8
Depreciation	12.1	0.4	0.2	–	12.7
Amortisation and impairment	2.2	0.3	0.2	–	2.7

[1] As a consequence of the events outlined in the Executive Chairman's Statement and the Business and Financial Review, interest income has been reduced following the additional loan loss charges identified after the issue of management information. In addition, adjustments to administrative expenses and interest expense have been made as a consequence of the events outlined in the Executive Chairman's Statement and Business and Financial Review.

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

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

	Welcome £m	Shopacheck £m	The Lewis Group £m	Other £m	**Total £m**
Revenue					
Revenue from external customers as originally reported	804.9	76.4	42.0	–	923.3
Adjustment to derecognise interest on impaired loans[1]	(153.7)	17.0	–	–	(136.7)
Other adjustments to revenue[1]	(57.4)	–	(16.5)	–	(73.9)
Total segmental revenue	**593.8**	**93.4**	**25.5**	**–**	**712.7**
Profit/(loss) before taxation					
As originally reported	142.4	12.1	16.6	(12.4)	158.7
Other adjustments to revenue[1]	(57.4)	–	(16.5)	–	(73.9)
Increase in loan loss provision[1]	(593.5)	(14.8)	–	–	(608.3)
Amortisation and administrative expenses[1]	(155.5)	0.9	(3.5)	131.1	(27.0)
Additional provisions costs	(93.9)	–	–	–	(93.9)
Cessation of hedge accounting	–	–	–	(28.7)	(28.7)
Adjustment to interest expense[1]	1.8	–	(1.8)	(91.5)	(91.5)
Total segmental loss before taxation	**(756.1)**	**(1.8)**	**(5.2)**	**(1.5)**	**(764.6)**
Assets					
As originally reported	3,234.8	104.7	181.2	189.5	3,710.2
Increase in loan loss provision[1]	(909.6)	(14.8)	(21.4)	–	(945.8)
Impairment of intangible assets[1]	(65.9)	(7.9)	–	(24.8)	(98.6)
Impairment of tangible fixed assets[1]	–	–	–	(3.0)	(3.0)
Increase/(decrease) in tax assets[1]	81.2	–	6.1	(40.7)	46.6
Other adjustments[1]	(25.7)	3.3	14.5	(38.8)	(46.7)
Total segmental assets	**2,314.8**	**85.3**	**180.4**	**82.2**	**2,662.7**

Additional information	Welcome £m	Shopacheck £m	The Lewis Group £m	Other £m	Group £m
Interest expense	171.7	–	10.1	104.5	286.3
Loan loss charge	737.3	54.4	–	–	791.7
Staff and administrative costs	442.9	42.6	20.5	(107.9)	398.1
Taxation	38.2	–	(1.4)	(28.9)	7.9
Additions to property, plant and equipment	11.5	–	0.3	0.1	11.9
Depreciation	11.6	–	0.2	–	11.8
Amortisation and impairment	19.3	–	0.1	–	19.4

[1] As a consequence of the events outlined in the Executive Chairman's Statement and the Business and Financial Review, interest income has been reduced following the additional loan loss charges identified after the issue of management information. In addition, adjustments to administrative expenses and interest expense have been made as a consequence of the events outlined in the Executive Chairman's Statement and Business and Financial Review.

4. PARENT COMPANY INCOME STATEMENT

The consolidated loss for the year includes a loss after tax of £40.2 million (2008: loss £2,205.4 million), which has been dealt with in the Financial Statements of the Company. The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement in these Financial Statements.

5. INTEREST INCOME

Group	2009 £m	2008 £m
Loans and receivables	**427.9**	567.6
Cash equivalents	**–**	0.6
	427.9	568.2

Interest income arising from loans and receivables which are impaired amounted to £45.6 million (2008: £39.2 million).

6. INTEREST EXPENSE

Group	2009 £m	2008 £m
Interest expense on bank borrowings	**54.8**	94.6
Interest expense on debt securities in issue and other borrowings	**63.5**	115.9
Fair value movements on derivative instruments:		
Interest rate swaps	**(2.2)**	31.7
Cross-currency swaps	**17.3**	(1.9)
(Gain)/loss on exchange rate differences on borrowings	**(9.8)**	46.0
	123.6	286.3

7. STAFF COSTS

Group	2009 £m	2008 £m
Wages and salaries	**110.8**	108.2
Social security costs	**11.7**	12.3
Pension cost		
Defined benefit pension scheme (note 25)	**1.5**	1.0
Defined contribution pension schemes (note 25)	**1.8**	1.3
Share-based payments (note 28)	**–**	1.9
Other benefits	**10.9**	12.7
	136.7	137.4

Staff costs includes the cost of employee termination benefits of £1.8 million (2008: £0.9 million). No amounts have been paid to directors of the Company or of its subsidiary, WFS, in respect of termination benefits.

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 from continuing operations (including directors) during the year was as follows:

	2009	2008
Welcome	**3,078**	3,702
Shopacheck	**622**	728
The Lewis Group	**342**	311
Central	**40**	37
	4,082	4,778

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

Key management compensation

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Short-term employee benefits	**4.4**	2.9	**4.4**	2.2
Post-employment benefits	**0.4**	0.6	**0.4**	0.4
	4.8	3.5	**4.8**	2.6

During the year key management comprised the directors of the Company and those members of the executive management team who were members of the Group and Company Executive Committee. At 31 December 2009, 492,699 shares were notionally held by key management in respect of long-term incentive schemes (2008: 4,781,245). During the year nil shares (2008: 1,894,003 shares) with an estimated fair value of £nil (2008: £1.6 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.

8. OTHER OPERATING EXPENSES

Group	2009 £m	2008 £m
Administrative expenses	**84.5**	53.8
Occupancy costs	**14.2**	18.3
Agents' commission	**10.1**	12.8
Advertising costs	**1.5**	4.6
Collection costs	**21.4**	19.3
Motor and travel expenses	**1.7**	5.2
Depreciation and amortisation costs	**15.4**	20.9
Impairment of intangible assets	**–**	10.3
Provisions costs	**6.0**	94.6
Other	**21.5**	20.9
	176.3	260.7

Other includes hire purchase interest expense of £1.3 million (2008: £0.1 million).

9. SERVICES PROVIDED BY THE COMPANY'S EXTERNAL AUDITORS

On 25 November 2009, PwC LLP (formerly known as 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 Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI2008/3489) is as follows:

Group	2009 £m	2008 £m
Fees payable to the Company's auditors for the audit of the Company's Annual Report and Financial Statements were:		
PwC LLP (formerly known as PricewaterhouseCoopers LLP)	**–**	0.1
Grant Thornton UK LLP	**0.2**	0.5
	0.2	0.6
Fees payable to the Company's auditors:		
The audit of the Company's subsidiaries pursuant to legislation		
PwC LLP (formerly known as PricewaterhouseCoopers LLP)	**–**	0.5
Grant Thornton UK LLP	**0.6**	1.5
In addition PwC LLP (formerly known as PricewaterhouseCoopers LLP) fees related to:		
Other services supplied pursuant to such legislation	**–**	0.7
Other services relating to taxation:		
Compliance	**–**	0.2
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
All other services	**–**	0.3
Total other services	**0.6**	6.0
Total auditors' remuneration	**0.8**	6.6

In addition to the above services, PwC LLP (formerly known as PricewaterhouseCoopers LLP) acted as auditor to the Group's defined benefit pension plan (the Cattles Staff Pension Fund). The appointment of auditors of the Group's defined benefit pension plan, and the fees paid of £nil (2008: PwC LLP (formerly known as PricewaterhouseCoopers LLP) £8,550), are agreed by the Trustee 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.

The fees for audit and non-audit services are included within other operating expenses. The Company is not required to disclose details of its own non-audit services.

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

10. TAXATION

Group	2009 £m	2008 £m
Current tax		
UK corporation tax at 28% (2008: 28.5%)	**–**	–
Adjustments in respect of previous years	**–**	4.5
Total current tax charge	**–**	4.5
Deferred tax		
Origination and reversal of temporary differences	**–**	(1.5)
Current year	**(0.5)**	–
Adjustments in respect of previous years	**(0.7)**	4.9
Total deferred tax (credit)/charge (note 19)	**(1.2)**	3.4
Total tax (credit)/charge in the income statement	**(1.2)**	7.9
Current tax on items credited to other comprehensive income		
Relating to share-based payments	**–**	(0.1)
	–	(0.1)
Deferred tax on items debited to equity		
Prior year adjustment charged to equity	**–**	6.3
	–	6.3

The rate of tax for the year is 28% (2008: 28.5%).

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

Group	2009 £m	2008 £m
Loss from continuing operations before taxation	**(685.4)**	(764.6)
Tax on loss at the standard rate of 28% (2008: 28.5%)	**(191.9)**	(217.9)
Factors affecting (credit)/charge for the year:		
Expenses not deductible for tax purposes	**13.3**	2.4
Effect of gains	**0.1**	–
Adjustments to tax charge in respect of previous years	**(0.7)**	9.9
Movement in unprovided deferred tax	**178.0**	213.5
Total tax (credit)/charge for the year	**(1.2)**	7.9

11. DISCONTINUED OPERATIONS

On 14 September 2009 the Cattles Invoice Finance business was sold. On 30 April 2009, Welcome Car Finance, a trading division of Welcome Financial Services Limited, was closed. Revenue and expenses, gains and losses relating to these operations have been eliminated from the Group's continuing operations in the Income Statement and have been shown as a single line on the face of the Group Income Statement. Prior to their disposals, Welcome Car Finance was included within the Welcome segment and Cattles Invoice Finance was a separate business segment.

The operating statements until the sale and discontinuation for each of the discontinued operations are detailed below:

	Cattles Invoice Finance		Welcome Car Finance	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Interest income	**4.5**	8.7	**–**	–
Fee and related income	**10.3**	15.0	**–**	–
Revenue from sale of goods	**–**	–	**12.8**	108.7
Other operating income	**–**	–	**0.1**	1.9
Revenue	**14.8**	23.7	**12.9**	110.6
Purchase of goods	**–**	–	**8.0**	65.9
Loan loss charge	**(0.4)**	2.5	**–**	–
Staff costs	**6.5**	8.6	**3.1**	9.2
Other operating expenses	**3.5**	4.9	**14.3**	23.8
Profit/(loss) before taxation	**5.2**	7.7	**(12.5)**	11.7
Taxation	**–**	(0.5)	**–**	–
Profit/(loss) for the year	**5.2**	7.2	**(12.5)**	11.7
Loss before tax on disposal/closure	**(3.0)**	–	**–**	–
Taxation	**–**	–	**–**	–
Total (loss)/profit on disposal/closure	**(3.0)**	–	**–**	–
Profit/(loss) for the year on discontinued operations	**2.2**	7.2	**(12.5)**	11.7

Total loss arising from discontinued operations in the year amounted to £10.3 million (2008: profit £18.9 million)

Disposal of subsidiary undertakings

On 14 September 2009 the Group sold Cattles Invoice Finance Limited. Cattles Invoice Finance Limited was not classified as held for sale in 2008. The net assets of the business on disposal were as follows:

Group	**£m**
ASSETS	
Property, plant and equipment	0.6
Loans and advances to customers	75.6
Trade and other receivables	1.8
Cash and cash equivalents	2.6
Total assets	**80.6**
LIABILITIES	
Trade and other payables	6.8
Total liabilities	**6.8**
Net assets	**73.8**
Consideration received in cash (net of transaction costs)	70.8
Cash and cash equivalents sold	(2.6)
Net cash received	68.2

On closure of Welcome Car Finance all assets and liabilities were transferred to Welcome.

	Cattles Invoice Finance		Welcome Car Finance	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Cash flows from discontinued operations				
Operating operations	**7.0**	14.6	**(6.9)**	17.7
Investing operations	**(11.2)**	(0.3)	**–**	0.7
Financing operations	**–**	(14.3)	**5.8**	(17.8)
Cash (outflows)/inflows from discontinued operations	**(4.2)**	–	**(1.1)**	0.6

Net cash outflows arising from discontinued operations amounted to £5.3 million (2008: inflow £0.6 million).

12. DIVIDENDS

Group and Company	2009 £m	2008 £m
Amounts recognised as distributed to equity holders in the year:		
Interim dividend for the year ended 31 December 2009 of nil p (2008: 6.51p)	–	23.6
Final dividend for the year ended 31 December 2008 of nil p (2007: 13.10p)	–	47.5
	–	71.1

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 29), which are treated, for this purpose, as being cancelled.

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.

	2009			2008		
	Earnings £m	Weighted average number of shares 'm	Loss per share (p)	Earnings £m	Weighted average number of shares 'm	Loss/(profit) per share (p)
Shares in issue in the year		526.0			482.2	
Own shares held		(0.1)			(0.3)	
Basic and diluted EPS						
Continuing operations	(684.2)	525.9	130.09	(772.5)	481.9	160.29
Discontinued operations	(10.3)	525.9	1.96	18.9	481.9	(3.91)
Total	(694.5)	525.9	132.05	(753.6)	481.9	156.38

Unexercised options amounted to nil shares (2008: 11.2 million) amounting to nil p per share (2008: 3.45p per share).

14. INTANGIBLE ASSETS

Intangible assets solely comprise computer software.

Group	Internally generated assets £m	Acquired assets £m	Total £m
Cost			
At 1 January 2008	49.3	29.4	78.7
Additions	13.1	2.0	15.1
Written off	–	(2.0)	(2.0)
At 1 January 2009	62.4	29.4	91.8
Additions	–	4.0	4.0
Written off	–	(2.6)	(2.6)
At 31 December 2009	**62.4**	**30.8**	**93.2**
Accumulated amortisation			
At 1 January 2008	49.3	23.3	72.6
Charge for the year	7.0	2.1	9.1
Impairment	6.1	4.2	10.3
Written off	–	(1.8)	(1.8)
At 1 January 2009	62.4	27.8	90.2
Charge for the year	–	2.7	2.7
Written off	–	(0.8)	(0.8)
At 31 December 2009	**62.4**	**29.7**	**92.1**
Net book value			
At 31 December 2009	**–**	**1.1**	**1.1**
At 31 December 2008	–	1.6	1.6
At 1 January 2008	–	6.1	6.1

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, the Business and Financial Review and the subsequent announcement to collect out loans and receivables, the impairment review as at 31 December 2008 resulted in the restatement of its carrying value to £nil.

The net present value of the Group's acquired assets comprises their value in use, calculated as their historic cost less amortisation and impairment as appropriate.

All amortisation charges for the year have been charged to the Income Statement through other operating expenses.

The Company had no intangible assets.

15. 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 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 1 January 2009	11.5	12.3	50.5	5.0	79.3
Additions	–	0.1	2.7	–	2.8
Disposals	(0.2)	(2.3)	(2.7)	(2.3)	(7.5)
At 31 December 2009	**11.3**	**10.1**	**50.5**	**2.7**	**74.6**
Accumulated depreciation					
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 1 January 2009	3.5	9.2	42.5	1.9	57.1
Charge for the year	–	2.2	9.6	0.9	12.7
Disposals	–	(1.9)	(2.6)	(1.3)	(5.8)
At 31 December 2009	**3.5**	**9.5**	**49.5**	**1.5**	**64.0**
Net book value					
At 31 December 2009	**7.8**	**0.6**	**1.0**	**1.2**	**10.6**
At 31 December 2008	8.0	3.1	8.0	3.1	22.2
At 1 January 2008	11.2	3.5	3.4	4.4	22.5

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

The net book values of fixtures and equipment and motor vehicles include amounts of £nil (2008: £7.2 million) and £1.1 million (2008: £3.0 million) respectively in respect of assets held by the Group under finance leases and hire purchase contracts. Included within the depreciation charge shown above is £9.5 million (2008: £5.0 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 2008	0.2	0.7	0.3	1.2
Disposals	–	(0.4)	–	(0.4)
At 1 January 2009	0.2	0.3	0.3	0.8
Disposals	(0.2)	–	(0.2)	(0.4)
At 31 December 2009	**–**	**0.3**	**0.1**	**0.4**
Accumulated depreciation				
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 1 January 2009	0.2	0.2	0.2	0.6
Charge for the year	–	–	0.1	0.1
Disposals	(0.2)	–	(0.2)	(0.4)
At 31 December 2009	**–**	**0.2**	**0.1**	**0.3**
Net book amount				
At 31 December 2009	**–**	**0.1**	**–**	**0.1**
At 31 December 2008	–	0.1	0.1	0.2
At 1 January 2008	–	0.1	0.2	0.3

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 £nil (2008: £0.1 million) of assets held by the Company under hire purchase contracts. The depreciation charge includes £nil (2008: £0.1 million) for assets held under hire purchase contracts.

16. SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings

Company	2009 £m	2008 £m
Cost		
At 1 January	**192.7**	189.8
Additions	**–**	2.9
Disposals	**(0.5)**	–
At 31 December	**192.2**	192.7
Provision for diminution in value		
At 1 January	**191.6**	8.1
Impairment	**0.6**	183.5
At 31 December	**192.2**	191.6
Net book amount at 31 December	**–**	1.1

As a result of the events outlined in the Executive Chairman's Statement and the Business and Financial Review, all Company investments were reviewed at 31 December 2008 to determine their future recoverability. As a result of a subsequent review at 31 December 2009 a further impairment provision of £0.6 million has been made (2008: £183.5 million).

All subsidiaries are wholly owned, either directly or indirectly, by Cattles. The principal operating subsidiary undertakings are shown in note 34.

17. 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	
	2009 £m	2008 £m	2009 £m	2008 £m
Welcome	**1,141.5**	2,184.4	**–**	–
Shopacheck	**64.3**	79.8	**–**	–
Cattles Invoice Finance	**–**	86.6	**–**	–
Originated loans and receivables	**1,205.8**	2,350.8	**–**	–
Purchased debt – The Lewis Group	**145.3**	153.9	**–**	–
Intra-group loans	**–**	–	**743.0**	1,251.5
Total loans and receivables	**1,351.1**	2,504.7	**743.0**	1,251.5
Debt purchase commitments	**15.6**	58.6	**–**	–
	1,366.7	2,563.3	**743.0**	1,251.5
Total loans and receivables comprises				
Non-current	**814.6**	1,168.4	**425.9**	–
Current	**536.5**	1,336.3	**317.1**	1,251.5
	1,351.1	2,504.7	**743.0**	1,251.5

Group

The estimated fair value of loans and receivables at 31 December 2009 is £1.0 billion (2008: £1.6 billion). Fair value has been calculated by discounting expected future cash flows from the loans and receivables at 8.4% (2008: 10.0%), being the Group's cost of capital plus costs of collection effective at the Balance Sheet date. Management regards this rate to be the most appropriate current market rate to use for this type of asset, given the difficulty in obtaining recent market data. The discount rate used is based on the limited market data that exists. If the fair value was calculated by discounting the expected future cash flows from the loans and receivables at their effective interest rate, the estimated fair value would be £0.8 billion (2008: £1.2 billion).

The estimated fair value of the receivables is less than the carrying value as the fair value calculation takes account of future expected credit losses in addition to incurred losses.

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.

Company

The carrying value approximates to the fair value.

17. 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 2009 and 2008:

Group 2009	Welcome £m	Shopacheck £m	**Total £m**
Neither past due nor impaired	814.8	29.9	**844.7**
Past due and impaired	2,184.6	107.5	**2,292.1**
Outstanding customer balance	2,999.4	137.4	**3,136.8**
Unamortised fees and costs and accrued interest	(86.8)	(22.6)	**(109.4)**
Gross loans and receivables	2,912.6	114.8	**3,027.4**
Loan loss provision	(1,771.1)	(50.5)	**(1,821.6)**
Originated loans and receivables	**1,141.5**	**64.3**	**1,205.8**
Purchased debt – The Lewis Group			**145.3**
Total loans and receivables			**1,351.1**

Based upon historical information on customer default rates, management considers the credit quality of loans and receivables that are neither past due nor impaired to be satisfactory.

Following a downward revaluation to £145.3 million (2008: £153.9 million) of The Lewis Group's purchased debt portfolios in 2009, as a result of a reduction in cash collections and as the directors continue to take a more cautious view of the outlook for the UK economy and housing market in particular, 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.

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 and impaired	2,153.1	133.6	6.1	2,292.8
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

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

The credit quality of Welcome and Shopacheck's financial assets that are neither past due nor impaired are reflective of those loans typically made within the non-standard or sub-prime market, which is Welcome and Shopacheck's key focus.

Company
There are no amounts past due (2008: £nil). An impairment provision at 31 December 2009 of £1,949.0 million, against intra-group loans, (2008: £1,949.0 million) was made at 31 December 2008 to reflect the recoverability of this balance. The carrying value approximates to the fair value.

Loans and receivables – past due and impaired

Group 2009	Welcome £m	**Total £m**
Past due up to 29 days	188.1	**188.1**
Past due 30-59 days	145.6	**145.6**
Past due 60-89 days	120.7	**120.7**
Past due 90-119 days	106.4	**106.4**
Past due 120 days or more	1,623.8	**1,623.8**
	2,184.6	**2,184.6**
Shopacheck		**107.5**
Total		**2,292.1**

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	1,356.0	4.0	1,360.0
	2,153.1	6.1	2,159.2
Shopacheck			133.6
Total			2,292.8

With minimal new business being written since February 2009 and a decision taken on 16 December 2009 to collect out the Welcome loans and receivables, management has assessed the behaviour of the Welcome loan book and refined the impairment calculation method, for the year ended 31 December 2009, to calculate a specific provision on all past due loans. Provisions against the arrears bands 1–119 days were previously included in what was previously referred to as an IBNR provision.

The above analysis includes loans and receivables that would have been past due or impaired had their terms not been renegotiated. These loans totalled £242.2 million and £12.1 million (2008: £286.5 million and £14.2 million) in respect of Welcome and Shopacheck respectively.

Shopacheck receivables of £107.5 million (2008: £133.6 million), which are classified as past due and impaired, 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.

17. LOANS AND RECEIVABLES continued

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

a) **WFS**

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

2009	Welcome £m	Shopacheck £m	Total £m
Secured	1,268.5	–	1,268.5
Unsecured	1,045.1	137.4	1,182.5
Hire purchase	685.8	–	685.8
	2,999.4	**137.4**	**3,136.8**

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

i. **Secured loans**
Secured loans have 2nd, 3rd or lower charges on the customers' property. However, secured loans are not underwritten based on available property 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. Welcome retains security over the vehicle underlying the hire purchase agreement. 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 2009 £m	**Carrying value 2009 £m**	Present value 2008 £m	Carrying value 2008 £m
Within one year	**350.4**	**404.3**	333.8	431.2
One to five years	**184.1**	**235.9**	409.3	507.2
Over five years	**37.8**	**45.6**	54.4	65.3
	572.3	**685.8**	797.5	1,003.7
Unearned future finance income	**–**	**(113.5)**	–	(206.2)
Loan loss provision	**(320.1)**	**(320.1)**	(339.3)	(339.3)
Present value of future lease payments	**252.2**	**252.2**	458.2	458.2

During 2009, the Group provided hire purchase facilities to customers purchasing cars from Welcome Car Finance up to its closure on 30 April 2009.

b) **Cattles Invoice Finance**
In relation to the 2008 disclosures of the value of the underlying assigned sales ledger balances, Cattles Invoice Finance wherever possible obtained additional security before offering invoice finance facilities to a client. These included 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.

c) **Collateral**
The collateral relating to secured loans detailed below comprises 2nd, 3rd or lesser charges on the borrowers' property, and hire purchase loans mainly comprising motor vehicles. Welcome does not consider this collateral to have a material value and, accordingly, does not maintain records of the customers' property values and as such it is impracticable to calculate a fair value of this collateral in respect of its secured loans. During the year no collateral on secured loans was recovered (2008: £nil). Similarly, the value of hire purchase collateral is deemed immaterial and, accordingly, no fair value is disclosed. During 2009 £22.9 million of hire purchase collateral was recovered.

Loan loss provision
The following tables provide an analysis of the movement in the Group's loan loss provision during 2009 and 2008:

Group 2009	Welcome £m	Shopacheck £m	Cattles Invoice Finance £m	Total £m
At 1 January 2009	1,224.1	54.5	1.3	1,279.9
Utilised	(175.7)	(43.4)	(0.9)	(220.0)
Recoveries of amounts previously written off	0.8	0.8	–	1.6
Charged to the income statement:				
Additional provisions created	722.7	39.4	(0.4)	761.7
Recoveries of amounts previously written off	(0.8)	(0.8)	–	(1.6)
Total loan loss charge	721.9	38.6	(0.4)	760.1
Loan loss provision at 31 December 2009	**1,771.1**	**50.5**	**–**	**1,821.6**

2008	Welcome £m	Shopacheck £m	Cattles Invoice Finance £m	Total £m
At 1 January 2008	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

Cattles Invoice Finance loan loss charge is included in the loss/profit for the year from discontinued operations in the Group Income Statement.

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Trade receivables	**1.5**	2.9	**–**	–
Loan to the employee benefit trust	**–**	–	**–**	0.3
Other receivables	**3.9**	5.4	**2.9**	1.5
Prepayments and accrued income	**3.3**	5.4	**0.3**	1.6
	8.7	13.7	**3.2**	3.4
Comprising:				
Non-current	**1.7**	–	**1.6**	1.1
Current	**7.0**	13.7	**1.6**	2.3
	8.7	13.7	**3.2**	3.4

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 have not been presented as the amounts concerned are not material.

Group and Company trade and other receivables have been reviewed for indicators of impairment, none of which were found to be impaired. The Group and Company's other receivables at 31 December 2009 and 2008 are considered neither past due nor impaired.

The Group and Company has no renegotiated trade and other receivables and do not hold any collateral in respect of its trade and other receivables.

19. TAX ASSETS

Current tax

Group
Current tax assets amounted to £nil (2008: £85.1 million). During the year tax repayments were received amounting to £85.5 million (2008: £nil).

The Company had no current tax assets (2008: £nil).

Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%).

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

The Group has not recognised a deferred tax asset in respect of losses of £1.4 billion (2008: £0.8 billion) in the Financial Statements, as it is not considered probable that future taxable profits will be available against which this asset can be utilised.

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 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 1 January 2009	–	1.6	**1.6**	–
Recognised in income	–	1.2	**1.2**	–
Eliminated on disposal of subsidiary undertaking	–	(0.4)	**(0.4)**	–
At 31 December 2009	**–**	**2.4**	**2.4**	**–**

The deferred tax asset relates to tax losses arising in certain subsidiary operations, in which the generation of cash and profits are reasonably expected in the foreseeable future.

20. 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 2009 and how they are measured, is set out in the Business and Financial Review in the section entitled Funding. 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.

As a consequence, the Group and Company are exposed to interest rate and foreign exchange rate risk. Analysis of which is illustrated in note 22, borrowings.

Interest rate risk
At 31 December 2009, the Group and the Company held interest rate swaps covering floating rate bank borrowings of £nil (2008: £1.1 billion, effectively fixing the associated cost of interest at rates between 4.37% and 6.06%).

Prior to being closed out, 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 (before any subsequent repayments) with bank counterparties.

Of the Group and the Company's cross-currency swaps as at 31 December 2008, £48.1 million were designated as fair value hedges and, as a consequence, the change in the fair values of these swaps is recorded in the 2008 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 were hedging.

The remaining £47.2 million of cross-currency swaps as at 31 December 2008 were 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	2009 Notional amount £m	2009 Assets £m	2009 Liabilities £m	2008 Notional amount £m	2008 Assets £m	2008 Liabilities £m
Interest rate swaps	**–**	**–**	**–**	1,140.0	–	90.1
Cross-currency swaps	**–**	**–**	**–**	95.3	17.1	–
	–	**–**	**–**	1,235.3	17.1	90.1
Comprising:						
Current		**–**	**–**		–	1.0
Non-current		**–**	**–**		17.1	89.1
		–	**–**		17.1	90.1

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 Group has identified a separable embedded derivative within a contract held by a subsidiary undertaking, the effect of £3.4 million (2008: £1.6 million) is included in interest expense and within note 23, 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.

The Group and Company held no derivatives at 31 December 2009, therefore no contractual maturity table has been provided at this date.

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)

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	2009 £m	2008 £m
Amount recognised in equity	**–**	–
Amount removed from equity via the income statement (within interest expense)	**–**	–
Fair value movement recognised in the income statement (within interest expense)	**(2.2)**	31.7

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	2009 £m	2008 £m
Gains on the hedging instruments	**–**	–
Losses on the hedged borrowings	**–**	–
Ineffectiveness recognised in the income statement (within interest expense)	**17.3**	(1.9)

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Cash at bank and in hand	**78.5**	6.8	**0.7**	4.5
Fixed interest bank deposits	**3.3**	2.9	**–**	–
	81.8	9.7	**0.7**	4.5

All fixed interest bank deposits have a maturity of one month.

As set out in the Business and Financial Review in the section entitled Standstill and Equalisation Agreement, there are 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.

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.

Cash and cash equivalents in 2008 included £7.9 million which related to subsequently discontinued operations.

22. BORROWINGS

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Current				
Bank borrowings and overdrafts	**1,405.4**	1,683.2	**1,405.4**	1,724.9
Other borrowings	**954.6**	1,029.4	**953.7**	1,028.5
Obligations under finance leases and hire purchase contracts	**5.6**	4.1	**–**	–
Intra-group borrowings	**–**	–	**82.1**	66.6
	2,365.6	2,716.7	**2,441.2**	2,820.0
Non-current				
Other borrowings	**15.1**	21.9	**14.5**	20.4
Obligations under finance leases and hire purchase contracts	**5.1**	6.8	**–**	0.1
	20.2	28.7	**14.5**	20.5
Total borrowings	**2,385.8**	2,745.4	**2,455.7**	2,840.5

Following the breaches of covenants relating to a number of the above borrowings, all related borrowings at 31 December 2009 and 31 December 2008 became repayable on demand.

Bank borrowings comprise a number of syndicated, bilateral and term loans as analysed below. During 2009, the vast majority of these facilities incurred interest at floating rates based on a fixed margin over floating rate LIBOR. This fixed margin varied between 1% and 3.25% 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, which excludes interim distributions held in escrow, none of which are secured, comprised:

(a) A sterling bond with a carrying amount of £371.8 million (2008: £386.2 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 was originally redeemable at par in January 2014. The carrying amount reflects the unamortised discount and accrued interest of £0.3 million and £22.1 million respectively.

(b) A sterling bond with a carrying amount of £436.9 million (2008: £433.2 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 was originally redeemable at par in July 2017. The carrying amount reflects the unamortised discount and accrued interest of £4.6 million and £41.5 million respectively.

(c) A US private placing with a carrying amount of £114.6 million (2008: £122.0 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 a make-whole adjustment and accrued interest of £nil, £15.8 million and £0.2 million respectively.

(d) A US private placing with a carrying amount of £72.6 million (2008: £80.0 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 a make-whole adjustment and accrued interest of £nil, £8.3 million and £0.1 million respectively.

(e) A fixed rate 6.39% loan with a carrying amount of £1.5 million (2008: £2.4 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 £20.3 million (2008: £26.0 million), including accrued interest of £0.2 million. The loans are repayable in quarterly instalments by March 2013.

(g) £1.7 million (2008: £1.5 million) 4% unsecured loan notes.

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 2008 and 31 December 2009.

Liquidity risk

A description of how the Group is exposed to liquidity risk in relation to its borrowings from banks, 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 entitled 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.

Group **2009**	On demand £m	Up to 3 months £m	3–12 months £m	1–2 years £m	Total £m
Bank borrowings	1,405.4	–	–	–	**1,405.4**
Other borrowings	954.6	–	–	15.1	**969.7**
	2,360.0	**–**	**–**	**15.1**	**2,375.1**
2008					
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

Company **2009**	On demand £m	Up to 3 months £m	3–12 months £m	1–2 years £m	Total £m
Bank borrowings	1,405.4	–	–	–	**1,405.4**
Other borrowings	953.7	–	–	14.5	**968.2**
	2,359.1	**–**	**–**	**14.5**	**2,373.6**
2008					
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

Intra-group borrowings are repayable on demand. However, these borrowings are subject to the agreements contained in the SEA and will not be subject to repayment whilst the SEA continues.

No Group or Company borrowings were due in any period greater than two years as at 31 December 2009 and 31 December 2008.

22. BORROWINGS continued

Bank facilities
The bank facilities of the Company in place as at 31 December 2009 were:

Type	Original contractual maturity period	Established	Facility 2009 £m
Bilateral	On demand	2009	63.6
Syndicate	July 2009	2004	405.6
Bilateral	December 2009	2008	61.1
Syndicate	April 2010	2008	79.1
Syndicate	April 2011	2008	68.6
Syndicate	July 2011	2006	12.2
Bilateral	July 2011	2004	62.0
Loan	April 2012	2005	4.5
Syndicate	July 2012	2006	636.5
Syndicate	April 2013	2008	16.2
			1,409.4

Following the breaches of covenants relating to the above facilities, all related borrowings at 31 December 2009 and 31 December 2008 became repayable on demand. As referred to in the Business and Financial Review, the SEA became effective on 17 December 2009. One of the key provisions of the SEA was 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. In addition, there are 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.

With the exception of the bilateral facilities established in 2009, when the derivative assets and liabilities were converted into on-demand loans with the bank counterparties, 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.

As a consequence of the arrangements within the SEA no additional draw downs are permitted on the above facilities.

Principal covenants
Prior to the SEA, the Group and the Company had to 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.

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.

	2009		2008	
Group	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Borrowings from banks	**1,405.4**	**1,405.4**	1,683.2	1,677.9
Other borrowings	**969.7**	**972.5**	1,051.3	1,013.1
Company				
Borrowings from banks	**1,405.4**	**1,405.4**	1,724.9	1,719.6
Other borrowings	**968.2**	**965.6**	1,048.9	1,010.7

The majority of the Group and Company borrowings are payable on demand. The fair values of borrowings from banks and debt securities and other borrowings are calculated as the carrying value. A small proportion (£21.9 million and £20.3 million Group and Company respectively) of other borrowings have been calculated by discounting expected future cash flows. Expected future cash flows are derived using interest rates reflected in yield curves available at each reporting date and at exchange rates prevailing at each reporting 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 2009, £5.1 million and £nil (2008: £6.8 million and £0.1 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 2009 £m	**Gross 2009 £m**	Present value 2008 £m	Gross 2008 £m	**Gross and present value 2009 £m**	Gross and present value 2008 £m
Gross lease payments:						
Not later than one year		**6.1**		4.6	**–**	–
Later than one year but not more than five		**5.4**		7.5	**–**	0.1
		11.5		12.1	**–**	0.1
Future finance charges		**(0.8)**		(1.2)	**–**	–
Present value of minimum lease payments	**13.3**	**10.7**	14.3	10.9	**–**	0.1

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
2009	**1.4**	**4.7**	**3.5**	**1.9**	**–**	**11.5**
2008	1.1	3.5	5.4	2.0	0.1	12.1
Company						
2009	**–**	**–**	**–**	**–**	**–**	**–**
2008	–	–	–	0.1	–	0.1

Under the terms of the hire purchase agreements, no unguaranteed residual values are accruing to the Company and no contingent rents are payable.

Market risk
As a consequence the Group and Company are exposed to interest rate and foreign exchange rate risk.

Foreign currency
The following table illustrates the sensitivity of Group loss to a change in foreign exchange of +/- 1% (2008: 1%).

The calculations are based on a change in the average cost of the Group's Borrowings for a financial year and calculated at each reporting date. All other variables are held as constant.

	Loss for the year £m	
	–1%	+1%
Increase/(decrease) in loss for the year ended:		
31 December 2009	0.8	(0.8)
31 December 2008	1.0	(1.1)

Following the events outlined in the Executive Chairman's Statement and the subsequent cessation of hedge accounting no sensitivity has been shown for equity.

Interest rate sensitivity
An increase in LIBOR by one percentage point would have an adverse impact on the loss for the year of £13.4 million (2008: £5.7 million). As the Group and Company did not hold any derivatives as at 31 December 2009 any increase in LIBOR would have no impact on equity (2008: adverse £38.6 million).

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Current				
Trade payables	**4.9**	19.0	**0.8**	0.4
Other taxes and social security	**5.0**	6.6	**–**	–
Other payables	**2.7**	3.6	**–**	–
Accruals	**22.1**	30.3	**5.5**	5.1
	34.7	59.5	**6.3**	5.5
Non-current				
Other payables	**4.5**	4.8	**–**	13.6
Total trade and other payables	**39.2**	64.3	**6.3**	19.1

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 has not been presented as the amounts are not material in the context of the Group and Company's total liabilities, with the exception of non-current other payables, trade and other payables, which have an expected maturity of within six months.

24. PROVISIONS

Group	**2009 £m**	2008 £m
Current		
Property	**0.7**	0.8
Other provisions	**47.9**	15.8
	48.6	16.6
Non-current		
Property	**6.5**	2.1
Other provisions	**47.7**	78.1
	54.2	80.2
Total provisions	**102.8**	96.8

Property provisions relate to the estimated future cost of rectifying dilapidations for the leasehold properties occupied by the Group and the future expected lease rent costs of properties which are not in use by the Group. The provision is expected to be utilised within three years from the Balance Sheet date. The movement in the provision is as follows:

	2009 £m	2008 £m
At 1 January	**2.9**	2.2
Utilised	**(0.9)**	–
Provisions made	**5.2**	0.7
At 31 December	**7.2**	2.9

Other provisions 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.

Company
At 31 December 2009 the Company had £0.1 million of provisions (2008: £nil).

25. RETIREMENT BENEFIT OBLIGATION

The Group operates both a defined benefit pension plan and a number of defined contribution pension plans.

Defined contribution post-employment benefit plans
The Group operates a number of defined contribution pension plans for new employees and for existing employees who are not members of the defined benefit pension plan. The expense recognised by the Group and the Company for the defined contribution pension plans is £1.8 million (2008: £1.3 million) and £0.4 million (2008: £0.3 million) respectively.

Defined benefit post-employment benefit plan
The Group and Company (as principal employer) operate a funded defined benefit pension plan for certain of the Group's current and former employees, providing benefits based on final salary. The assets of the plan are held in a separate trustee-administered fund. Contributions to the plan are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. This plan was closed to new applicants from 1998 and closed to future service accrual in May 2010 following consultation with active members.

The retirement benefit obligation included in the Balance Sheet, which is expected to be settled in more than one year, is analysed as:

Group and Company	2009 £m	2008 £m
Present value of plan liabilities	**83.0**	68.0
Fair value of plan assets	**(65.4)**	(53.0)
Retirement benefit obligation	**17.6**	15.0

The amounts charged in the Group Income Statement in respect of the defined benefit pension plan are as follows:

	2009 £m	2008 £m
Current service cost (i)	**0.9**	1.4
Interest cost	**4.1**	4.1
Expected return on plan assets	**(3.5)**	(4.5)
Total defined benefit pension expense (note 7)	**1.5**	1.0

(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 £9.7 million, £6.2 million more than that assumed (2008: the total return was a loss of £12.9 million, £17.4 million less than that assumed).

The cumulative actuarial gains and losses (before deferred tax) recognised in the statement of comprehensive income in respect of the defined benefit pension plan are as follows:

	2009 £m	2008 £m
Net actuarial losses recognised in the year	**(7.6)**	(9.9)
Cumulative net actuarial (losses)/gains recognised at start of year	**(4.9)**	5.0
Cumulative net actuarial losses recognised at end of year	**(12.5)**	(4.9)

25. RETIREMENT BENEFIT OBLIGATION continued

Principal actuarial assumptions used

	2009 %	2008 %
Inflation rate	**3.7**	3.0
Expected rate of salary increases (i)	**3.7**	3.0
Expected rate of pension increases (ii)	**3.5**	2.9
Discount rate	**5.7**	6.2
Proportion of members that will take maximum tax free cash allowance on retirement	**85.0**	75.0
Expected return on plan assets	**6.3**	6.8
Analysed as:		
Equities	**8.2**	7.9
Bonds	**5.2**	5.1
Cash	**4.5**	4.0

	2009	2008
Number of years that a current pensioner is expected to live beyond 65:		
Men	**22.3**	22.2
Women	**24.9**	24.7
Number of years that a future pensioner, currently aged 50, is expected to live beyond 65:		
Men	**23.4**	23.2
Women	**25.8**	25.6

(i) In addition, as at 31 December 2008 an allowance was made for a scale of age related promotional increases. This allowance has been removed as at 31 December 2009.

(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 plan'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	8.3
		Pension expense	30	0.5
Expected rate of salary increases	Increase by 0.5%	Plan liabilities	1	1.0
		Pension expense	10	0.1

Changes in the present value of the plan liabilities are as follows:

	2009 £m	2008 £m
Present value of plan liabilities at start of year	**68.0**	72.9
Current service cost	**0.9**	1.4
Interest cost	**4.1**	4.1
Contributions by plan participants	**0.2**	0.3
Actuarial loss/(gain)	**13.8**	(7.5)
Benefit payments	**(4.0)**	(3.2)
Present value of plan liabilities at end of year	**83.0**	68.0

Changes in the fair value of plan assets are as follows:

	2009 £m	2008 £m
Fair value of plan assets at start of year	**53.0**	58.8
Expected return on plan assets	**3.5**	4.5
Return on assets in excess of/(less than) that assumed	**6.2**	(17.4)
Contributions by plan participants	**0.2**	0.3
Contributions by the employer	**6.5**	10.0
Benefit payments	**(4.0)**	(3.2)
Fair value of plan assets at end of year	**65.4**	53.0

The fair value of plan assets at the Balance Sheet date is analysed as follows:

	2009 £m	2008 £m
Equities	**25.7**	31.9
Bonds	**38.5**	20.9
Cash	**1.2**	0.2
	65.4	53.0

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:

	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
Present value of plan liabilities	81.4	78.1	72.9	68.0	**83.0**
Fair value of plan assets	(46.7)	(54.3)	(58.8)	(53.0)	**(65.4)**
Retirement benefit obligation	34.7	23.8	14.1	15.0	**17.6**
Experience gain/(loss) on defined benefit obligation	(11.4)	4.4	7.5	7.5	**(13.8)**
Experience gain/(loss) on plan assets	4.6	3.1	0.5	(17.4)	**6.2**
Net actuarial gain/(loss) recognised in the year	(6.8)	7.5	8.0	(9.9)	**(7.6)**

As a result of the actuarial valuation of the Group's defined benefit pension plan undertaken as at 31 March 2007, the Group agreed a revised schedule of additional shortfall contributions with the scheme's trustee, which was effective from June 2008. Under this schedule, shortfall payments of £2.45 million each were paid to the plan in December 2009 and March 2010.

In addition, the Group 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 employer contributions for the period up until the scheme closed to future service accrual in May 2010 was £3.3 million.

Cattles Invoice Finance Limited ceased to participate in the plan in September 2009. The plan received a payment of £3.1 million in respect of the statutory debt triggered under section 75 of the Pensions Act 1995 in respect of Cattles Invoice Finance Limited in November 2009.

Members contributed at the rate of either 3% or 5% of pensionable salaries, depending on their membership status. The total amount of employee contributions for the period up until the plan closed to future service accrual in May 2010 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 defined benefit pension 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 2009.

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.

Group	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	**Total £m**
			2009		
ASSETS					
Non-current assets					
Intangible assets	–	–	–	1.1	**1.1**
Property, plant and equipment	–	–	–	10.6	**10.6**
Loans and receivables	814.6	–	–	–	**814.6**
Trade and other receivables	1.7	–	–	–	**1.7**
Tax assets	–	–	–	2.4	**2.4**
	816.3	**–**	**–**	**14.1**	**830.4**
Current assets					
Loans and receivables	536.5	–	–	–	**536.5**
Trade and other receivables	5.5	–	–	1.5	**7.0**
Cash and cash equivalents	81.8	–	–	–	**81.8**
	623.8	**–**	**–**	**1.5**	**625.3**
Total assets	**1,440.1**	**–**	**–**	**15.6**	**1,455.7**
LIABILITIES					
Current liabilities					
Borrowings	–	2,365.6	–	–	**2,365.6**
Trade and other payables	–	34.7	–	–	**34.7**
Deferred income	–	12.4	–	–	**12.4**
Provisions	–	–	–	48.6	**48.6**
	–	**2,412.7**	**–**	**48.6**	**2,461.3**
Non-current liabilities					
Borrowings	–	20.2	–	–	**20.2**
Trade and other payables	–	–	3.4	1.1	**4.5**
Deferred income	–	11.1	–	–	**11.1**
Provisions	–	–	–	54.2	**54.2**
Retirement benefit obligation	–	–	–	17.6	**17.6**
	–	**31.3**	**3.4**	**72.9**	**107.6**
Total liabilities	**–**	**2,444.0**	**3.4**	**121.5**	**2,568.9**

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.

Group	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	Total £m
			2008		
ASSETS					
Non-current assets					
Intangible assets	–	–	–	1.6	1.6
Property, plant and equipment	–	–	–	22.2	22.2
Loans and receivables	1,168.4	–	–	–	1,168.4
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
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 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.

Company	Loans and receivables £m	Amortised cost £m	At fair value through profit or loss £m	Non-financial assets/liabilities £m	**Total £m**
			2009		
ASSETS					
Non-current assets					
Property, plant and equipment	–	–	–	0.1	**0.1**
Loans and receivables	425.9	–	–	–	**425.9**
Trade and other receivables	1.6	–	–	–	**1.6**
	427.5	**–**	**–**	**0.1**	**427.6**
Current assets					
Loans and receivables	317.1	–	–	–	**317.1**
Trade and other receivables	1.3	–	–	0.3	**1.6**
Cash and cash equivalents	0.7	–	–	–	**0.7**
	319.1	**–**	**–**	**0.3**	**319.4**
Total assets	**746.6**	**–**	**–**	**0.4**	**747.0**
LIABILITIES					
Current liabilities					
Borrowings	–	2,441.2	–	–	**2,441.2**
Current tax liabilities	–	–	–	3.0	**3.0**
Trade and other payables	–	6.3	–	–	**6.3**
Provisions	–	–	–	0.1	**0.1**
	–	**2,447.5**	**–**	**3.1**	**2,450.6**
Non-current liabilities					
Borrowings	–	14.5	–	–	**14.5**
Retirement benefit obligation	–	–	–	17.6	**17.6**
	–	**14.5**	**–**	**17.6**	**32.1**
Total liabilities	**–**	**2,462.0**	**–**	**20.7**	**2,482.7**

			2008		
ASSETS					
Non-current assets					
Property, plant and equipment	–	–	–	0.2	0.2
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

27. SHARE CAPITAL

Group and Company	Number	£m
Authorised ordinary shares of 10p each		
At 1 January 2008, 1 January 2009 and **31 December 2009**	**700,000,000**	**70.0**
Allotted, called up and fully paid ordinary shares of 10p each		
At 1 January 2008	362,804,760	36.3
Issue of new shares through rights issue	163,262,142	16.3
At 1 January 2009 and **31 December 2009**	**526,066,902**	**52.6**

No ordinary shares were issued in 2009 (2008: 163,262,142 ordinary shares for a total consideration (before costs) of £208.9 million).

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. 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 was 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.

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.

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 steps being taken by the Board to restructure the capital base of the Company are disclosed in the Executive Chairman's Statement, the Business and Financial Review and in note 35 to the financial statements.

28. SHARE-BASED PAYMENTS

(a) Group
The Group recognised a total charge of £nil (2008: £1.9 million) related to equity-settled share-based payment transactions during the year ended 31 December 2009.

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 2009 are as follows:

Period granted	Exercise price (p)	Exercise period	2009 Number	2008 Number
Executive Share Option Schemes				
1999	279.39 – 311.54	2002 – 2009	**–**	64,709
2000	188.40	2003 – 2010	**584**	584
2001	189.68 – 241.30	2004 – 2011	**22,192**	22,192
2002	284.10	2005 – 2012	**9,344**	9,344
			32,120	96,829
Employee Sharesave Scheme				
2003	244.47	2008 – 2009	**–**	280,128
2005	208.17	2010 – 2011	**81,281**	201,488
2007	255.25	2010 – 2011	**35,106**	111,640
2007	255.25	2012 – 2013	**92,538**	189,810
2008	46.60	2011 – 2012	**2,212,028**	7,099,418
2008	46.60	2013 – 2014	**4,335,359**	9,977,182
			6,756,312	17,859,666
			6,788,432	17,956,495

The outstanding share options may be analysed by range of exercise prices as follows:

Range of exercise prices (p)	**2009** Weighted average exercise price (p)	**2009** Number	**2009** Weighted average remaining life (years)	2008 Weighted average exercise price (p)	2008 Number	2008 Weighted average remaining life (years)
46.60 – 149.00	**46.60**	**6,547,387**	**3.74**	46.60	17,076,600	4.58
150.00 – 199.00	**189.59**	**8,760**	**1.65**	189.59	8,760	2.65
200.00 – 249.00	**213.04**	**95,297**	**1.39**	229.62	495,632	1.28
250.00 – 299.00	**257.22**	**136,988**	**2.83**	256.12	310,794	3.66
300.00 – 311.54	**–**	**–**	**–**	310.49	64,709	0.25
	53.37	**6,788,432**	**3.69**	56.30	17,956,495	4.46

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.

A reconciliation of option movements during the year is shown below:

	2009		2008	
	Number	**Weighted average exercise price (p)**	Number	Weighted average exercise price (p)
Outstanding at 1 January	**17,956,495**	**56.30**	2,692,767	241.73
Granted	**–**	**–**	17,261,921	46.60
Expired	**(11,168,063)**	**58.08**	(1,998,193)	222.40
Outstanding at 31 December	**6,788,432**	**53.37**	17,956,495	56.30
Exercisable at 31 December	**32,120**	**239.65**	376,957	255.39

No options were granted in the year (2008: 17,261,921 options granted with an estimated fair value of less than £0.1 million).

No options were exercised in 2009 or 2008.

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 no shares were awarded to directors and senior executives under these plans (2008: 3,030,504 shares with an estimated fair value of £2.7 million).

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 no shares were awarded to staff, including directors and senior executives under the Share Incentive Plan (2008: 1,475,449 shares with an estimated fair value of £2.0 million).

(b) Company
The Company recognised a total credit of £nil (2008: charge £0.2 million) related to equity-settled share-based payment transactions during the year ended 31 December 2009.

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 2009 are as follows:

Period granted	Restated exercise price (p)	Exercise period	**2009 Number**	Restated 2008 Number
Executive Share Option Schemes				
1999	311.54	2002 – 2009	**–**	4,672
			–	4,672
Employee Sharesave Scheme				
2003	244.47	2008 – 2009	**–**	21,925
2005	208.17	2010 – 2011	**3,093**	4,330
2007	255.25	2010 – 2011	**1,127**	1,127
2007	255.25	2012 – 2013	**6,098**	6,474
2008	46.60	2011 – 2012	**65,920**	287,576
2008	46.60	2013 – 2014	**123,647**	245,856
			199,885	567,288
			199,885	571,960

28. SHARE-BASED PAYMENTS continued

(b) Company continued
The outstanding share options may be analysed by range of exercise prices as follows:

Range of exercise prices (p)	2009 Weighted average exercise price (p)	2009 Number	2009 Weighted average remaining life (years)	2008 Weighted average exercise price (p)	2008 Number	2008 Weighted average remaining life (years)
46.60 – 199.00	**46.60**	**189,567**	**3.72**	46.60	533,432	4.34
200.00 – 249.00	**208.17**	**3,093**	**1.42**	238.48	26,255	0.75
250.00 – 299.00	**255.25**	**7,225**	**3.10**	255.25	7,601	4.12
300.00 – 311.49	**–**	**–**	**–**	311.49	4,672	0.25
	56.64	**199,885**	**3.66**	60.34	571,960	4.14

A reconciliation of option movements during the year is shown below:

	2009 Number	2009 Weighted average exercise price (p)	2008 Number	2008 Weighted average exercise price (p)
Outstanding at 1 January	**571,960**	**60.34**	131,067	242.87
Granted	**–**	**–**	533,432	46.60
Expired	**(372,075)**	**62.33**	(92,539)	239.63
Outstanding at 31 December	**199,885**	**56.64**	571,960	60.34
Exercisable at 31 December	**–**	**–**	26,597	256.24

No options were granted in the year (2008: 533,432 options granted with an estimated fair value of less than £0.1 million).

No options were exercised in 2009 or 2008.

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 2009 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 date	25.10.05	26.10.07	26.10.07	31.10.08	31.10.08
Share price (at grant date)	271.00p	342.00p	342.00p	32.75p	32.75p
Exercise price (at grant date)	243.20p	298.20p	298.20p	46.60p	46.60p
Restated exercise price following rights issue	208.17p	255.25p	255.25p	N/A	N/A
Shares under option (at grant date)	878,109	428,511	755,480	7,188,410	10,073,511
Vesting period (years)	5.1	3.1	5.1	3.1	5.1
Expected volatility	31%	27%	26%	76%	61%
Expected life (years)	5.1	3.1	5.1	3.1	5.1
Risk free rate	4.3%	4.9%	4.9%	3.6%	3.9%
Expected dividends expressed as dividend yield (at grant date)	5.4%	5.3%	5.3%	59.9%	59.9%
Expected forfeiture rate (pa)	100%	100%	100%	100%	100%
Fair value per option (at grant date)	**60.9p**	**70.3p**	**73.0p**	**0.1p**	**0.1p**

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 (at grant date)	N/A	N/A	N/A	N/A	N/A	N/A
Expected forfeiture rate (pa)	100%	100%	100%	100%	100%	100%
Fair value per share (at grant date)	**327.50p**	**320.00p**	**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 date	23.11.06	24.4.07	21.6.07	30.6.08
Share price (at grant date)	406.00p	399.75p	401.00p	134.00p
Exercise price (at grant date)	0p	0p	0p	0p
Shares under option (at grant date)	891,367	875,025	159,888	2,985,187
Vesting period (years)	3.0	3.0	3.0	3.0
Expected volatility	N/A	N/A	N/A	N/A
Expected life (years)	3.0	3.0	3.0	3.0
Risk free rate	N/A	N/A	N/A	N/A
Expected dividends expressed as dividend yield (at grant date)	4.0%	4.4%	4.4%	14.4%
Expected forfeiture rate (pa)	100%	100%	100%	100%
Fair value per share (at grant date)	**359.90p**	**350.60p**	**351.80p**	**87.00p**

[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.

At 31 December 2009, the expected forfeiture rate of all share awards which have not vested by that date is assumed to be 100%. This reflects the Board's opinion, as reported on 16 December 2009 and subsequently repeated, that, in view of the substantial negative value of shareholders' funds, the shares are likely to have little or no value.

29. OWN SHARES AND SHARES HELD IN TRUST

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 2008	281,741	–
Shares purchased	626,782	–
Awarded by the trust	(368,089)	–
At 1 January 2009 and **31 December 2009**	**540,434**	**–**

The market value of the own shares held at 31 December 2009 was £nil (2008: £0.1 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. This power expired during 2009 so as at 31 December 2009 the Company has no power to purchase its own shares.

30. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH FLOW FROM CONTINUING OPERATIONS

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Loss before taxation	**(685.4)**	(764.6)	**(37.2)**	(2,230.8)
Adjustments for:				
Depreciation of property, plant and equipment	**12.7**	11.3	**0.1**	0.1
Loss/(profit) on disposal of property, plant and equipment	**0.5**	(0.5)	**–**	–
Loss on disposal of intangible assets	**1.8**	0.2	**–**	–
Amortisation of intangible assets	**2.7**	19.3	**–**	–
Impairment of investments in subsidiaries	**–**	–	**1.1**	183.5
Impairment of intra-group loans and receivables	**–**	–	**1.4**	1,949.0
Share-based payments	**–**	(0.6)	**–**	(6.3)
Fair value movements on derivatives	**15.1**	41.1	**15.1**	41.1
Decrease in loans and receivables	**1,067.0**	39.4	**4.0**	–
Decrease/(increase) in trade and other receivables	**3.1**	30.0	**0.2**	(0.8)
Decrease in trade and other payables	**(12.9)**	(10.2)	**(12.8)**	(0.5)
Movement in accrued interest payable	**4.8**	78.1	**3.1**	79.9
Increase in provisions	**6.0**	94.6	**–**	–
Decrease in deferred income	**(39.0)**	(10.8)	**–**	–
Contributions to retirement benefit obligation	**(5.0)**	–	**(5.0)**	–
Cash inflow/(outflow) from operations	**371.4**	(472.7)	**(30.0)**	15.2

The amount of interest paid and received (excluding that recognised in interest income) during the year was as follows:

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Interest paid	**99.2**	168.7	**58.1**	169.9
Interest received	**3.1**	4.3	**80.9**	194.3

31. 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			
	2009		2008		**2009**		2008	
	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	**4.5**	**2.7**	6.2	3.6	**0.2**	**0.1**	0.2	0.1
In two to five years	**12.9**	**2.0**	12.4	4.5	**0.1**	**–**	0.3	0.2
After five years	**6.1**	**–**	2.7	–	**–**	**–**	–	–
	23.5	**4.7**	21.3	8.1	**0.3**	**0.1**	0.5	0.3

The following lease payments were recognised in the Income Statement during the year:

	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Land and buildings	**6.1**	8.6	**0.4**	0.6
Motor vehicles	**1.7**	4.8	**0.1**	0.1
	7.8	13.4	**0.5**	0.7

The Group's operating lease agreements do not contain any material contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

32. CONTINGENT LIABILITIES

The Company, together with other companies in the Group, has entered into an unsecured multilateral bank guarantee. The fair value attached to the guarantee is £nil (2008: £nil).

The Group and Company are obligors of the SEA with the Group's key financial creditors. The Group and Company has a contingent liability, as the Group and Company may be required, along with other participating companies, to contribute to any settlement to the lenders of certain syndicated and bilateral bank facilities to Cattles, certain guaranteed hedging counterparties, certain unguaranteed hedging counterparties and holders of certain private placement notes and bonds issued by Cattles.

33. 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 services of some key managers were provided to the Group by Collinson Grant Limited and AlixPartners Limited. The amounts paid to these suppliers, which includes the costs of providing these key managers plus other services, in the year 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 and other related party suppliers during the year:

	2009 £m	2008 £m
Lending of funds	**–**	558.5
Borrowings	**484.0**	–
Intra-group finance income	**156.1**	178.7
Intra-group finance cost	**6.1**	–
Management fee – central services	**2.0**	0.4
Management charge – IT services	**–**	0.1
Related party suppliers		
Hammonds LLP	**–**	–
Scott Harris UK Limited	**–**	–
Brilliant Media Limited	**1.9**	12.7
AlixPartners Limited	**1.2**	–
Collinson Grant Limited	**0.1**	–

Receivables due from and payables to subsidiary undertakings are disclosed in note 17 and note 22 respectively.

Key management compensation is disclosed in note 7.

Amounts included in trade and other payables (note 23) in respect of the related party suppliers were: Hammonds LLP £nil (2008: £6,000), Scott Harris UK Limited £nil (2008: £27,000), Brilliant Media Limited £7,000 (2008: £39,000), AlixPartners Limited £nil (2008: £nil), and Collinson Grant Limited £58,000 (2008: £nil).

34. 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

With the exception of Cattles Invoice Finance Limited and Cattles Invoice Finance (Oxford) Limited, which were sold on 14 September 2009, 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.

35. POST BALANCE SHEET EVENTS

On 5 February 2010, Cattles announced the closure of 65 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 left the business.

On 5 March 2010, Welcome sold £0.4 billion of heavily impaired debt to a third party.

On 6 April 2010, Fitch upgraded Cattles' Long-term and Short-term Issuer Default Ratings to 'C' from 'Restricted Default' (RD). The upgrade reflected the standstill agreement in place between Cattles and its creditors, which became effective on 17 December 2009. Fitch stated that conditions that are indicative of a Long-term rating of 'C' include an issuer that has entered into a standstill agreement following a payment default.

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 and subsequently 139 left the business.

On 12 May 2010, the Court of Appeal heard the appeal of Party A and the subsequent cross-appeal of the Royal Bank of Scotland Plc of the decision of the High Court on 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 appeal and a cross-appeal were brought as part of consensual discussions between all parties. On 13 May 2010, the Court of Appeal unanimously handed down a decision that upheld the decision of the High Court which was explained in the Company's announcement dated 14 December 2009. The cross-appeal in relation to the Cherry v Boultbee issues was stayed. After judgment was handed down, Party A sought permission from the Court of Appeal to appeal this decision to the Supreme Court. The Court of Appeal did not give such permission and Party A had 28 days to appeal to the Supreme Court for permission to appeal the Court of Appeal's decision.

On 2 June 2010, the Company announced that one of the options being discussed with representatives of its key financial creditors concerning a consensual restructuring of its liabilities includes a proposal under which a newly incorporated company, formed and managed by a corporate service provider and ultimately owned by a charitable trust, would make an offer to acquire the entire issued share capital of Cattles (which would be effected by a shareholder scheme of arrangement). The Company added that, given the existing deficit in shareholders' funds and the significant losses Cattles' financial creditors will incur, Cattles would not expect any payment to shareholders to exceed 1p per share. Any such offer would be likely to comprise solely cash consideration. However, there can be no certainty that any offer will ultimately be made or as to the terms or timing of any offer. The making of any such offer is subject to a number of matters, including obtaining all necessary approvals.

On 28 July 2010, the Company was notified that, on 26 July 2010, the Supreme Court ordered that permission to appeal the Court of Appeal's decision be refused because the application to appeal 'does not raise an arguable point of law of general public importance which ought to be considered by the Supreme Court at this time, bearing in mind that the case has already been the subject of judicial decision and reviewed on appeal'. Consequently, the application of the Company was finally determined to the effect that the Company's claims against its subsidiaries are subordinated to the claims of certain bank creditors.

On 15 September 2010, the Company announced that it had been informed by the advisers to the steering committees of the bondholder creditors of Cattles (which Cattles understands hold approximately one third of the nominal value of the outstanding bonds) that such steering committees and their advisers have ceased and do not intend to re-instigate negotiations with Cattles' other key financial creditors in respect of any solvent restructuring of Cattles. Notwithstanding this, Cattles believes that it remains in the interests of all parties to reach an agreement. Therefore, Cattles and its advisers continue to engage in ongoing constructive discussions with representatives of certain of its key financial creditors still with a view to achieving a consensual restructuring of Cattles' liabilities, including an offer to acquire the share capital of Cattles at up to 1p per share.

On 22 October 2010, Cattles announced that it continued to engage in discussions with representatives of certain of its key financial creditors and other stakeholders in order to progress proposals for a consensual restructuring which then envisaged that, as part of a restructuring, Cattles would compromise its subordinated inter-company claims against WFS and other subsidiaries in the Group for not less than £39.0 million. Such compromise would occur in the event of a sale to a newly incorporated company of either: (i) the entire issued share capital of Cattles (at a price of up to 1p per share); or (ii) certain of its subsidiaries (including WFS) for a nominal payment to Cattles (with no offer to Cattles' shareholders), in either case, together with a creditor scheme of arrangement of WFS. Cattles would use the payment of not less than £39.0 million to meet its own costs and to compromise amounts it owes to its creditors (which at the last audited Balance Sheet date of 31 December 2008 totalled £2.8 billion).

On 22 November 2010, Cattles announced that it had been informed by representatives of certain of the key financial creditors of WFS that they continue to support proposals for a consensual restructuring including a compromise of Cattles' subordinated inter-company claims against WFS and other subsidiaries in the Group, however, for an amount which may be less than £39.0 million. Cattles also announced that it was continuing to discuss this matter further with WFS and the representatives of those key financial creditors.

On 29 November 2010, we announced that the Company had received sufficient support from its key financial creditors to enable it to launch a restructuring of the Group. Further details of the key elements of that restructuring are set out in the Executive Chairman's Statement under the heading 'Restructuring'.

Electronic company communications
Instead of receiving printed documents through the post, shareholders can receive the Annual Report and Financial Statements, Notice of General Meetings 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.

REGISTERED OFFICE AND ADVISERS

Registered Office
Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
Batley
WF17 9TD

Registered in England
Number 543610

Independent Auditor
Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Internal Auditors
Deloitte LLP
1 City Square
Leeds
LS1 2AL

Principal Bankers
The Royal Bank of Scotland plc
HSBC Bank plc
Barclays Bank PLC
Lloyds TSB Bank plc

Solicitors
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS

Financial Adviser
Lexicon Partners Limited
No.1 Paternoster Square
London
EC4M 7DX

Financial Public Relations
Financial Dynamics Limited
Holborn Gate
26 Southampton Buildings
London
WC2A 1PB

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Cattles plc
Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
Batley
WF17 9TD

Registered in England: Number 543610

Tel: 01924 444466
Fax: 01924 442255

www.cattles.co.uk