



Well financed

We have secured new finance to fund our operations through to October 2011. The fact that we were able to do this during a global liquidity crisis underlines the strength of our business model and our track record. We also have a strong balance sheet with an equity to receivables ratio of 45.1%.

Our Treasurer Nick Dahlgreen, and Krzysztof Adamski, a member of our treasury team, work to secure funding for the business.

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Funding and overview

A major ingredient in the global credit crunch has been the significant tightening of banks' funding as they seek to repair their balance sheets. This, in turn, has resulted in many corporate borrowers having to renegotiate facilities and in some cases to cease trading.

Against this backdrop, we were delighted to extend successfully £422.8 million of our bank facilities by 18 months, underlining the excellent support we continue to enjoy from our main banking partners. This provides the core funding for our existing operations through to October 2011. There were no changes in financial covenants and the margin increased by 90 bps to 225 bps above the local reference rate.

In total, we have some £663.8 million of bank facilities with significant headroom. At 31 December 2008, these facilities were only 65% drawn, with outstanding borrowings of £434.3 million. Importantly, these facilities are denominated in the same local currencies in which we lend to our customers.

The indications are that the major economies, including our markets, will continue to experience a sharp slowdown in the year ahead. This means that we expect liquidity and bank funding to remain in scarce supply and that securing additional funding will continue to be extremely difficult. Our focus in the coming year will be to maintain the strong relationships we have with our banking partners and to continue to examine a range of options for securing new funding as and when the markets start to reopen.

The fact that we were able to extend our facilities during the current global liquidity crisis reflects the strength of the business and in particular:

- a strong trading performance, with profit before tax increasing by 40.3% to £70.3 million and earnings per share increasing by 44.5% to 19.73 pence;
- a strong balance sheet with equity at 45.1% of receivables and gearing, calculated as borrowings divided by equity, low at 1.7 times. We borrow over long periods, usually over three years, and lend to customers short-term, usually for a year or less;
- established businesses which are generating cash and capital. This means that our profitable Central European markets can help us to fund growth in our pilot and developing markets while they move up the J-curve; and
- a resilient business model with short-term lending to customers meaning that customers repay their outstanding balances quickly, with the average period to maturity of receivables less than six months at any point in time.



David Broadbent
Finance Director

Core funding in place to 2011

Equity to receivables ratio

45.1%

Gearing

1.7 times

Headroom on committed
bank facilities

£229.5m

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J-curve

When we open a new market we incur losses as we conduct the initial 12 to 18 month pilot-test. Then, if the pilot is successful, we see increased losses for a further one to two years as we build up the infrastructure of branches and offices, put our country team in place, establish the agent sales force and recruit customers. The reason losses increase as we develop in a new market is because we incur the costs of opening new branches. A good example of this was Romania this year, when we increased our branch infrastructure from 7 to 16 and losses increased from £4.2 million in 2007 to £7.8 million in 2008.

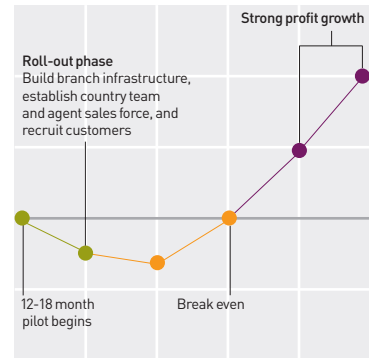
We would then expect losses to reduce as we move to break even and a consistent pattern of strong profit growth thereafter. Our developing markets of Mexico and Romania have both moved out of the pilot phase and are following a similar J-curve pattern.

Mexico incurred its year of peak start-up losses in 2007, with a much reduced loss in 2008 and it is on track to report its maiden profit in 2009. Our Romanian operation is following a similar trend, with 2008 being the year of peak losses. We expect much reduced losses in 2009 and remain on course to reach profitability in 2010.

The J-curve pattern happens every time we open a new branch. We establish the branch office, recruit field managers and then recruit and train agents. This incurs branch start-up losses and, only once we have done this, can we start recruiting customers, issue loans and start generating revenues. All in all, it takes around 12 months for a new branch to move into profit.

All of IPF's operations have developed organically and their results have also followed a consistent J-curve pattern. Our core Central European operations followed the J-curve and have shown solid, steady growth since moving into profit.

The J-curve



Our markets on the J-curve



*Poland established 1997, maiden profit achieved 2001.

Czech Republic established 1997, maiden profit achieved 2000.

Hungary established 2001, maiden profit achieved 2004.

Slovakia established 2001, maiden profit achieved 2006.

Financial review

This has been another successful year for IPF. We have delivered a strong set of results with an increase in profit before tax of over 40%. While the difficult economic environment continues to exist, we are confident that we are well placed to meet these challenging times.

2008 results

We reported good results for 2008 with profit before tax increasing by 40.3% to £70.3 million (2007: £50.1 million). This reflected a strong performance in all our markets:

- profit in Central Europe increased by 31.5% to £106.0 million, surpassing our original medium-term objective of £95 million. This reflected underlying profit growth of 14.5%, after adjusting for foreign exchange and releases of impairment provisions;
- Mexico reduced losses by £4.6 million to £8.7 million, maintained good credit quality and is now well placed to make a profit in 2009;
- as expected, Romania reached its peak year of start-up losses with a loss of £7.8 million. This is expected to reduce significantly in 2009 and we are still on track for profit in 2010; and
- the Russian pilot started successfully with an initial investment in start-up losses of £6.0 million.

A summary of the Group's results and further analysis is set out in the Chief Executive Officer's review.

Taxation

The taxation charge for the year was £19.7 million (2007: £15.0 million) which represents an underlying effective rate of 28.0% (2007: 29.9%). We expect the Group's effective rate of taxation to remain at around 28.0% in 2009. Further analysis of the tax charge is included in note 5 to the financial statements.

Established markets returns

Earnings per share

26.04p

Return on equity

31.7%

Capital generated*

£61.5m

*Based on 45% equity: receivables.

Cash generated

£45.9m

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Financial review continued

Shareholder returns

Earnings per share

Earnings per share ('EPS') increased by 44.5% to 19.73 pence.

An analysis of EPS by market is set out below.

	2008 pence	2007* pence
Central Europe	29.74	21.95
UK – central costs	(3.70)	(3.40)
Established businesses	26.04	18.55
Mexico	(2.44)	(3.62)
Romania	(2.19)	(1.14)
Russia	(1.68)	(0.14)
EPS	19.73	13.65

*On a pro forma basis.

Return on equity

The Group increased its return on equity in 2008 from 19.8% to 21.9% with the return on equity of established markets increasing from 28.7% to 31.7% offset by additional investment into our developing markets. For this calculation equity, which represents over 45% of receivables, is allocated between established markets and developing markets on the basis of receivables, with central costs being allocated to Central European receivables.

Dividend

The directors are recommending a final dividend of 3.40 pence per share which will bring the full year dividend to 5.70 pence, an increase of 19.3% compared to 2007. Further details of the dividend payable are given in note 7 to the financial statements and in the information for shareholders section of this report.

Balance sheet

The Group's balance sheet as at 31 December 2008 is set out in the financial statements and is summarised below:

Summary balance sheet

	2008 £m	2007** £m	Change %	Change at CER %
Fixed assets	69.9	59.5	17.5	5.8
Receivables	574.4	443.2	29.6	8.1
Cash	62.2	88.8	(30.0)	(36.9)
Borrowings	(434.3)	(370.8)	(17.1)	1.1
Other net liabilities	(13.4)	(17.1)	21.6	(5.3)
Equity	258.8	203.6	27.1	5.9
Equity to receivables	45.1%	45.9%		
Gearing	1.7x	1.8x		
Headroom on facilities	£229.5m	£208.6m*		

*At constant exchange rates.

**On a pro forma basis.

The key balance sheet ratios remain strong with equity at 45.1% of receivables and gearing at 1.7 times. Headroom on facilities increased to £229.5 million due to a small increase in the level of facilities available and a repayment of borrowings in the period.

A reconciliation of the movement in equity from 2007 to 2008 is included in note 26 of the financial statements. The underlying increase of 5.9% represents the post-tax profit of the Group offset by dividends payable, the purchase of shares for the employee trust and a loss on perfectly hedged derivative contracts as well as other small movements.

Receivables and our prudent provisioning methodology

An analysis of the receivables balance by market is included in note 14 of the financial statements. Receivables at 31 December 2008 increased by 8.1% to £574.4 million. The average period to maturity of the receivables book was 5.3 months (2007: 5.4 months) reflecting the short-term nature of our lending. From the total receivables book of £574.4 million, 96.1% is due within one year.

The receivables book is valued by discounting the expected future cash flows in respect of outstanding customer loans by the relevant effective interest rate. The expected future cash flows are adjusted to take account of our expectation of future credit losses based on the age of the debt, the number of missed payments and the historical performance of similar loans.

The following factors are relevant when considering how we provide for impairment against customer receivables:

Weekly assessment – we review customers' collections every week and as soon as a customer misses a payment or any part of a payment then the expected future cash flows are reassessed and we make a provision against the outstanding balance.

Third party developed actuarial models – the expected future cash flows are derived from actuarial models which have been developed by an external actuarial firm and have been proved to be very predictive. Separate models exist for each product in each country, other than in Romania and Russia where there is insufficient customer credit history.

Regular formal review of provisions – the actuarial models used to derive the expected future cash flows are regularly reviewed to ensure they reflect current performance. During 2008 we formally reviewed or updated the models used to value around 75% of our receivables book.

Our prudent approach to provisioning means that a significant proportion of receivables reflects some level of impairment charge; 71.7% of receivables as at 31 December 2008 were classed as impaired (2007: 73.0%). No receivables were past due but not impaired either at the end of 2008 or 2007.

Funding

As a business we lend short and borrow long. The average period of outstanding receivables was 5.3 months with 96.1% of receivables due in less than one year whereas the average maturity period of our borrowings was 2.3 years with 94.2% of borrowings due in over one year.

Type and maturity profile of the Group's facilities

	Less than one year £m	One to two years £m	Two to five years £m	Total £m
Short-term facilities	38.2	–	–	38.2
Syndicated multi-currency facilities	–	172.2	357.0	529.2
Other bilateral facilities	–	15.0	81.4	96.4
	38.2	187.2	438.4	663.8
Borrowings				434.3
Headroom				229.5

The core funding of the Group is in place to October 2011 and this is sufficient to fund our planned growth of existing operations until then.

We also have good headroom on our bank covenants. An analysis of performance compared with the covenants attached to the Group's borrowing facilities is set out below:

	2008	2007
Net assets must exceed £125m*	£273.0m	£201.9m
Gearing must not exceed 3.75 times*	1.6	1.8
Receivables must exceed 1.1 times borrowings	1.3	1.2
Interest cover must exceed 2 times	3.5	3.4

*Adjusted for derivative and pension liabilities.

Cash flows

The Group's cash flow statement is included in the financial statements. An analysis of the cash generated from operations and the net cash used in operating and investing activities is presented below:

	2008 £m	2007 £m
Cash generated from operations		
Established businesses	105.5	71.2
Start-up businesses	(39.8)	(22.2)
Exceptional demerger costs	–	(3.9)
	65.7	45.1
Net cash used in operating and investing activities		
Established businesses	45.9	7.3
Start-up businesses	(51.2)	(34.7)
Exceptional demerger costs	–	(3.9)
	(5.3)	(31.3)

The Group generated £65.7 million of cash from its operational activities with £105.5 million being generated by our established businesses. After taking into account the cost of financing, tax paid and the cost of investing in property, plant and equipment, our established businesses generated £45.9 million of cash which, combined with some utilisation of the cash balance at 2007, was used to fund our start-up businesses, dividend payments, share purchases and repayment of borrowings.

Hedging

During 2008 we benefited from favourable movements in foreign exchange rates, particularly within Central Europe. Our policy is to hedge the foreign exchange rates at which we translate our reported results but only within a financial reporting period. We economically hedged a large proportion of our 2008 overseas profits in January and May of 2008.

In January 2009 we entered into further contracts to hedge the majority of our forecast profits for Central Europe for 2009. The exchange rates in these contracts are approximately 4% more favourable than the rates used to translate 2008 profits. The table below shows the average exchange rates, including the impact of hedging, for the relevant reporting periods, closing exchange rates at the relevant period ends, together with the rates at which the Group has contracts in place for 2009.

	Hedged rate 2009	Average rate 2008	Closing rate 2008	Average rate 2007	Closing rate 2007
Poland	4.5	4.5	4.3	5.4	4.9
Czech Republic	29.1	32.9	27.9	39.6	36.0
Slovakia	33.1	40.9	31.5	48.5	45.7
Hungary	304.7	329.5	274.8	359.2	343.1
Mexico	n/a	21.3	20.1	21.8	21.7
Romania	n/a	4.7	4.2	4.9	4.9
Russia	47.5	45.4	42.5	n/a	n/a

The Group also hedges the interest costs on its borrowings by entering into derivative contracts. Our policy is to ensure that above 70% of the Group's forecast interest costs for the next 12 months will be fixed.

Going concern

The directors have reviewed the budget for the year to 31 December 2009 and the forecasts for the four years to 31 December 2013 which include projected profits, cash flows, borrowings and headroom against facilities. The committed bank facilities of the Group are sufficient to fund the planned growth of our existing operations until October 2011. Taking these factors into account the directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason they have adopted the going concern basis in preparing these financial statements.

David E S Broadbent

Finance Director