a better way forward

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GROUP

LOWELL GROUP

Annual Report

LOWELL GROUP ANNUAL 2012 CONSOLIDATED
FINANCIAL RESULTS FOR THE YEAR ENDED 31 AUGUST

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Highlights

ERC	£428.8 million, up 24%
Unlevered Net IRR	24.2%, down 1%
Collections	£135.9 million, up 13%
Adjusted EBITDA	£95.5 million, up 12%
Portfolio Purchases	£90.7 million, up 30%
Customer accounts	10.0 million, up 25%

- Significant growth across all key financial metrics
- Strong unlevered net IRR across the portfolio
- Continued underlying asset diversification and risk management
- Major strategic partnerships signed with key clients on a "forward flow" basis to secure debt purchase volumes going forward
- Strong underlying market growth expected to continue
- Foray into new sectors in utilities and government
- Strong management team with key new positions added to further strengthen compliance, technology and business development

An introduction to Lowell Group

Lowell Group ("Lowell") is a leading purchaser of non-performing consumer debt portfolios in the United Kingdom. The three main sectors from which the business has primarily purchased debt portfolios are financial services, communications and home retail credit. Lowell typically purchases unsecured, low-balance consumer debt portfolios consisting of a high number of accounts, and is able to purchase these non-performing debt portfolios at a substantial discount to their face value. The business aims to collect the balances owed on these debt portfolios through in-house, technology-driven call centre operations.

In 2012 Lowell was ranked as the leading credit management business across Europe for the fifth consecutive year by the strategic consulting firm OC&C, named Credit Today's Debt Purchaser of the year for the third time, and awarded Investors in People Gold status.

Headquartered in Leeds, with more than 575 full-time equivalent ("FTE") employees; we benefit from significant scale and experience in debt markets. Since inception in May 2004 to August 31, 2012, we have purchased 586 debt portfolios ("Purchased Assets") with an aggregate face value of approximately £9.0 billion, having invested £472.9 million at an average price paid of 5.3 pence per pound sterling of the debt's face value. On the total capital invested, as of August 31, 2012, the Unlevered Net IRR was 24.2%. At August 31, 2012, we had 10.0 million customer accounts.

We seek to recover outstanding balances by offering customers realistic, affordable and sustainable long-term payment plans with the instalments tailor-made to their individual circumstances. The collection strategy is centred on the ability to assess a customer's ability to pay through data intelligence and analytics. The business places significant importance on the ethical and fair treatment of customers to protect our and the originators' reputations. We aim to collect the balances owed on the debt portfolios purchased through our in-house, technology-driven call centre operations.

In 2012, we were ranked as the leading credit management business across Europe for the fifth consecutive year by the strategic consulting firm OC&C, and for the third time were named Credit Today's Debt Purchaser of the year and were awarded Investors in People Gold status.

Key performance indicators

(£ in millions, except for percentages and ratios or unless otherwise noted)	12 months ended 31 August 2011	2012	Movement
Other financial, operating and pro forma data: Cash generative asset backing:			
ERC(1)	344.7	428.8	+24%
Reported portfolio purchases(2)	70.0	90.7	+30%
Number of accounts (in millions)(3)	8.0	10.0	+25%
Number of owned debt portfolios (#)(4)	473	586	+14%
Net Debt(5)	70.9	191.0	
Cash generation:			
Collections/income on owned portfolios(6)	120.1	135.9	+13%
Servicing costs(7)	35.0	40.6	+16%
Adjusted EBITDA(8)	85.2	95.5	+12%
Cash flow before debt and tax servicing(9)	81.7	91.4	+12%
Return on capital:			
Unlevered Net IRR of owned portfolios (%)(10)	25.6	24.2	
Operational efficiency:			
Annual collections per collector FTE (£ thousands)(11)	624	621	
Payment plans per collector FTE(#)(12)	2,444	2,585	

Please see KPI definitions on page 88

Operating and financial review

We purchased a further 113 portfolios during the year bringing the number of customer accounts managed to 10 million whilst increasing our ERC to £428.8 million and adjusted EBITDA to £95.5 million.

Portfolio purchases

Purchases of portfolios in the twelve months to August 31, 2012 were at record levels of £90.7 million with our cumulative portfolio investment since inception having grown to £472.9 million. Our customer accounts acquired at August 31, 2012 reached 10.0 million and our aggregate face value of debt reached £9.0 billion. During the 12 months to August 31, 2012 we purchased 113 portfolios bringing our total acquired since inception to 586. The table below highlights the historical scale and stability of our purchasing activity by setting out our key purchasing metrics and Unlevered Net IRRs by vintage for the financial year ended August 31, 2009, through the financial year ended August 31, 2012.

In any period, we purchase debt portfolios that can vary in age, type and ultimate collectability, which explains the year-on-year variation in average prices paid and account balance indicated in the table below. Regardless of the price paid for a portfolio (which is driven by the varying collection expectations of portfolios with different characteristics), we typically target a required internal rate of return for each of our purchases (or Unlevered Net IRR) of 18% over 84 months.

	Financial year ended August 31				
(£ in millions)	2009	2010	2011	2012	Total since inception (4)
Portfolio purchases - cost (in millions)	65.8	57.9	70.0	90.7	472.9
Average price paid (p/£)	5.7	5.9	5.4	5.6	5.3
Average account balance (£)	780	733	830	851	903
Number of portfolios purchased in the period (1)	65	67	65	113	586
Unlevered Net IRR by vintage (2) (3)	20.2%	24.0%	25.6%	24.2%	

(1) Accounts purchased from the same vendor in the same month are grouped together and recorded as one portfolio.

(2) Unlevered Net IRR represents our aggregate Unlevered Net IRR of our portfolios, as at the end of a certain period.

(3) Unlevered Net IRR in 2012 was impacted downward by the proportion of portfolios under six months old which are still valued at cost and therefore at their Target IRR (typically 18% over 84 months, as defined below).

(4) Total inception covers the period from when we bought our first portfolio in June 2004 to August 31, 2012.

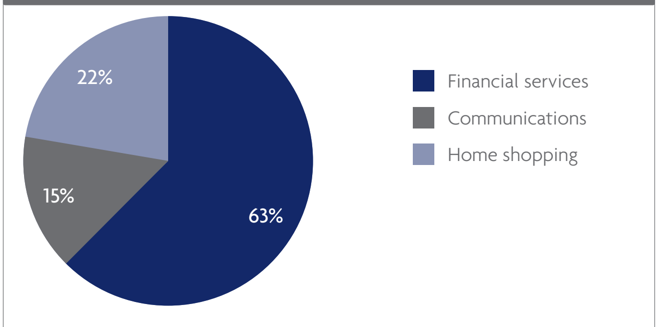
Our ability to purchase portfolios is dependent upon market conditions and competition. We witnessed significant growth in 2012. We continue to see the sale of portfolios through competitive tender processes. In our view, it is difficult for new competitors to successfully enter the market as technology, data intelligence on a large scale and a strong compliance track record are key to ensuring profitable returns. In addition, we have built a number of long standing strategic relationships with debt originators which enhanced our portfolio purchasing ability. For example, over 71% of clients we purchased from in 2012 were clients we had purchased from previously. Although most portfolios are sold through a competitive tender process, we also purchase through forward flow agreements whereby we agree to purchase all or substantially all of the vendors accounts that are sold, subject to the vendor's compliance with pre-agreed qualitative criteria. In the twelve months to August 31, 2012, approximately 45% of our portfolio purchases, in terms of purchase price, came from such forward flow agreements.

We have built a number of long standing strategic relationships with debt originators which enhanced our portfolio purchasing ability.

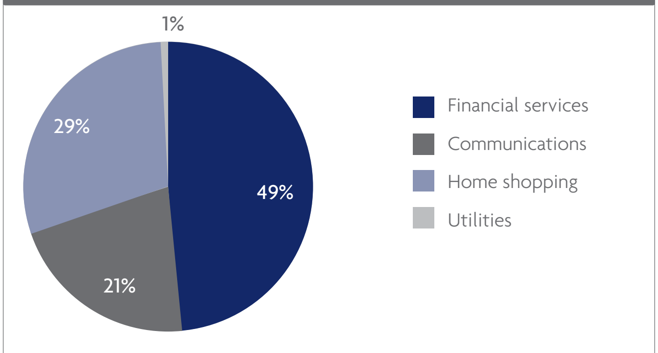
During the financial year ended August 31, 2012 we acquired portfolios across a number of sectors. The graphs below analyse the split between sectors for the purchases in the year and also since inception.

A key enabler to purchasing portfolios is access to financing. In March 2012, we successfully launched a £200 million Senior Secured Note which refinanced our balance sheet lending and we have commitments of £40 million under a Senior Revolving Credit Facilities Agreement which remained undrawn at the end of the year. The significant liquidity and flexibility afforded by this capital structure allows us to actively purchase debt portfolios as they become available and meet our return on capital requirements.

Sector breakdown for acquisitions since inception



Sector breakdown for acquisitions 12 months ended August 31, 2012



Market

We continue to see significant activity in the market and we are invited to bid on the majority of debt purchases being presented to the market. All of the main sectors in which we are involved, financial services, communications and home retail credit, continue to show strong activity levels. Other sectors are now showing a willingness to enter the debt purchasing market and have either sold or have shown strong signals indicating their intentions to start to sell debt portfolios. These include utilities, insurance and certain government agencies, and we are active in all three through emerging debt sales or in trials.

Collections

Our primary source of revenue is the cash proceeds received from our collection activity on the customer accounts in our owned debt portfolios. During the financial year ended August 31, 2012 our collections were £135.9 million and 89% of these came from our in-house collections team as opposed to third party agents. The chart below demonstrates our increase in collections from the financial years ended August 31, 2009 to August 31, 2012.

Gross collections

Our ability to collect is based on certain attributes of our customers, which can be influenced by macroeconomic factors. We believe the historical resilience we demonstrated in our collections in the recent worsening economic times was supported by:

- **Low average payments and account diversification.** During the twelve months ended August 31, 2012, we received approximately 500,000 payments per month from customers who paid us directly, with an average monthly payment of £24.90. As of August 31, 2012 the average account balance in our debt portfolios (at purchase) was £903 with 83% of them being less than £1,000. During the recent economic downturn, we believe that our low average monthly payments provided some degree of protection against changes in our customers' disposable income. Our current paying base is also not concentrated on any particular customer demographic, such as geographic postcode or customer age.

- **Predictable, long-term collections.** Of our £135.9 million of collections in the financial year 2012, 81% came from existing accounts already owned at the beginning of the financial year. Across our back book, as of August 31, 2012, the majority of our monthly collections came from recurring payments. We also proactively encourage our customers to adopt preferred payment methods with lower Default Rates, such as direct debits and continuous payment authorizations on debit and credit cards; during the twelve months ended August 31, 2012, approximately 90% of payments from customer accounts directly managed by us were made from these preferred payments methods.

- **Close performance monitoring and sophisticated data mining capabilities.** We reduced our Default Rate from 22% to 20% between August 2011 and August 2012. By systematically tracking and analysing performance trends in the market and on our portfolios, we have also been able to proactively adjust the collection curves on which we price new portfolios, which we believe helped us reach our return targets.

Servicing costs

Our servicing costs (sum of cost of sales and administrative expenses excluding non-recurring items) for the financial year ended August 31, 2012 were £40.6 million, a £5.6 million increase from the year ended August 31, 2011.

Absolute servicing costs in a period are primarily driven by the size of our back book at the beginning of a period and the number of customer accounts we purchase and start servicing in a period. Our servicing cost ratio (defined as the ratio of servicing costs to collections and income on owned portfolios) is driven by multiple factors and increased from 29.1% (excluding exceptional and non-recurring costs) for the financial year ended August 31, 2011 to 29.9% (excluding exceptional and non-recurring costs) for the financial year ended August 31, 2012. Year-on-year trends in our servicing cost ratio and resulting Adjusted EBITDA margin are not necessarily indicative of our operational efficiency and the return on capital we can achieve on portfolio purchases, as they are impacted by the varying characteristics of the portfolios we purchase in different years and differences in the phasing of portfolio purchases during the year. Specifically, recent trends in our servicing cost ratio have been driven by (a) significant improvements in the operational efficiency of our collection operation; (b) changes in the volume, mix and phasing of portfolios purchases in each year and (c) the trend towards lower average monthly payments on payment plans.

Operational efficiency

In order to deliver appropriate margins and returns on our investment we use collection strategies to determine the level of resource deployed on each customer account. To optimise servicing efficiency we utilise extensive analysis of customer information and empirical collection data to target the most appropriate collection strategy.

In the period from August 31, 2009 to August 31, 2012, our right-party contact rates (defined as the percentage of our calls during such financial year which lead to a successful connection) grew from 14.5% to 15.0%, our annual collections per collector full time FTE grew from £367,000 to £621,000 and the annual number of payment plans arranged per collector FTE grew from 1,340 to 2,585, all reflecting significant improvements in our operational efficiency.

By systematically tracking and analysing performance trends on our portfolios, we are able to proactively adjust the collection curves and cost profiles on the basis of which we priced these portfolios.

Volume, mix and phasing of new portfolio purchases in the year

We incur the majority of the costs to service at the beginning of our ownership of a portfolio, mainly driven by the time and expenditure associated with contacting customers. In a year of significant portfolio purchase activity, or where a large proportion of portfolios were purchased late in the financial year, we tend to see an increase in the average ratio of servicing costs to gross collections on our entire portfolio asset base.

Additionally, the average account balance on a portfolio can have an impact on servicing costs in any one financial year generally driven by the sector mix of purchased portfolios. Certain costs do not change with the average balance being collected and therefore servicing costs on low average balance portfolios tend to be higher than those on high average balance portfolios. For example, as of August 31, 2012, the average balance for communications services, home retail credit and financial services customers was £355, £647 and £1,614 respectively. As a result, communications services and home retail credit portfolios typically have higher servicing costs ratios than financial services portfolios.

Asset base

Our asset base continues to show significant growth as demonstrated by the table below. Estimated Remaining Collections ("ERC") has grown from £344.7 million in the financial year 2011 to £428.8 million in the financial year 2012.

	Financial year ended August 31			
(£ in millions)	2009	2010	2011	2012
ERC	245.1	289.7	344.7	428.8

Based on our models at August 31, 2012 we expect that the aggregate face value of our portfolios of £9.0 billion will generate £428.8 million in gross collections across the following 84 months.

In a year of significant portfolio purchase activity, or where a large proportion of portfolios were purchased late in the financial year, we tend to see an increase in the average ratio of servicing costs to gross collections on our entire portfolio asset base.

ERC on owned portfolios as of August 31, 2012 by year of purchase

(£ in millions)	0-12 months	13-24 months	25-36 months	37-48 months	49-60 months	61-72 months	73-84 months	Total
Financial year of purchase								
2005	1.3	1.0	0.8	0.7	0.6	0.5	0.4	5.3
2006	2.1	1.7	1.3	1.1	0.9	0.7	0.6	8.4
2007	4.9	3.9	3.1	2.5	2.0	1.6	1.3	19.3
2008	8.5	6.9	5.5	4.5	3.6	2.9	2.4	34.3
2009	16.0	12.7	10.1	7.9	6.3	5.0	4.0	62.1
2010	17.1	13.1	10.0	7.7	5.9	4.6	3.6	61.9
2011	26.1	18.8	13.9	10.4	7.9	6.0	4.5	87.5
2012	48.2	30.7	22.7	17.4	13.4	10.3	7.2	150.0
Total	**124.2**	**88.7**	**67.5**	**52.2**	**40.6**	**31.7**	**24.0**	**428.8**
Cumulative %	28.9%	49.6%	65.4%	77.5%	87.0%	94.4%	100.0%	

We believe there is a significant tail of cash flow inherent in our portfolio's past the 84 month ERC period which is not reflected here. Our forecast tail of cash flow from month 84 to month 120 is £47.9 million, which is in addition to the £428.8 million ERC.

Our asset base continues to be diversified as demonstrated in the table below.

	Number of accounts	Number of portfolios purchased	Average payment (£)	Number of payments per month
Total	10.0	586	24.90	500,000

Cash flow

Two non-UK GAAP measures of cash generation used by management are Adjusted EBITDA and cash flow before debt and tax servicing, which represents Adjusted EBITDA less working capital, less capital expenditure. We monitor these measures closely as we consider them to represent the operating cash flow generation potential of the business available for the servicing of mandatory debt and taxation, before investment decisions in portfolio purchases, which are discretionary. Between financial years 2011 and 2012, Adjusted EBITDA grew from £85.2 million to £95.5 million and cash flow before debt and tax servicing grew from £81.7 million to £91.4 million. The following table sets forth our record of operating cash generation for the periods indicated. It also shows a reconciliation of Adjusted EBITDA and cash flow before debt and tax servicing to increase/(decrease) in cash in the period.

	Financial year ended August 31			
(£ in millions)	2009	2010	2011	2012
Increase/(decrease) in cash in the period	**(2.2)**	**5.7**	**1.7**	**(0.8)**
Movement in debt (1)	(18.5)	3.5	(9.6)	(19.4)
Portfolio purchases (2)	71.8	55.7	68.4	90.6
Debt servicing (3)	7.4	6.0	11.2	14.6
Tax servicing (4)	2.8	4.2	10.1	6.5
Other cash flows (5)	0.4	-	-	-
Cash flow before debt and tax servicing	**61.7**	**75.0**	**81.7**	**91.4**
Capital expenditure (6)	1.7	2.4	2.3	2.0
Working capital (7)	0.4	(1.1)	1.2	2.1
Adjusted EBITDA (8)	**63.7**	**76.2**	**85.2**	95.5

	Financial year ended August 31			
(£ in millions)	2009	2010	2011	2012
Calculation of purchases from consolidated financial statements				
Opening purchased asset value	108.6	135.6	159.9	189.3
Less: Amortisation (a)	(38.8)	(33.6)	(40.6)	(43.2)
Less: Closing purchased asset value	(135.6)	(159.9)	(189.3)	(236.8)
Reported portfolio purchases	(65.8)	(57.9)	(70.0)	(90.7)
Reported portfolio purchases (see above)	65.8	57.9	70.0	90.7
Portfolio purchases (cash flow)	71.8	55.7	68.4	90.6
Timing difference (a)	(6.0)	2.2	1.6	0.1

(1) Movement in debt relates to the net movement on the amount drawn under the Existing Senior Facilities Agreement during the period.

(2) Portfolio purchases are the investments in new portfolios made during the year. This is the cash amount paid for the portfolio. There can be timing differences between when a portfolio is recorded on the balance sheet and when the actual payment is made for the portfolio. Portfolios of Purchased Assets are recognized on the balance sheet at the point the debt purchase contract is signed and we acquire legal title to the assets. In a number of instances the payment made for the portfolio of Purchased Assets occurs a few days after the contract is signed, and as a result may fall into a later accounting period. The table below shows this reconciliation.

(a) Amortisation is the sum of "amount of purchase cost recovered" and "fair value movement in loan portfolios" as reported in the consolidated financial statements. Timing difference means the difference between the amount of portfolio purchases reported for a period and the amount of cash payments made in relation to portfolio purchases in such period.

(3) Debt servicing includes interest payments and fees in relation to our Existing Senior Facilities Agreement and, until it was repaid in September 2011, our mezzanine facility agreement. The difference between "returns on investment and servicing of finance" in the consolidated cash flow statement and debt servicing in the table comes from the allocation of certain debt servicing costs to working capital in the consolidated cash flow statements, which have been adjusted above to arrive at cash flow before debt and tax servicing. Specifically, the difference for the 2011 financial year of £3.4 million relates to arrangement fees under the Existing Senior Facilities Agreement included within "increase in debtors," a working capital item, in the consolidated financial statements.

(4) Tax servicing consists of the corporate tax payments made to HMRC relating to the tax charges that can be seen in the consolidated profit and loss account labelled "tax on profit / (loss) on ordinary activities."

(5) Other cash flows represent the £1.1 million acquisition of the assets and liabilities of J2 Solutions Limited in 2009, offset by a £0.7 million receipt of a rent guarantee in relation to prior years.

(6) Capital expenditure represents investment in fixed assets for the business.

(7) Working capital represents differences which arise between collections on owned portfolios and operating expenses (includes cost of sales and administrative expenses) reported in the profit and loss account and the cash collections and payments of operating expenses.

(8) Adjusted EBITDA represents collections on owned portfolios plus other turnover, less cost of sales and administrative expenses (which, together, equals servicing costs), which is the same as operating profit before exceptional item, depreciation, fair value movement in loan portfolios and amount of purchase cost recovered. In addition to using Adjusted EBITDA as a measure for cash flow generation, management uses Adjusted EBITDA to measure profitability. For a reconciliation of Adjusted EBITDA to operating profit, see page 90.

The table below demonstrates our growing levels of cash flow before debt and tax servicing over time. It also shows the high level of conversion of Adjusted EBITDA to cash flow before debt and tax servicing. In the period to August 31, 2012 our business has seen a 95.7% conversion of Adjusted EBITDA into cash flow before debt and tax servicing.

	Financial year ended August 31			
(£ in millions)	2009	2010	2011	2012
Adjusted EBITDA	63.7	76.2	85.2	95.5
Cash flow before tax and debt servicing	61.7	75.0	81.7	91.4
% of adjusted EBITDA	96.8%	98.4%	95.9%	95.7%

Returns on portfolio purchases

As a business we typically target an Unlevered Net IRR[1] of 18% over 84 months for each portfolio that we purchase and, whilst returns achieved on an individual portfolio can vary, Unlevered Net IRR for all portfolios purchased up to the financial year ended August 31, 2012 was 24.2% with an estimated ERC of £428.8 million. Returns across all of our segments continue to be strong.

	As of August 31, 2012		
Segment	Invested (£ in millions)	Unlevered net IRR [1]	Net cash-on-cash [1] multiple
Total	**472.9**	**24.2%**	**1.51x**

People

During the year we have strengthened our senior team through the creation of a number of new roles which will support our continued growth. Firstly, in line with our continued emphasis on compliance and regulation, we have created a new role of Legal and Compliance Director on the company's operating board. In addition, we have created the role of Chief Information Officer in order to enhance and develop our competitive advantage in technology. Finally, in order to further strengthen our partnership approach to client relationships, we have created a Director of New Ventures position.

Our vision refers to 'better people, better systems, better practices equals better results' and this year there has been an even greater focus on our better people vision. We have implemented a people promise which delivers team members with a commitment to connect, communicate with, develop, involve and recognise and this will continue to underpin the culture going forward. There have been new initiatives trialled such as team member feedback forums, flexible working options and a companywide employee opinion survey has been completed. We have also invested in a new HR and Payroll system focussing on self-service ensuring accurate data is maintained for the Group.

First and foremost, thanks to our outstanding team, Lowell achieved Investors in People Gold this year in recognition of our world class practices. Our people have also outperformed their peers in the industry this year. We were recognised by the Credit Services Association as the company to achieve the highest average score across the industry in the Collectors Accreditation Initiative. Launched in 2011, the industry-wide scheme was designed to set standards of practice in the industry. Our achievement clearly evidences our Better Practices. Alongside these great achievements we have also been recognised by several other people-focused awards including, regional winners in the National Training Awards for Lowell's Future Leaders scheme, which is designed to identify future people leaders and give them the skills they need to develop and grow

1) See KPI and Other definitions on pages 88 and 89.

into a management role, shortlisted for Employer of the Year in the prestigious 2012 European Call Centre and Customer Service Awards, finalist in the HR Excellence Awards for Most Effective Use of Internal Communications and won best in category award for Freshest Internal Communications at the national Fresh PR Awards. It recognised our commitment to informing and engaging with our team.

Regulation and compliance

The industry in which we operate is highly regulated which requires significant investment in processes and management time. We believe that the regulatory environment creates strong barriers to entry as debt originators are increasingly careful in their selection of their debt purchase and collector partners, favouring those who can demonstrate robust compliance. We are currently piloting Speech Analytics software with our customer services teams. This software allows us to monitor calls from a 'treating customers fairly' perspective in addition to being able to provide ongoing feedback to operators on calls. Additionally, we are embarking on the Debt Buyers and Settlers Group ("DBSG") Continuous Improvement standard. This allows us to benchmark our policies against the standards and continually improve against these through ongoing feedback.

In October 2012, the CSA and the DBSG launched the new and combined Code of Practice which has to be fully implemented by 1st January 2013. The previous code of practice had been in place since 1985, with the latest review in 2009 however, with significant developments in the industry over this time, it was clear that the Code needed to be revised. As a full member of the CSA we will be fully compliant with the new Code of Practice we continue to work towards full implementation of the code for 1st January 2013.

The Financial Conduct Authority ("FCA") will be the new regulator of our industry. The FCA has three purposes. It will be responsible for:

(i) requiring firms to put the well-being of customers at the heart of how they run the business

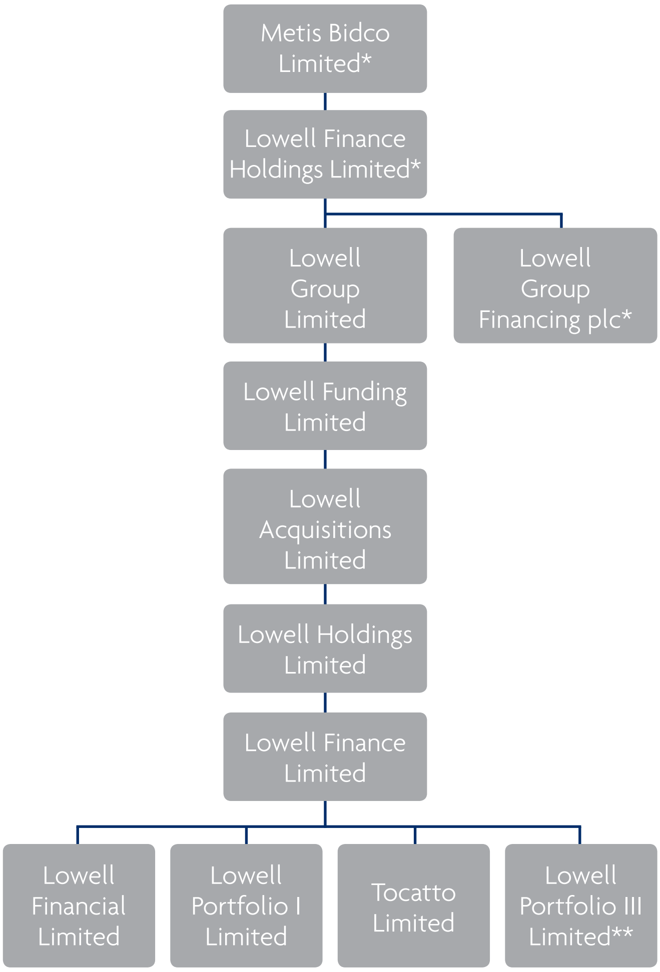
(ii) ensuring that the markets operate with integrity

(iii) the promotion of effective competition

The FCA will commence its work in 2013 when it receives new powers from the Financial Services Bill that is currently going through parliament. Our Legal and Compliance director is a member of the Stakeholder Forum set up by the Financial Services Authority ("FSA"), H M Treasury ("HMT") and UK Department for Business, Innovation and Skills ("BIS"). As the FCA plans become more firm, we will be closely monitoring the requirements and will continue to build on our strong foundations as we head towards regulation in April 2014. As mentioned earlier, our strengthened management team includes the appointment of a Legal and Compliance Director who is also the President of the Credit Services Association ("CSA").

Presentation of financial and other information

The historical and other financial data presented in this annual report is derived from consolidated financial statements for Metis Bidco Limited (in respect of 2012 information) and Lowell Group Limited (in respect 2011 information). The diagram below summarizes the corporate structure:



* Metis Bidco Limited was incorporated on May 31, 2011, Lowell Finance Holdings Limited was incorporated on March 12, 2012 and Lowell Group Financing PLC was incorporated on February 29, 2012.

** Lowell Portfolio III Limited was incorporated on June 7, 2012. The company was granted a Consumer Credit License on June 26, 2012

The consolidated financial statements for the twelve months ended August 31, 2011 and August 31, 2012 are presented in accordance with UK GAAP. The consolidated annual financial statements for the year ended August 31, 2011 and August 31, 2012 respectively are audited.

In addition, certain non-UK GAAP financial measures are included in this report, including Estimated Remaining Collections ("ERC"), Adjusted EBITDA, Unlevered Net IRR, Net Debt and certain other financial measures and ratios. Non-UK GAAP financial measures are derived on the basis of methodologies other than UK GAAP.

ERC is presented because it represents the expected gross cash proceeds of the purchased debt portfolios recorded on the balance sheet (the "Purchased Assets") over an 84-month period. ERC is calculated at a point in time assuming no additional purchases are made. The value of Purchased Assets are recorded on the balance sheet as the net present value of ERC, after applying a 25% servicing cost ratio and a 15% annual discount rate, other than for paying portfolios where a 10% servicing cost ratio and a 12% annual discount rate are used. Both such percentages have been determined by management in discussion with the Group's auditors.

ERC is a metric that is often also used by other companies in the industry. We present ERC because it represents the best estimate of the undiscounted cash value of the Purchased Assets at any point in time, which is an important supplemental measure for the board of directors and management to assess performance, and underscores the cash generation capacity of the assets backing the business. ERC is a projection, calculated by the group's proprietary analytical models, which utilise historical portfolio collection performance data and assumptions about future collection rates, and we cannot guarantee that such collections will be achieved. ERC, as computed by us, may not be comparable to similar metrics used by other companies in the industry. The computation of ERC could in the future differ from the collection forecasts used to compute and record Purchased Assets on the balance sheet.

Adjusted EBITDA is presented because management believe it may enhance an investor's understanding of profitability and cash flow generation that could be used to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses, and because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies generally. In addition to ERC, the board of directors and management also use Adjusted EBITDA to assess performance. Adjusted EBITDA is not a measure calculated in accordance with UK GAAP and use of the term Adjusted EBITDA may vary from others in the industry.

Unlevered Net IRR is presented because it represents the internal rate of return for a particular portfolio or group of portfolios after servicing costs as of a certain date. The board of directors and management use Unlevered Net IRR to measure return on the total capital invested in debt portfolios. Unlevered Net IRR is calculated by taking the actual collections received on a portfolio up to the date it is measured, less servicing costs, plus forecast collections up to 84 months from the date of purchase of each portfolio, less the estimated servicing cost of such portfolio over the same period, less the total amount paid for the portfolio. Unlevered Net IRR on a portfolio or group of portfolios could change from the date it is measured if the group over-perform or under-perform against the forecast collections included in computations. Unlevered Net IRR is presented for the aggregate portfolios purchased over a period, such as a vintage (i.e., the year of purchase) or since inception, or for a sector (i.e., financial services). Unlevered Net IRR, as computed, may not be comparable to similar metrics used by other companies in the industry.

Net Debt is presented because it may enhance an investor's understanding of the underlying cash generation of the business when compared to the growth in the asset base. Net Debt should not be considered an alternative to the "creditors: amounts falling due within one year" or "creditors: amounts falling due after more than one year" items on the consolidated balance sheet reported under UK GAAP.

Note that the terms "ERC" and "Adjusted EBITDA" as used in this report may differ to the terms used in our indenture covenants such as "ERC" and "Consolidated EBITDA".

ERC, Adjusted EBITDA, Unlevered Net IRR, Net Debt and all the other non-UK GAAP measures presented herein have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the company's results as reported under UK GAAP.

Review of statutory financial statements

2012 was another successful year with portfolios on balance sheet having increased by 25% to £236.8 million, portfolio purchases up 30% to £90.7 million and collections up 13% to £135.9 million.

The audited consolidated financial statements for the years ended August 31, 2011 and 2012 have been derived from our audited historical financial statements. The financial statements have been prepared in accordance with UK GAAP.

Consolidated profit and loss account

Collections on owned portfolios (1)

Collections on owned portfolios increased by £15.8 million (13%) to £135.9 million for the financial year ended August 31, 2012 from £120.1 million for the financial year ended August 31, 2011, due to continued new portfolio purchases in the year and the strong collection performance on these new portfolios and portfolios already owned at the beginning of the period.

Amount of purchase cost recovered / Fair value movement in debt portfolios (Portfolio amortisation) (1)

Portfolio amortisation increased by £2.6 million (6%) to £43.2 million for the financial year ended August 31, 2012 from £40.6 million for the financial year ended August 31, 2011. This increase was primarily a result of the increase in Purchased Assets over the period.

1) See other definitions on page 89

Turnover (1)

Turnover increased by £13.4 million (17%) to £93.0 million for the financial year ended August 31, 2012 from £79.6 million for the financial year ended August 31, 2011. This resulted from the strong performance in collections both on portfolios owned at the start of the year and on portfolios purchased during the financial year together with resulting fair value movement of the Purchased Assets on the balance sheet as of August 31, 2012.

Cost of sales (1)

As a result of the increase in purchased assets and additional collection efforts, the cost of sales increased by £3.2 million (23%) to £17.0 million for the financial year ended August 31, 2012. Additionally, the mix of portfolios purchased for the twelve months ended August 31, 2012 included a higher percentage of communications portfolios, which are lower balance accounts, as compared to the prior period. The lower average balance on these portfolios drives a higher level of servicing costs as a result of the greater volumes of customer accounts purchased.

Administrative expenses (1)

Administrative expenses increased by £2.8 million (13%) to £25.4 million for the financial year ended August 31, 2012 from £22.6 million for the financial year ended August 31, 2011. The main drivers in the increase in cost were wages and salaries with an additional 79 members of staff being employed and IT costs as we continue to invest in our systems.

Interest payable [1]

Interest payable increased by £21.7 million (72%) to £51.8 million for the financial year ended August 31, 2012 from £30.1 million for the financial year ended August 31, 2011. The year on year movement was driven by interest accrued on an increased level of preference shares in issue, interest on a loan from the parent company (the principle amount of which was subsequently reduced on March 30, 2012) and interest on the £200 million Senior Secured Notes issued on March 30, 2012.

Tax on loss on ordinary activities [1]

Tax on loss on ordinary activities reduced by £3.3 million (38%) to £5.4 million for the financial year ended August 31, 2012 from £8.7 million for the financial year ended August 31, 2011, as a result of a reduction in the effective taxation rate and underlying taxable profits.

(Loss) on ordinary activities after taxation for the year [1]

Loss on ordinary activities after taxation increased by £15.1 million, to a loss of £16.4 million for the financial year ended August 31, 2012 from a loss of £1.3 million for the financial year ended August 31, 2011, as a result of the factors discussed above.

1) See other definitions on page 89

Balance sheet

Debt portfolios or purchased assets (under current assets)

Debt portfolios (or "Purchased Assets") increased by £47.5 million (25%) to £236.8 million at August 31, 2012, from £189.3 million at August 31, 2011, due to continued new portfolio purchases in the year to August 31, 2012 and the greater than expected collection performance on these new portfolios and portfolios already owned at the beginning of that period. This led to a positive fair value movement in debt portfolios of £11.9 million.

Cash and creditors (amounts falling due within or after more than one year)

Cash decreased by £0.8 million to £9.0 million as of August 31, 2012, from £9.8 million as of August 31, 2011. Creditors (amounts falling due within or after more than a year) increased by £133.1 million to £433.7 million as of August 31, 2012, from £300.6 million as of August 31, 2011.

Portfolio purchases to date have been funded through a mix of operating cash flow and a Senior Revolving Credit Facility. On March 30, 2012 we agreed a new Senior Revolving Credit Facility at a committed level of £40 million for a 6 year period. This facility replaces the previous facility which has been fully repaid. At August 31, 2012 none of the Senior Revolving Credit Facility was drawn. In addition, on March 30, 2012 the group raised £200 million of Senior Secured Notes which will mature on 1 April 2019. The proceeds raised on the issuance of the notes has been used to refinance the previous balance sheet borrowings and to provide an equity distribution on the acquisition of Lowell Finance Holdings Limited.

Fixed assets

Fixed assets increased by £77.1 million (97%) to £156.9 million as at August 31, 2012. The increase is a result of capital expenditure of £2.0 million, an £85.0 million increase in intangible fixed assets on the back of the acquisition of Lowell Group Limited, offset by depreciation of £2.0 million and goodwill amortisation of £8.0 million.

a better way forward

Lowell. GROUP

Financial statements Metis Bidco Limited

TO 31ST AUGUST 2012

Metis Bidco Limited
CONSOLIDATED PROFIT AND LOSS ACCOUNT
From 31 May 2011 (date of incorporation) to 31 August 2012

	Note	2012 £000
Collections on owned portfolios		135,903
Amount of purchase cost recovered		(55,078)
Fair value movement in debt portfolios		11,858
Turnover from debt portfolios		92,683
Other turnover		272
Turnover	1	**92,955**
Cost of sales	1	(17,026)
Gross profit		**75,929**
Administrative expenses		(25,436)
Depreciation	10	(2,004)
Operating profit	4	**48,489**
Interest receivable	6	11
Interest payable and similar charges	7	(51,755)
Fair value movements in derivatives	3	160
Amortisation of intangible assets	9	(7,968)
Loss on ordinary activities before taxation		**(11,063)**
Tax on loss on ordinary activities	8	(5,380)
Loss on ordinary activities after taxation for the period	18	**(16,443)**

All amounts relate to continuing operations.

There were no recognised gains and losses for the period other than those included in the Profit and Loss Account and accordingly, a statement of recognised gains and losses has not been prepared.

The notes on pages 25 to 42 form part of these financial statements.

› Metis Bidco Limited
Consolidated balance sheet
31 August 2012

	Note	2012 £000
Fixed assets		
Intangible assets	9	152,728
Tangible assets	10	4,160
		156,888
Current assets		
Portfolios (including £168,262k falling due after more than one year)	1 & 2	236,759
Debtors	13	15,782
Cash at bank and in hand		9,020
		261,561
Creditors: amounts falling due within one year	14	(23,246)
Net current assets		238,315
Total assets less current liabilities		395,203
Creditors: amounts falling due after more than one year	15	(410,428)
Net liabilities		**(15,225)**
Called-up share capital	17	1,212
Share premium account	18	6
Profit and loss account	18	(16,443)
Total equity shareholders' deficit	19	**(15,225)**

These financial statements of Metis Bidco Limited, Company No. 07652466, were approved by the Board of Directors on 27 November 2012.

Signed on behalf of the Board of Directors by:

Director

27 November 2012

The notes on pages 25 to 42 form part of these financial statements.

› Metis Bidco Limited
Company balance sheet
31 August 2012

	Note	2012 £000
Fixed assets		
Investments	11	188,076
Current assets		
Debtors	13	2,692
Cash at bank and in hand		81
		2,773
Creditors: amounts falling due within one year	14	(675)
Net current assets		2,098
Total assets less current liabilities		**190,174**
Creditors: amounts falling due after more than one year	15	(210,428)
Net liabilities		**(20,254)**
Called-up share capital	17	1,212
Share premium account	18	6
Profit and loss account	18	(21,472)
Total equity shareholders' deficit	19	**(20,254)**

These financial statements of Metis Bidco Limited, Company No. 07652466, were approved by the Board of Directors on 27 November 2012.

Signed on behalf of the Board of Directors by:

Director

27 November 2012

The notes on pages 25 to 42 form part of these financial statements.

Metis Bidco Limited
Consolidated cash flow statement
From 31 May 2011 (date of incorporation) to 31 August 2012

	Note	2012 £000
Cash flow from operating activities	20	**2,890**
Returns on investments and servicing of finance	21	(21,757)
Taxation	21	(6,521)
Capital expenditure and financial investment	21	(1,932)
Acquisitions and disposals	21	(232,125)
Cash outflow before financing		**(259,445)**
Financing	21	268,465
Increase in cash in the period		**9,020**

The notes on pages 25 to 42 form part of these financial statements.

Metis Bidco Limited

Reconciliation of net cash flow to movement in net debt
From 31 May 2011 (date of incorporation) to 31 August 2012

	Note	2012 £000
Increase in cash in the period	22	9,020
Movement in borrowings	22	(267,248)
Non cash movements	22	(36,031)
Movement in net debt in the period		**(294,259)**
Net debt at start of the period / date of acquisition	22	(116,167)
Net debt at end of the period	22	**(410,426)**

The notes on pages 25 to 42 form part of these financial statements.

› Metis Bidco Limited
Notes to the financial statements
From 31 May 2011 (date of incorporation) to 31 August 2012

1. Accounting policies

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice. The particular accounting policies adopted are described below.

Basis of accounting

These financial statements are prepared under the historical cost convention, except for purchased non performing debt portfolios which are held at fair value to reflect changes in the expected profile of future cash flows.

Going concern

The Group's business activities together with factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 and 3. In addition Note 3 to these financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

There are long term business plans and short term forecasts in place which are reviewed and updated on an ongoing regular basis by management. The Group is in a net liabilities position as a result of funding structures in place as investment by the ultimate controlling parent, Metis Holdings Sarl.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis of accounting in preparing these financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of Metis Bidco Limited and all its subsidiary undertakings drawn up to 31 August 2012. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

No Profit and Loss Account is presented for Metis Bidco Limited itself as permitted by Section 408 of the Companies Act 2006. The Company's result for the period, determined in accordance with the Act, was a loss after tax of £21,472k.

Financial instruments

In accordance with FRS 26, the financial instruments of the Group have been classified as follows:

a) Debt portfolios

Non-performing debt portfolios are purchased from financial institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value. These portfolios are classified as a financial asset at "fair value through profit or loss" as the portfolios are managed and evaluated on a fair value basis in accordance with a documented risk management and investment strategy, and internal information is made available to the Board and key management personnel on this basis. The fair value of each portfolio is assessed using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

b) Financial liabilities

All financial liabilities held by the Group are measured at amortised cost using the effective interest method, except for those measured at fair value through profit or loss, e.g. derivative liabilities.

c) Derivatives

The Group enters into interest rate caps and interest rate swaps to commercially hedge its exposure to interest rate risk from financing activities. The Group does not hold derivative instruments for trading purposes.

If material, derivatives are initially recognised at fair value on the date on which the derivative contract is entered into, and subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in the Profit and Loss Account immediately. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

As at the 31 August 2012 the Group had no outstanding derivative contracts. All contracts matured or were closed out during the period.

Turnover

Turnover represents the yield from purchased non-performing debt portfolios, net of VAT, all of which arose in the UK.

Cost of sales

Cost of sales represents the costs of collecting debts.

Fair value movement in debt portfolios

For portfolios purchased during the period, the fair value movement is the difference in net collection projections from 31 August 2012 between the original curves based on the price paid for the portfolios and the current collection projections, plus reflecting any change in discount rates.

For portfolios acquired on the acquisition of Lowell Group Limited (Note 12), the fair value movement is the difference in net collection projections from 31 August 2012 between the original curves based on the price paid for the acquired portfolios and the current collection projections, plus reflecting any change in discount rates.

Intangible fixed assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and business assets, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life as follows:

Acquisition of subsidiary undertakings	20 years
Acquisition of business assets	4 years

Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value on each asset on a straight line basis over their estimated useful lives as follows:

Office equipment	4 years

Fixed asset investments

Fixed asset investments are shown at cost less any provision for impairment.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in these financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in these financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Amounts collected on behalf of third parties

Amounts collected on behalf of third parties are reported within both Cash at bank and in hand and Other creditors.

Leases

Operating lease rentals are charged to income on a straight line basis over the lease term. Any lease incentives are spread over the life of the lease.

2. Critical accounting policies, judgements and estimates

Certain assets and liabilities are reported in these financial statements based upon managements' estimates and assumptions, introducing a risk of changes to the carrying amounts of these items within the next financial year.

Purchased debt portfolios

Non-performing debt portfolios are purchased from institutions at a substantial discount from their face value. The portfolios are classified as a financial asset at "fair value through profit or loss". The fair value of each portfolio is assessed on the measurement date using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

The calculation of the amount falling due after more than one year depends upon the value and profile of 'setups' where customers enter into payment plans.

The directors are of the opinion that the discount rate applied in determining the fair value of the debt portfolios represents an unobservable market rate. That rate has been determined by management to be 15% for default portfolios and 12% for paying portfolios. Changes in this assumption to possible alternatives of plus or minus 2.5% would lead to the following (decrease) / increase of profit:

	£000
Plus 2.5%	(9,127)
Minus 2.5%	9,898

The Group has forward flow agreements in place in relation to the future purchase of debt portfolios. The fair value of portfolios purchased under these agreements is determined on the same basis as the Group's other purchased debt portfolios.

3. Risk management and control

As a result of its normal business activities, the Group has exposure to the following risks:

- Credit risk
- Liquidity risk
- Operational risk
- Market risk
- Capital management risk
- Fair value estimation risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements. The Group manages these risks through the Board of Directors.

The Group has no significant exposures in foreign currency and does not hold any speculative foreign exchange positions.

The Group has no significant exposure to equity markets and does not hold any speculative equity positions.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual payment obligations.

The risk to the Group is lower than expected collections from the acquired non-performing debt portfolios.

The risk from the concentration of debtor credit risk is limited due to the relatively low value of each of the individual debtor's debts and to the Group's increasingly broadening client base from whom portfolios are purchased.

The risk is managed through utilising appropriate portfolio valuation models and building current expectations of recoverability into pricing models. The Group's exposure to credit risk is monitored by the Board of Directors.

The carrying amount of financial assets recorded in these financial statements represents the Group's maximum exposure to credit risk. These portfolios are performing in line with the Group's expectations, but are in default relative to the original contractual terms between the debtor and the third party from whom the Group acquired the debt. The Group does not hold any collateral in respect of its receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows. At 31 August 2012, the Group had available undrawn committed borrowing facilities.

The following table shows the Group's contractual maturities of financial liabilities including interest payments at the balance sheet date:

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
	£000	£000	£000	£000	£000	£000
Notes	209,018	350,560	10,810	10,750	86,000	243,000
Preference shares	190,196	418,670	-	-	-	418,670
Loan with parent	20,232	54,764	-	-	-	54,764
Other liabilities	14,228	14,228	14,228	-	-	-
Total liabilities	433,674	838,222	25,038	10,750	86,000	716,434

Operational risk

Operational risk is defined by the Group as the potential risk of financial loss, or impairment to reputation, as a result of internal process failures, or from the inappropriate actions of employees or management. The Board of Directors has ultimate responsibility for establishing the framework in which operational risk is managed, and the day to day management of operational risk rests with line managers.

Market risk

Market risk is risk of changes caused by market variables such as interest rate and prices, i.e. the cost of consumer debt portfolios. The Group has minimised its risk against interest rates by being funded by share capital and from 30 March 2012 by 10.75% Senior Secured Notes due 2019, upon which the interest rate is fixed.

By only bidding for consumer debt portfolios up to a price that enables the Group to expect a yield high enough to cover all costs of collection and to make a contribution to overhead costs, the Group minimises its risk against the cost of these portfolios.

Derivatives are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates. The Group possesses variable rate funding for which interest rate caps and interest rate swaps are used to mitigate the risk of changing interest rates.

As at 30 March 2012 the balance outstanding on the old RCF (Revolving Credit Facility) was fully repaid. A new RCF was put in place as at 30 March 2012. There have been no drawdowns on the new facility in the period from 30 March 2012 to 31 August 2012.

The use of derivatives is controlled by the Board of Directors. However, because there have been no drawdowns on the new RCF from 30 March 2012 to 31 August 2012 no further derivative contracts have been entered into. As at the 31 August 2012 the Group has no outstanding derivative contracts. All contracts matured or were closed out during the period.

As at 31 August 2012 the Group has no exposure to changes in interest rates. Except for the RCF, which is undrawn at the year end, the Group's funding is subject to fixed terms and fixed interest rates.

Capital management risk

The Group's objective in managing capital is to maintain a strong capital base to support current operations and planned growth and so to maintain investor, creditor and market confidence. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Fair value estimation risk

Financial assets and liabilities are classified into the following categories:

	2012 £000
Financial assets	
Fair value through profit and loss	236,759
Loans and receivables	24,802
Total financial assets	261,561
Financial liabilities	
Fair value through profit and loss	-
Other financial liabilities measured at amortised cost	(433,674)
Total financial liabilities	(433,674)

The directors consider that the carrying amount of financial assets and financial liabilities recorded in these financial statements approximates to their fair value. The fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

4. Operating profit

	2012 £000
Operating profit is after charging:	
Depreciation of tangible fixed assets	2,004
Amortisation of intangible fixed assets	7,968
Rentals under operating leases	805
Auditor's remuneration:	
Audit of these financial statements	4
Audit of other group companies' financial statements	52
Other assurance services	18

During the period £186K was charged by the auditor for other assurance services in relation to the issue of the 10.75% Senior Secured Notes (the "Notes"). These costs are charged to the Profit and Loss Accounts over the 7 year term of the Notes.

During the period to 31 August 2012 £11k has been included in "Fees payable on the Notes (Note 7)".

5. Information regarding directors and employees

	2012 £000
Directors' remuneration:	
Aggregate emoluments to current directors	502
Emoluments of highest paid director	362

The above emoluments do not include any emoluments for M Dale, T J H Large, J R Rosen and B J Thompson which are paid by a parent company.

	2012 No.
Employees:	
Average number of persons employed by the Group:	
Administration	541

	2012 £000
Staff costs for the Group (including directors):	
Wages and salaries	15,628
Social security costs	1,663
	17,291

6. Interest receivable

	2012 £000
Bank interest receivable	11

7. Interest payable and similar charges

	2012 £000
Interest payable on preference shares to Company's immediate parent	23,675
Interest payable on preference shares to other parties	711
Interest payable on the Notes	9,018
Interest payable on loan notes to Company's immediate parent	10,232
Interest payable to banks	7,215
Fees payable on the Notes	479
Fees payable on revolving credit facility	425
	51,755

8. Tax on loss on ordinary activities

	2012 £000
Current taxation	
UK corporation tax	4,287
Group relief paid for (Note 14)	1,087
Adjustment in respect of previous periods	(13)
Total current tax charge	5,361
Deferred taxation	
Book depreciation in excess of capital allowances:	
Origination and reversal of timing differences	(135)
Effects of change in tax rates	34
Deferred tax credit in Profit and Loss Account (Note 13)	(101)
Short term timing differences:	
Origination and reversal of timing differences	119
Effects of change in tax rates	1
Deferred tax charge in Profit and Loss Account (Note 13)	120
Total deferred tax charge	19
Total charge on loss on ordinary activities	5,380

On 21 March 2012, the government announced that the main rate of corporation tax was to reduce from 26% to 24% with effect from 1 April 2012. Finance Act 2012 confirmed this and included legislation to reduce the main rate of corporation

tax from 24% to 23% with effect from 1 April 2013. Accordingly, deferred tax balances which are expected to reverse after 31 August 2012 have been re-valued at 23% in these financial statements.

Legislation is planned to be introduced in Finance Bill 2013 to reduce the main rate of corporation tax to 22% from 1 April 2014. This change has not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. The impact of this change would be to reduce the net deferred tax asset by £17k.

The tax assessed for the period is greater than the standard effective rate of corporation tax in the UK for the period ended 31 August 2012 of 25%. The differences are explained below:

	2012 £000
Loss on ordinary activities before tax	(11,063)
Tax credit on loss on ordinary activities at standard UK corporation tax rate of 25%	(2,784)
Effects of:	
Expenses not deductible for tax purposes	8,146
Movement in short term timing differences	(119)
Book depreciation in excess of capital allowances	135
Adjustment in respect of previous periods	(14)
Group relief claimed free of charge	(3)
Current tax charge for period	5,361

9. Intangible fixed assets

Group

	Goodwill £000
Cost	
Upon acquisition of Lowell Group Limited	160,696
Accumulated amortisation	
Charge for the period	(7,968)
Net book value	
At 31 August 2012	152,728

The goodwill arose from the acquisition as detailed in Note 12.

This is being amortised over a period of 20 years as detailed in the accounting policies in Note 1.

The charge is for the period from the acquisition date, 15 September 2011, to the 31 August 2012.

10. Tangible fixed assets

Group

	Office equipment £000
Cost	
At acquisition of subsidiary undertakings	9,678
Additions during the period	1,932
At 31 August 2012	11,610
Accumulated depreciation	
At acquisition of subsidiary undertakings	(5,446)
Charge for the period	(2,004)
	(7,450)
Net book value	
At acquisition of subsidiary undertakings (Note 12)	4,232
At 31 August 2012	4,160

11. Fixed assets investments

Company

Subsidiary undertakings

	2012 £000
Cost	
Acquisition of subsidiary undertakings (Note 12)	241,887
Preference dividend received from subsidiary	(58,974)
Waiver of preference dividend from subsidiary	5,163
At 31 August	188,076

On 30 March 2012 the accrued preference dividend from Lowell Group Limited was £70,225k.

On 30 March 2012 Lowell Group Limited paid a preference dividend to the Company of £65,062k, of which £58,974k was the pre-acquisition amount and consequently this has been netted off the cost of investment.

On 30 March 2012 the Company waived its rights to the remaining outstanding preference dividend from Lowell Group Limited of £5,163k, thereby increasing its investment.

The Company and the Group have investments in the following subsidiary undertakings:

Name	Country of incorporation	Principal activity	Ordinary Share Holding %
Lowell Finance Holdings Limited	UK	Holding company	100*
Lowell Group Financing Plc	UK	Financing	100
Lowell Group Limited	UK	Holding company	100
Lowell Funding Limited	UK	Holding company	100
Lowell Acquisitions Limited	UK	Holding company	100
Lowell Holdings Ltd	UK	Holding company	100
Lowell Finance Ltd	UK	Holding company	100
Lowell Financial Ltd	UK	Consumer debt collection	100
Lowell Portfolio I Ltd	UK	Consumer debt purchase and collection	100
Tocatto Ltd	UK	Consumer debt collection	100
Lowell Portfolio III Limited	UK	Dormant	100

*Held directly by the Company.

On 29 February 2012, Lowell Group Limited incorporated a wholly owned subsidiary Lowell Group Financing Plc with share capital of one ordinary share for £1.00 and fifty thousand preference shares of £1.00 each. Lowell Group Financing Plc did not trade between 29 February 2012 (its date of incorporation) and 13 March 2012, when its ownership was transferred to Lowell Finance Holdings Limited. The consideration was £50,001, being the fair value of the net assets acquired.

On 12 March 2012, the Company incorporated Lowell Finance Holdings Limited with 1 £1.00 ordinary share. The only other transactions that have taken place since incorporation are detailed in Note 12.

On 7 June 2012, Lowell Finance Ltd incorporated Lowell Portfolio III Limited with two £1.00 ordinary shares. There have been no further transactions since incorporation.

12. Acquisition and disposal of subsidiary undertakings

On 15 September 2011, the Company acquired the entire ordinary share capital of Lowell Group Limited. The consideration of £59,100k was paid in cash. Also on 15 September 2011, the Company acquired the entire preference share capital of Lowell Group Limited. This consisted of nominal preference share capital of £111,839k and accrued interest of £58,974k on such preference shares, a total of £170,813k. The consideration of £170,813k was paid in cash.
In addition, the Company incurred professional fees of £11,974k on the acquisition of Lowell Group Limited.

Assets and liabilities acquired:	**£000**
Tangible fixed assets (Note 10)	4,232
Portfolios	189,295
Debtors	8,305
Cash	9,762
Creditors: amounts falling due within one year	(10,307)
Creditors: amounts falling due after more than one year	(115,241)
Preference shares	(170,813)
Corporation tax liabilities	(5,273)
Deferred tax assets:	
Book depreciation in excess of capital allowances (Note 13)	281
Short term timing differences (Note 13)	137
	(89,622)
Goodwill (Note 9)	160,696
Consideration for share capital (including professional fees)	71,074
Consideration for preference shares	170,813
Total consideration (Note 11)	241,887

The acquisition of Lowell Group Limited has been accounted for by the acquisition method of accounting.

There were no fair value adjustments to the book value of the assets and liabilities acquired. In its last financial year to 31 August 2011 the Consolidated Profit and Loss Account of Lowell Group Limited reported a loss after tax of £1,326k. For the period since 31 August 2011 to the date of the acquisition on 15 September 2011, the consolidated management accounts of Lowell Group Limited show the following:

	£000
Turnover	2,456
Operating profit	396
Loss before taxation	(858)
Taxation	(59)
Loss after taxation	(917)

On 19 March 2012, the Company disposed of 100% of the issued ordinary shares of Lowell Group Limited, to its wholly owned subsidiary Lowell Finance Holdings Limited. The consideration was £71,073,883 being both the book value and the fair value of the Company's investment in the ordinary shares of Lowell Group Limited. Lowell Finance Holdings Limited paid for this by issuing 71,073,883 ordinary shares of £1.00 each.

On 30 March 2012, the Company disposed of 100% of the issued preference shares of Lowell Group Limited to its wholly owned subsidiary Lowell Finance Holdings Limited. The consideration was £111,839,512 being both the book value and fair value of the Company's investment in the preference shares of Lowell Group Limited. Lowell Finance Holdings Limited paid for this by issuing 111,839,512 ordinary shares of £1.00 each.

13. Debtors

Group	2012 £000
Trade debtors	126
Other debtors	3,537
Deferred tax	399
Prepayments and accrued income	11,720
	15,782

Deferred tax assets recognised in these financial statements are as follows:

	2012 £000
Book depreciation in excess of capital allowances:	
Acquisition of subsidiary undertakings (Note 12)	281
Deferred tax credit in Profit and Loss Account (Note 8)	101
Balance 31 August 2012	382
Short term timing differences:	
Acquisition of subsidiary undertakings (Note 12)	137
Deferred tax charge in Profit and Loss Account (Note 8)	(120)
Balance 31 August 2012	17
Total deferred tax assets at 31 August 2012	399

Company	2012 £000
Amounts owing by group undertakings (repayable on demand)	2,577
Other debtors	18
Other taxes and social security	59
Prepayments and accrued income	38
	2,692

14. Creditors: amounts falling due within one year

Group	2012 £000
Trade creditors	1,769
Other taxes and social security	377
Corporation tax	3,026
Other creditors	441
Accruals and deferred income	7,528
Interest due on the Notes	9,018
Amounts owing to Company's immediate parent for group relief (repayable on demand) (Note 8)	1,087
	23,246

Company	2012 £000
Trade creditors	71
Other taxes and social security	6
Other creditors	8
Accruals and deferred income	363
Amounts owing to group undertakings (repayable on demand)	227
	675

15. Creditors: amounts falling due after more than one year

Group	2012 £000
10.75% Senior Secured Notes due 2019	200,000
Loan notes and accrued interest, owing to Company's immediate parent (Note 23)	20,232
Preferences shares and accrued interest	
Amounts owing to Company's immediate parent (Note 23)	184,647
Amounts owing to other parties	5,549
	410,428

On 30 March 2012, a subsidiary, Lowell Group Financing Plc, issued £200m 10.75% Senior Secured Notes due 2019. The interest rate on the Notes is fixed at 10.75% for the entirety of its term. The interest on the Notes will be paid by the subsidiary semi-annually on each 1 April and 1 October, commencing 1 October 2012. The Notes will mature on 1 April 2019, though the subsidiary may redeem some or all of the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 23 March 2012.

Company	2012 £000
Loan notes and accrued interest, owing to Company's immediate parent (Note 23)	20,232
Preferences shares and accrued interest	
Amounts owing to Company's immediate parent (Note 23)	184,647
Amounts owing to other parties	5,549
	210,428

The Unsecured Loan Notes 2021 were all issued to the Company's immediate parent on 15 September 2011. The interest rate is 15.25% non-compounding for the first five years and then 12.00% compounding annually for the next five years. The principal and accrued interest are both payable ten years after the issue date. The loan notes together with accrued interest may be redeemed early by the Company at any time or by the noteholders with the lead investor's consent on the occurrence of any event specified in the Loan Note Instrument.

The rights attached to the 165,810,093 preference shares, with a nominal value of £1.00 each, are as follows:

Voting: Preference shareholders are entitled to receive notice of and to attend and speak at general meetings of the Company, but they may not vote at general meetings in respect of their preference shares.

Dividends: Each preference share shall accrue a fixed preferential dividend at the annual rate of 15.25% (non-compounding) of the subscription price per preference share and shall be paid on the date of repayment, redemption or repurchase of the relevant preference share. The right to the preference dividend has priority over the dividend rights of the holders of any other class of share.

Return of capital: On a return of capital on a liquidation, reduction of capital or otherwise, the assets of the Company available for distribution among the shareholders shall be applied in paying to the preference shareholders, in priority to any payment to the holders of any other class of shares: (i) the subscription price in respect of each preference share and (ii) a sum equal to the accrued and unpaid preference dividend calculated to the date of return of capital in accordance with the articles and payable irrespective of whether or not the Company has enough profits available for distribution to pay the accrued and unpaid preference dividend. The preference shares do not confer any further right of participation in the profits or assets of the Company.

The preference shares shall, unless previously repaid, redeemed or repurchased by the Company, be redeemed by the Company in full at par value (together with the amounts of accrued and unpaid preference dividend) ten years after the date of their issue. The preference shares may be redeemed early by the Company at any time or by the holders of a majority of the preference shares in issue on the occurrence of the events specified in the articles.

16. Operating lease commitments

Group

Commitments under non-cancellable operating leases for which no provision has been made in these financial statements are as follows:

	2012 £000
Land and buildings	
Operating leases which expire:	
Within one year	805
Within two to five years	977
	1,782

17. Called-up share capital

	2012 £000
Called-up, allotted and fully paid	
940,478 A ordinary shares of £1.00 each	940
226,190 B ordinary shares of £1.00 each	226
45,515 C ordinary shares of £1.00 each	46
6,250 D ordinary shares of £0.01 each	-
	1,212

The rights attached to the ordinary shares are as follows:

Voting: The ordinary shareholders shall be entitled to receive notice of, attend and speak at and vote at general meetings of the Company. On a show of hands each ordinary shareholder shall have one vote and on a poll the ordinary shareholders (other than the D ordinary shareholders) shall have one vote for each ordinary share held by them, and the D ordinary shareholders shall have one vote for every one hundred D ordinary shares held by them.

Dividends: The profits of the Company available for distribution and resolved to be distributed shall be distributed as follows: (i) 999,999 / 1,000,000 to the holders of the ordinary shares (other than the C ordinary shares) pro rata to the number of the ordinary shares (other than the C ordinary shares) held by them; and (ii) 1 / 1,000,000 to the holders of the C ordinary shares pro rata to the number of C ordinary shares held by them.

Return of capital: On a return of capital on liquidation, reduction of capital or otherwise (other than on a redemption or purchase of shares), the balance of any assets available for distribution, subject to any special rights which may be attached to any other class of shares, shall be distributed among the ordinary shareholders in the following priority: (i) first, in paying to each holder of ordinary shares, in respect of each ordinary share of which he / she is a holder, a sum equal to the issue price; (ii) thereafter, of the balance remaining: (a) 999,999 / 1,000,000 to the holders of ordinary shares (other than C ordinary shares) pro rata to the number of the ordinary shares (other than C ordinary shares) held by them; and (b) 1 / 1,000,000 to the holders of C ordinary shares pro rata to the number of C ordinary shares held by them.

18. Reserves

Group	Share premium account £000	Profit and loss account £000
Shares issued at a premium	6	-
Loss for the period	-	(16,443)
At 31 August 2012	6	(16,443)

Company	£000	£000
Shares issued at a premium	6	-
Loss for the period	-	(21,472)
At 31 August 2012	6	(21,472)

The 6,250 D ordinary shares, with a nominal value of £0.01 each, were issued at £1.00 each giving rise to a total share premium of £6,188.

19. Reconciliation of movement in total equity shareholders' deficit

Group	2012 £000
Issue of share capital (Note 17)	1,212
Share premium on shares issued (Note 18)	6
Loss for the period	(16,443)
Closing total equity shareholders' deficit	(15,225)

Company	2012 £000
Issue of share capital (Note 17)	1,212
Share premium on shares issued (Note 18)	6
Loss for the period	(21,472)
Closing total equity shareholders' deficit	(20,254)

20. Reconciliation of operating profit to operating cash flows

	2012 £000
Operating profit	48,489
Depreciation	2,004
Increase in debt portfolios	(47,464)
Increase in debtors	(791)
Increase in creditors	652
Net cash inflow from operating activities	2,890

21. Analysis of cash flows

	2012 £000
Returns on investments and servicing of finance	
Interest received	11
Interest and set up fees paid	(21,928)
Fair value movement in derivatives	160
	(21,757)
Taxation	
UK corporation tax paid	(6,521)
Capital expenditure and financial investment	
Purchase of tangible fixed assets	(1,932)
Acquisitions and disposals	
Purchase of Lowell Group Limited (Note 12)	(241,887)
Cash acquired with Lowell Group Limited (Note 12)	9,762
	(232,125)
Financing	
Issue of 10.75% Senior Secured Notes 2019	200,000
Issue of ordinary share capital	1,218
Issue of preference shares	165,810
Issue of Unsecured Loan Notes 2021	110,000
Repayment of Unsecured Loan Notes 2021	(92,395)
Repayment of mezzanine loan	(35,355)
Repayment of bank loan	(80,813)
	268,465

22. Analysis of net debt

	At start of period £000	Cash flow £000	Acquisition (excluding cash) £000	Non cash Movement £000	31 August 2012 £000
Debt due within one year	-	926	(926)	(9,018)	(9,018)
Debt due after more than one year	-	(268,174)	(115,241)	(27,013)	(410,428)
	-	(267,248)	(116,167)	(36,031)	(419,446)
Cash at bank and in hand	-	9,020	-	-	9,020
Total	--	(258,228)	(116,167)	(36,031)	(410,426)

23. Related party transactions

During the period, loan notes (Note 15) and preference shares (Note 15) were issued, partly repaid and interest charged and paid as follows:

	Directors £000	Company's immediate parent £000	Other holders £000	Total £000
Unsecured Loan Notes 2021				
Principal	-	110,000	-	110,000
Principal repaid	-	(92,395)	-	(92,395)
Interest charged	-	10,232	-	10,232
Interest paid	-	(7,605)	-	(7,605)
	-	20,232	-	20,232
Preference Shares				
Principal	1,870	160,973	2,967	165,810
Accrued interest	275	23,674	437	24,386
	2,145	184,647	3,404	190,196

24. Ultimate controlling party

The Company is a subsidiary undertaking of Metis Holdings Sarl, which is the ultimate parent company, incorporated in Luxembourg.

The largest group in which the results of the Company's consolidated financial statements are consolidated is that headed by Metis Holdco Limited, incorporated in England and Wales. The consolidated financial statements of Metis Holdco Limited are available from its registered office at One Stanhope Gate, London, W1K 1AF.

a better way forward

Financial statements Lowell Group Limited

TO 31ST AUGUST 2011

› Lowell Group Limited
Consolidated profit and loss account for the year ended 31 August 2011

	Note	2011 £000	2010 £000
Collections on owned portfolios		120,115	104,956
Amount of purchase cost recovered		(49,289)	(42,719)
Fair value movement in loan portfolios		8,646	9,146
Turnover from loan portfolios		79,472	71,383
Other turnover		82	175
Turnover	4	**79,554**	**71,558**
Cost of sales		(13,835)	(9,936)
Gross profit		**65,719**	**61,622**
Administrative expenses		(22,601)	(18,994)
Depreciation		(1,772)	(1,338)
Operating profit	6	**41,346**	**41,290**
Interest receivable	7	-	13
Interest payable	8	(30,090)	(25,521)
Amortisation of Intangible asset		(4,846)	(4,846)
Fair value movements in derivatives	2	934	74
Profit on ordinary activities before taxation		**7,343**	**11,010**
Tax on profit on ordinary activities	9	(8,669)	(8,646)
(Loss)/Profit on ordinary activities after taxation for the year		**(1,326)**	**2,364**

All amounts relate to continuing operations.

There were no recognised gains and losses for the period other than those included in the profit and loss account and accordingly, a statement of recognised gains and losses has not been prepared.

The notes on pages 49 to 68 form part of the financial statements.

Lowell Group Limited
Consolidated balance sheet 31 August 2011

	Note	2011 £000	2010 £000
Fixed assets			
Intangible assets	11	75,596	80,442
Tangible assets	12	4,232	3,589
		79,828	84,031
Current assets			
Loan portfolios (including £132,810k falling due after more than one year, (2010: £107,400k))	3	189,295	159,926
Debtors	14	8,723	6,780
Cash		9,762	8,074
		207,780	174,780
Creditors: amounts falling due within one year	15	(15,437)	(86,922)
Net current assets		192,343	87,858
Total assets less current liabilities		272,171	171,889
Creditors: amounts falling due after more than one year	16	(285,178)	(183,569)
		(13,007)	**(11,680)**
Called up share capital	17	100	100
Warrant reserve	18	18	18
Share premium account	18	900	900
Profit and loss account	18	(14,025)	(12,698)
Total equity shareholders' deficit	19	**(13,007)**	**(11,680)**

The financial statements of Lowell Group Ltd registered number 06527689 were approved by the Board of Directors on 18 October 2011.

Signed on behalf of the Board of Directors

Director

The notes on pages 49 to 68 form part of the financial statements.

› Lowell Group Limited
Company balance sheet 31 August 2011

	Note	2011 £000	2010 £000
Fixed assets			
Investments	13	835	835
Current assets			
Debtors	14	112,176	112,463
Cash		332	290
		112,508	112,753
Creditors: amounts falling due within one year	15	(4,684)	(4,549)
Net current assets		107,824	108,204
Total assets less current liabilities		108,659	109,039
Creditors: amounts falling due after more than one year	16	(169,952)	(150,394)
		(61,293)	**(41,355)**
Called up share capital	17	100	100
Warrant reserve	18	18	18
Share premium account	18	900	900
Profit and loss account	18	(62,311)	(42,373)
Total equity shareholders' deficit	19	**(61,293)**	**(41,355)**

The financial statements of Lowell Group Ltd registered number 06527689 were approved by the Board of Directors on 18 October 2011.

Signed on behalf of the Board of Directors

Director

The notes on pages 49 to 68 form part of the financial statements.

› Lowell Group Limited
Consolidated cash flow statement for the year ended 31 August 2011

	Note	2011 £000	2010 £000
Cash flow from operating activities	20	**12,253**	**21,675**
Returns on investments and servicing of finance	21	(7,804)	(5,961)
Taxation	21	(10,057)	(4,177)
Capital expenditure and financial investment	21	(2,324)	(2,374)
Cash outflow before financing		**(7,932)**	**9,163**
Financing	21	9,620	(3,500)
Increase in cash in the period		**1,688**	**5,663**

The notes on pages 49 to 68 form part of the financial statements.

Lowell Group Limited

Reconciliation of net cash flow to movement in net debt for the year ended 31 August 2011

	Note	2011 £000	2010 £000
Increase in cash in the period	22	1,688	5,663
Cash inflow / (outflow) from increase / (decrease) in debt financing	22	(9,620)	3,500
Non cash movements	22	(20,856)	(18,558)
Movement in net debt in the period		**(28,788)**	**(9,395)**
Net debt at start of the period		(247,554)	(238,159)
Net debt at end of the period	22	**(276,342)**	**(247,554)**

The notes on pages 49 to 68 form part of the financial statements.

› Lowell Group Limited
Notes to the financial statements for the year ended 31 August 2011

1. Accounting policies

The financial statements are prepared in accordance with UK Generally Accepted Accounting Practice.
The particular accounting policies adopted are described below.

Basis of accounting

The financial statements are prepared under the historical cost convention, except for purchased non-performing loan portfolios which are held at fair value to reflect changes in the expected profile of future cash flows.

Going concern

The Group's business activities together with factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 and 3. In addition note 2 to the financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

There are long term business plans and short term forecasts in place which are reviewed and updated on an ongoing regular basis by management. The Group is in a net liabilities position as a result of funding structures in place as investment by the ultimate controlling party, Exponent Private Equity LLP.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of Lowell Group Limited and all its subsidiary undertakings drawn up to 31 August 2011. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

No profit and loss account is presented for Lowell Group Limited as permitted by Section 408 of the Companies Act 2006. The company's result for the financial period, determined in accordance with the Act was a loss of £19,938k

Financial instruments

In accordance with FRS 26, the financial instruments of the Group have been classified into the following categories:

a) Loan portfolios

Non-performing loan portfolios are purchased from financial institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value. These portfolios are classified as a financial asset at "fair value through profit or loss" as the portfolios are managed and evaluated on a fair value basis in accordance with a documented risk management and investment strategy, and internal information is made available to the Board and key management personnel on this basis. The fair value of each portfolio is assessed using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

b) Financial liabilities

All financial liabilities held by the company are measured at amortised cost using the effective interest method, except for those financial liabilities measured at fair value through profit or loss, e.g. derivative liabilities.

c) Derivatives

The Group has taken out an interest rate cap and interest rate swaps to commercially hedge its exposure to interest rate risk from financing activities. The Group does not hold derivative instruments for trading purposes.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into, and subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

Turnover

Turnover represents the yield percentage calculated by reference to total expected collections on each portfolio.

The turnover and pre tax profit, all of which arises in the United Kingdom, is attributable to the purchase and servicing of non-performing loan portfolios.

Fair value movement in loan portfolios

For portfolios purchased during the period the fair value movement is the difference in net collection projections from 31 August 2011 between the original curves based on the price paid for the portfolio and the current collection projections, plus reflecting any change in discount rates.

For portfolios owned at the start of the year the fair value movement is the difference in net collection projections from 31 August 2011 as forecasted at 31 August 2010 and 31 August 2011 reflecting any change in discount rates.

Reclassification of fair value movement in loan portfolios

The fair value movement in loan portfolios is disclosed as part of turnover in the profit and loss account to better reflect how the Directors' assess financial performance. In previous years this has been disclosed below operating profit.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and business assets, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life as follows:

Acquisition of subsidiary undertaking	20 years
Acquisition of business assets	4 years

Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value on each asset on a straight line basis over their estimated useful lives as follows:

Office equipment	25%

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Amounts collected on behalf of third parties

Amounts collected on behalf of third parties are reported within both Cash in Bank and in Hand and Other Creditors.

Leases

Operating lease rentals are charged to income on a straight line basis over the lease term. Any lease incentives are spread over the life of the lease.

2. Risk management and control

As a result of its normal business activities, the Group has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Operational risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements. The Group manages these risks through the Board of Directors.

The Group has no significant exposures in foreign currency, and does not run any speculative foreign exchange positions.

The Group has no significant exposure to equity markets, and does not hold any speculative equity positions.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual payment obligations.

The risk to the Group is lower than expected collections from the acquired delinquent loan portfolios.

The risk from the concentration of debtor credit risk is limited due to the relatively low value of each of the individual debtor's debts and to the company's increasingly broadening client base from whom portfolios are purchased.

The risk is managed through utilising appropriate portfolio valuation models and building current expectations of recoverability into pricing models. The Group's exposure to credit risk is monitored by the Board of Directors.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. These portfolios are performing in line with the company's expectations, but are in default relative to the original contractual terms between the debtor and the third party from whom the Group acquired the debt.

The Group does not hold any collateral in respect of its receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows. At 31 August 2011, the Group had available undrawn committed borrowing facilities.

The following table shows the contractual maturities of financial liabilities including interest payments

Group

2011

	Carrying amount £000	cash flows £000	Contractual 0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Senior bank loans	80,816	82,709	42,169	34,073	6,467	-
Mezzanine bank loans	35,337	59,724	874	893	7,843	50,115
Interest rate swap	206	207	141	66	-	-
Preference shares	169,952	232,806	-	-	-	232,806
Other liabilities	14,304	14,304	14,304	-	-	-
Total liabilities	300,615	389,750	57,488	35,032	14,310	282,921

2010

	Carrying amount £000	Contractual cash flow £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Senior bank loans	71,111	72,360	1,166	71,194	-	-
Mezzanine bank loans	34,124	68,609	1,169	1,188	10,491	55,761
Interest rate swap	1,347	1,397	751	435	223	-
Preference shares	150,394	232,806	-	-	-	232,806
Other liabilities	13,515	13,515	13,515	-	-	-
Total liabilities	270,491	388,687	16,601	72,817	10,714	288,567

Operational risk

Operational risk is defined by the Group as the potential risk of financial loss, or impairment to reputation, as a result of internal process failures, or from the inappropriate actions of employees or management. The Board of Directors has ultimate responsibility for establishing the framework in which operational risk is managed, and the day to day management of operational risk rests with line managers.

Market risk

The Group's activities expose it to the financial risks of changes in interest rates. The Group possesses variable rate funding for which an interest rate cap and interest rate swaps are used to mitigate the risk of changing interest rates. The use of derivatives is controlled by the Board of Directors.

The following table analyses the derivatives by contract for the Group:

2011	2011 Notional principal amount £000s	Replacement cost £000s	2010 Notional principal account £000s	Replacement cost £000s
Interest rate swaps	20,000	206	75,000	1,347
Interest rate caps	60,000	(45)	30,000	-

The notional principal amount denotes the volume of business outstanding at the balance sheet date, and does not represent amounts at risk. The replacement cost represents the costs of replacing contracts calculated at current market rates at the balance sheet date, and indicates the Group's exposure should the counterparty default.

The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities. Assets and liabilities have been allocated to periods by reference to the earlier of the next interest rate reset date and the contractual maturity date.

Group
31 August 2011

	Less than 3 months £000	No specific re-price date £000	Non-interest bearing £000	Total £000
Fixed assets				
Intangible	-	-	75,596	75,596
Tangible	-	-	4,232	4,232
	-	-	79,828	79,828
Current assets				
Loan portfolios	-	189,295	-	189,295
Debtors	8,723	-	-	8,723
Cash	9,762	-	-	9,762
	18,485	189,295	-	207,780
Creditors: amounts falling due within one year	(15,437)	-	-	(15,437)
Net current assets	3,048	189,295	-	192,343
Creditors: amounts falling due after more than one year	(115,226)	(169,952)	-	(285,178)
	(112,178)	19,343	79,828	(13,007)
Capital and reserves				
Called up share capital	-	-	100	100
Warrant reserve	-	-	18	18
Share premium	-	-	900	900
Profit and loss account	-	-	(14,025)	(14,025)
	-	-	(13,007)	(13,007)

31 August 2010

	Less than 3 months £000	No specific re-price date £000	Non-interest bearing £000	Total £000
Fixed assets				
Intangible	-	-	80,442	80,442
Tangible	-	-	3,589	3,589
	-	-	84,031	84,031
Current assets				
Loan portfolios	-	159,926	-	159,926
Debtors	6,780	-	-	6,780
Cash	8,074	-	-	8,074
	14,854	159,926	-	174,780
Creditors: amounts falling due within one year	(86,922)	-	-	(86,922)
Net current assets/(liabilities)	(72,068)	159,926	-	87,858
Creditors: amounts falling due after more than one year	(33,175)	(150,394)	-	(183,569)
	(105,243)	9,532	84,031	(11,680)
Called up share capital	-	-	100	100
Warrant reserve	-	-	18	18
Share premium	-	-	900	900
Profit and loss account	-	-	(12,698)	(12,698)
	-	-	(11,680)	(11,680)

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore a change in interest rates at the reporting date would not affect profit. For variable rate financial assets and liabilities a change of 100 basis points in interest rates would have increased / (decreased) profit by the amounts shown below:

	2011 100bp increase £000	2011 100bp decrease £000	2010 100bp increase £000	2010 100bp decrease £000
Variable rate instruments	(965)	965	(836)	836
Interest rate swaps	475	(475)	713	(713)
Interest rate caps	-	-	-	-
Total Impact on Profit & Loss Account	(490)	490	(123)	123

Fair values versus carrying amounts

Except as detailed in the following table, the directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

The fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The following table details the fair value of financial liabilities that are not carried at fair value in the financial statements

	2011 Carrying amount £000	2011 Fair value £000	2010 Carrying amount £000	2010 Fair value £000
Senior bank loans	80,816	80,789	71,111	70,824
Mezzanine bank loans	35,337	35,337	34,124	32,899
Cumulative redeemable preference shares	169,952	169,952	150,394	143,724
Total liabilities	286,105	286,078	255,629	247,447

Capital management

The company's objective in managing capital is to maintain a strong capital base to support current operations and planned growth and so to maintain investor, creditor and market confidence. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	2011 £000	2010 £000
Financial assets		
Fair value through profit and loss	189,295	159,926
Loans and receivables	18,497	14,854
Total financial assets	207,791	174,780
Financial liabilities		
Fair value through profit and loss	(206)	(1,347)
Other financial liabilities measured at amortised cost	(300,409)	(269,144)
Total financial liabilities	(300,615)	(270,491)

Financial liabilities includes £169,952k (2010: £150,394k) of preference shares due from related parties (see note 23).

3. Critical accounting policies

Certain assets and liabilities are reported in these accounts based upon managements' estimates and assumptions, introducing a risk of changes to the carrying amounts of these items within the next financial year.

Purchased loan portfolios

Non-performing loan portfolios are purchased from financial institutions at a substantial discount from their face value. The portfolios are classified as a financial asset at "fair value through profit or loss". The fair value of each portfolio is assessed on the measurement date using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

The calculation of the amount falling due after more than one year depends upon the value and profile of 'setups' where customers enter into payment plans.

The Directors are of the opinion that the discount rate applied in determining the fair value of the loan portfolios represents an unobservable market rate. That rate has been determined by management to be 15%. Changes in this assumption to a reasonably possible alternative would lead to the following financial impact:

	2011 Movement in profit and loss £000	2010 Movement in profit and loss £000
12.5%	7,699	6,282
17.5%	(7,123)	(5,907)

The group has forward flow agreements in place in relation to the future purchase of loan portfolios. The fair value of portfolios purchased under these agreements is determined on the same basis as the Group's other purchased loan portfolios.

4. Turnover

The turnover and pre-tax profit is all attributable to the group's principal activities

	2011 £000	2010 £000
Turnover from loan portfolios	79,472	71,383
Other	82	175
	79,554	71,558

5. Information regarding directors and employees

	2011 £000	2010 £000
Directors' remuneration		
Aggregate emoluments to current Directors'	1,461	1,580
Aggregate emoluments to past Directors'	331	-
	1,792	1,580
Emoluments of highest paid director, including pension contributions, paid by Lowell Financial Ltd	422	483

	2011 No.	2010 No.
Average number of persons employed		
Administration	462	385

	2011 £000	2010 £000
Staff costs during the period (including directors)		
Wages and salaries	14,475	10,740
Social security costs	1,602	1,170
	16,077	11,910

6. Operating profit

	2011 £000	2010 £000
Operating profit is after charging:		
Depreciation of tangible fixed assets	1,772	1,338
Rentals under operating leases	503	684
Auditors remuneration (group):		
Audit of these financial statements	6	6
Audit of subsidiary financial statements	35	32
Further assurance services	19	19

7. Interest receivable

	2011 £000	2010 £000
Other interest receivable	-	13
	-	13

8. Interest payable

	2011 £000	2010 £000
13% Cumulative preference shares	19,558	17,300
Bank interest payable	6,835	4,580
Other loans	3,618	3,641
Other interest payable	79	-
	30,090	25,521

9. Tax on profit on ordinary activities

	2011 £000	2010 £000
UK Current taxation		
UK Corporation tax	(8,472)	(9,199)
Adjustment in respect of previous periods	(3)	628
	(8,474)	(8,571)
Deferred taxation		
Effect of change in tax rates	(33)	(22)
Adjustment in respect of previous periods	-	(22)
Short term timing differences	(161)	(31)
Total charge on profit on ordinary activities	(8,669)	(8,646)

On 23 March 2011 the government announced that the main rate of corporation tax was to reduce from 28% to 26% with effect from 1 April 2011. Finance Act 2011 included legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012. Accordingly, deferred tax balances which are expected to reverse after July 2011 have been re-valued to the lower rate of 25% in these accounts.

Further reductions to the main rate of corporation tax are proposed, which are expected to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions to the main rate of corporation tax by 1% per annum to 23% by 1 April 2014 are expected to be enacted separately each year. If the deferred tax assets and liabilities of the company were all to reverse after 2014, the effect of the changes from 25% to 23% would be to further reduce the net deferred tax asset by £68k. To the extent that the deferred tax reverses more quickly than this the impact on the net deferred tax asset will be reduced.

The difference between the total current tax and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows:

	2011 £000	2010 £000
Profit on ordinary activities before tax	7,343	11,010
Tax charge on profit on ordinary activities at standard UK corporation tax rate of 27% (2010: 28%)	1,995	3,083
Effects of:		
Movement in short term timing differences	(254)	56
Capital allowances in excess of depreciation	92	(87)
Adjustment in respect of previous periods	3	(628)
Expenses not deductible for tax purposes	6,638	6,147
Current tax charge for year	8,474	8,571

10. Operating lease commitments

Group

At 31 August 2011 the Group had commitments under non-cancellable operating leases for which no provision has been made in the financial statements as follows:

	2011 £000	2010 £000
Operating leases which expire:		
Land and buildings		
Within one to five years	1,918	2,598
	1,918	2,598

11. Intangible fixed assets

Group

	Goodwill £000
Cost	
At 1 September 2010	91,712
At 31 August 2011	91,712
Accumulated amortisation	
At 1 September 2010	(11,270)
Charge for the year	(4,846)
At 31 August 2011	(16,116)
Net book value	
At 31 August 2011	75,596
At 1 September 2010	80,442

Goodwill is being amortised over twenty years.

12. Tangible fixed assets

Group

	Office equipment £000
Cost	
At 1 September 2010	7,262
Additions	2,415
At 31 August 2011	9,677
Accumulated depreciation	
At 1 September 2010	(3,673)
Charge for the year	(1,772)
At 31 August 2011	(5,445)
Net book value	
At 31 August 2010	3,589
At 31 August 2011	4,232

13. Fixed asset investments

Company

Subsidiary undertakings	**£000**
Cost	
At 1 September 2010	835

Included in the cost of investment is additional consideration for warrants in Lowell Group Limited which have been fair valued in accordance with FRS 26.

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings:

Name	Country of incorporation	Principal activity	Ordinary Share Holding %
Lowell Funding Limited	UK	Intermediate holding company	100
Lowell Acquisitions Limited	UK	Intermediate holding company	100
Lowell Holdings Ltd	UK	Intermediate holding company	100
Lowell Financial Ltd	UK	Consumer Debt collection	100
Lowell Portfolio I Ltd	UK	Consumer Debt purchase	100
Tocatto Ltd	UK	Consumer Debt collection	100
Lowell Finance Ltd	UK	Intermediate holding company	100

Lowell Funding Limited is a directly held subsidiary of Lowell Group Limited, all others are indirectly held.

14. Debtors

Group	**2011 £000**	**2010 £000**
Trade debtors	9	25
Other debtors	2,590	2,882
Deferred taxation	418	612
Prepayments and accrued income	5,706	3,261
	8,723	6,780

Deferred taxation assets recognised in the financial statements are as follows:

	2011 £000	2010 £000
Accelerated capital allowances	281	212
Short term timing differences	137	400
	418	612

Company	2011 £000	2010 £000
Other debtors	36	36
Prepayments and accrued income	10	117
Deferred tax	68	74
Amounts owed by group undertakings	112,062	112,236
	112,176	112,463

Deferred taxation assets recognised in the financial statements are as follows:

	2011 £000	2010 £000
Short term timing differences	68	74
	68	74

15. Creditors: amounts falling due within one year

Group	2011 £000	2010 £000
Senior bank loans bearing interest at market rates (note 16)	195	71,111
Mezzanine bank loans bearing interest at market rates (note 16)	731	948
Trade creditors	815	352
Other taxes and social security	434	298
Corporation tax	5,273	6,309
Other creditors	260	619
Accruals and deferred income	7,568	5,938
Fair value of interest rate swap	161	1,347
	15,437	86,922

Company	2011 £000	2010 £000
Trade creditors	140	-
Other taxes and social security	8	23
Accruals and deferred income	408	279
Corporation tax	-	3,525
Amounts due to group undertakings	4,128	722
	4,684	4,549

16. Creditors: amount falling due after more than one year

Group	2011 £000	2010 £000
13% cumulative redeemable preference shares (note 23)	169,952	150,394
Senior bank loans bearing interest at market rates	80,620	-
Mezzanine bank loans bearing interest at market rates	34,606	33,175
	285,178	183,569

The Group has senior debt funding in place at what the directors believe to be a market margin above LIBOR. At 31 August 2011, the Group had available undrawn committed borrowing facilities for which conditions precedent had been met.

On 15 October 2010 the Company entered into a new senior debt facility running to October 2013 at what the directors believe to be a market margin above LIBOR.

On 30 November 2010 one of the Mezzanine debt providers transferred their holding to a new lender at par with no change to any of the terms and conditions of the loan.

On 15 September 2011 the Mezzanine loan was fully repaid.

Company	2011 £000	2010 £000
13% cumulative redeemable preference shares	169,952	150,394

The rights attached to the preference shares are as follows:

Voting
The preference shares will entitle the holders to receive notice of all general meetings but will not entitle the holders to attend or vote at any general meeting.

Dividends
Each preference share shall accrue a fixed cumulative preferential dividend at the annual rate of 13 per cent of the issue price per preference share compounded annually. Each preference share shall be paid on the earlier of the date on which a dividend is declared and the date of redemption on the winding up of the company.

Return of capital on a winding up
Preference shareholders are entitled to participate in any surplus assets on the winding up of the company in proportion to their shareholdings.

17. Called up share capital

Group and Company	2011 £000	2010 £000
Authorised:		
756,357 'A' ordinary shares of £0.10 each	76	76
39,977 'B' ordinary shares of £0.10 each	4	4
178,206 'C' ordinary shares of £0.10 each	18	18
25,458 'E' ordinary shares of £0.10 each	2	2
18,330 'D' ordinary shares of £0.10 each	2	2
	102	102
Called up, allotted and fully paid		
756,357 'A' ordinary shares of £0.10 each	76	76
39,977 'B' ordinary shares of £0.10 each	4	4
178,206 'C' ordinary shares of £0.10 each	18	18
25,458 'E' ordinary shares of £0.10 each	2	2
	100	100

The rights attached to the ordinary shares are as follows:

Voting
On a show of hands and on a poll every ordinary shareholder who is present in person or by proxy or is present by a duly authorised representative or by proxy, shall have one vote.

Dividends
Each ordinary shareholder shall be paid a dividend as declared in proportion to their shareholdings.

Return of capital on a winding up
Ordinary shareholders are entitled to participate in any surplus assets on the winding up of the company subject to payments made to preference shareholders in proportion to their shareholdings.

18. Reserves

Group	Profit and loss account £000	Warrant reserve £000	Share premium £000	Total £000
At 1 September 2010	(12,699)	18	900	(11,781)
Loss retained for year	(1,326)	-	-	(1,326)
At 31 August 2011	(14,025)	18	900	(13,107)

Company	Profit and loss account £000	Warrant reserve £000	Share premium £000	Total £000
At 1 September 2010	(42,373)	18	900	(41,455)
Loss retained for year	(19,938)	-	-	(19,938)
At 31 August 2011	(62,311)	18	900	(61,393)

19. Reconciliation of movement in equity shareholder deficit

Group	2011 £000	2010 £000
(Loss)/Profit for the financial year	(1,326)	2,364
Opening equity shareholders' funds	(11,681)	(14,045)
Closing equity shareholders' deficit	(13,007)	(11,680)

Company	2011 £000	2010 £000
Loss for the financial year	(19,938)	(21,083)
Opening equity shareholders' funds	(41,355)	(20,272)
Closing equity shareholders' funds	(61,293)	(41,355)

20. Reconciliation of operating profit to operating cash flows

	2011 £000	2010 £000
Operating profit for the year	41,346	41,290
Depreciation, amortisation and impairment charges	1,773	1,338
Increase in loan portfolios	(29,371)	(24,337)
Increase in debtors	(2,145)	(680)
Increase in creditors	650	4,064
Net cash inflow from operating activities	12,253	21,675

Increase in loan portfolios includes amortisation discretionary loan portfolio acquisitions and portfolio amortisation.

21. Analysis of cash flows

	2011 £000	2010 £000
Returns on investment and servicing of finance		
Interest paid	(7,910)	(5,974)
Interest received	-	13
	(7,910)	(5,961)
Taxation		
UK Corporation tax paid	(9,511)	(4,177)
VAT repaid	(546)	-
	(10,057)	(4,177)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(2,324)	(2,374)
	(2,324)	(2,374)
Financing		
Bank loans	9,620	(3,500)
	9,620	(3,500)

22. Analysis of net debt

	At start of year £000	Cash flow £000	Non cash movements £000	At end of year £000
Cash at bank and in hand	8,074	1,688	-	9,762
Debt due after more than one year	(255,628)	(9,620)	(20,856)	(286,105)
Total	(247,554)	(7,932)	(20,856)	(276,342)

Debt due after more than one year includes £169,952k (2010: £150,394k) of preference shares due from related parties (see note 23)

23. Related party transactions

During the period preference shares were issued to related parties as below:

	Directors £000	Ultimate controlling party £000	Other shareholders £000	Total £000
Preference shares b/f	(7,549)	(126,571)	(16,273)	(150,393)
Interest accrued	(982)	(16,461)	(2,116)	(19,559)
31 August 2011	(8,531)	(143,032)	(18,389)	(169,952)

24. Ultimate controlling party

In the opinion of the directors, the ultimate controlling party at the Balance Sheet date is Exponent Private Equity Partners II LP as controlled by Exponent Private Equity LLP. Lowell Group Limited is the parent of the largest and smallest group for which consolidated accounts are prepared.

25. Post balance sheet event

On 15th September 2011 the Lowell Group was acquired by Metis Bidco Limited, a new company indirectly controlled by funds managed by TDR Capital LLP.

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GROUP

Principal risks

Risks related to our business

Any failure to comply with applicable legislation or regulation of the collections and the broader consumer credit industry could result in the suspension, termination or impairment of our ability to conduct business.

The collections and the broader consumer credit industry in the United Kingdom is regulated under various complex laws and regulations.

Our debt collection business is conducted through a number of subsidiaries, such that the entity conducting the collections business is not necessarily the "creditor" under the agreement (where under the Consumer Credit Act the "creditor" is the originator or the entity that has purchased the debt). Any of our entities that collect debt due to other entities under certain types of consumer credit agreements are required to apply for and hold a Category F (Debt Collecting) Consumer Credit License ("CCL") issued by the OFT. In addition, our subsidiaries that have purchased the debt and hold financial interests in debt due under consumer credit agreements must hold at least a Category A (Creditor) CCL. Licensees must be able to demonstrate that they are "fit" to hold a CCL. The OFT issues guidance on what conduct it considers necessary for a licensee to be able to demonstrate "fitness." Failure to comply with any guidance issued by the OFT is likely to have serious consequences, for example:

- the OFT may refuse to issue or renew a CCL or may commence a process to revoke a CCL. Any such refusal or revocation process would be publicly known and would involve severe reputational damage, with vendors of debt portfolios likely to remove their business from a debt collector that is the subject of such refusal or revocation process. If we are refused a CCL or a CCL is revoked, our collection business would be severely constrained and we would not be able to continue to run our business as it is now currently being run;
- the OFT may take steps to publicly issue "requirements" on a CCL. These would constitute a public censure and would require a debt purchaser like us to make changes to its business practices and not repeat similar conduct in the future. If we become subject to such requirements, originators that currently do business with us may cease to do so, and our ability to purchase debt, along with our reputation, and consequently, our ability to win future business may be adversely affected. We might also have to introduce changes to our business practices in response to "requirements" issued to some of our competitors.

One of our CCLs is up for renewal in December 2012 and we cannot guarantee that it will be renewed.

The OFT regards debt collection as a "high risk" industry and therefore dedicates special resources to more intensive monitoring of businesses in this sector. The OFT has issued specific guidance for the debt collection sector (The Debt Collection Guidance), which sets out detailed standards that businesses must satisfy. The Debt Collection Guidance is also applicable to creditors where they collect debt owed to themselves under consumer credit agreements. There is also other guidance that is relevant to debt collection (and other consumer credit) businesses. The OFT has previously taken high profile action against, and has imposed requirements on, a number of well-known debt collection companies.

A properly authorized debt collection (or other consumer credit) business is also affected by, or subject to, numerous detailed legislative requirements, principally contained in the Consumer Credit Act 1974 (and secondary legislation thereunder) and the Unfair Terms in Consumer Contracts Regulations 1999. These legal requirements oblige creditors to, among other things:

- provide customers with heavily prescribed credit agreement documentation at the outset;
- enable customers to obtain copies of credit agreement documentation;
- provide customers with prescribed forms of post contractual notices;
- provide a "fair relationship" between themselves and the customer; and
- ensure that their agreements do not contain unfair terms (and stipulate that any unfair terms are void).

A failure to comply with these requirements can have different consequences, but in some cases, failures can cause agreements to be deemed unenforceable (meaning that in some cases the outstanding debt and interest cannot be collected). This could affect our ability to recover on the accounts underlying our debt portfolios. An agreement could be deemed unenforceable when we, as the debt collector or purchaser of the debt, or the originator, failed to comply with the relevant requirements. In addition, our debt collection (and broader consumer credit) business is subject to an obligation to act fairly, as set out in the Consumer Protection from Unfair Trading Regulations 2008.

Consumer protection is the principal aim of the legislation that applies to us. The Financial Ombudsman Service ("FOS") acts as an independent adjudicator of the consumer complaints made to them. FOS makes a decision based on what is fair and reasonable and good practice rather than strictly on the basis of compliance with the law. Certain claims brought before the FOS attract a fee, which is paid by the business subject to the complaint, whether or not it successfully defends such case. A decision by the FOS is binding on the business, but not on the consumer.

In certain situations we outsource some of our accounts to third-party DCAs. To the extent these third parties violate laws or other regulatory requirements in their collection efforts, it could also negatively impact our business by harming our reputation or, in some cases, resulting in penalties being directly imposed on us, as the OFT generally expects businesses to carefully select third parties with whom they work and take responsibility for ensuring their compliance.

Compliance with this extensive regulatory framework is expensive and labour-intensive. Failure to comply with applicable laws, regulations and rules could result in investigations and enforcement actions, licenses that we need to do business not being renewed or being revoked, fines or the suspension or termination of our ability to conduct collections. In addition, such failure to comply or revocation of a license, or other actions by us that may damage the reputation of the vendor, would entitle the vendor to terminate the forward flow agreement or entitle it to repurchase portfolios we previously purchased from it. Any of these developments could have a material and adverse effect on our ability to conduct business or on our financial condition, our financial returns or our results of operations.

Changes to the UK regulatory environment or an increasing volume of legislation may materially and adversely affect the collections industry and impede our collection efforts.

Changes in laws and regulations, or the manner in which they are interpreted or applied, could limit our activities in the future or could significantly increase the cost of regulatory compliance. These negative effects could result from changes in collection laws, laws related to credit reporting, consumer bankruptcy laws, laws related to the management of consumer debt, accounting standards, taxation requirements, employment laws, communications laws and data privacy and protection laws, among others.

The volume of legislation that is applicable to consumer credit in the United Kingdom has increased over the last few years. In addition to the Consumer Credit Act 1974, the Unfair Terms in Consumer Contract Regulations 1999 and the Commercial Protection from Unfair Trading Regulations 2008 specifically mentioned above, there are a significant number of other legal requirements that apply to us. The legal requirements to which we are already subject may change, and we may become subject to new legislation. There may in the future be new laws related to collection, credit reporting, consumer bankruptcy, the management of consumer debt, accounting standards, taxation requirements, employment and communications and data privacy and protection, and such laws could subject us to additional liabilities and result in an adverse effect on our results of operations and financial condition.

For example, in 2009, the UK Government commenced a consultation on proposals to shorten the current statute of limitations period in England, Wales, and Northern Ireland from 6 years to 3 years. The statute of limitations is the amount of time that a business has to commence legal proceedings to enforce its debt. While the proposals were not pursued, such a reduction of the statute of limitations period would likely have severely affected the ability of debt collectors to trace debtors, successfully employ debt collection strategies and have the right to enforce debt. This change would therefore have had serious impacts on our current business model. If the statute of limitations were to have been reduced, the value of purchased debt on our financial statements could have been reduced because the portion of amounts recovered would have decreased, leading to significant write-offs. We could also have seen a reduction in the market size for debt purchase or higher marginal costs in the debt collection industry, as court proceedings might have been initiated earlier in the credit cycle. There can be no assurance that the statute of limitations period will not be shortened in the future.

The way in which providers of credit and related companies are licensed is expected to change in the United Kingdom, including the abolition of the OFT as the main regulator of this industry. The regulatory environment in the industry in the future remains unclear, and a UK government policy decision is expected soon. However, it is currently anticipated that consumer credit activities, including debt collection, will be the responsibility of the Financial Conduct Authority (the “FCA”), and there may be consequential changes to the legislation that affect our business. The FCA is a new regulatory body that will be created by amendments to the Financial Services and Markets Act 2000 and will perform some of the functions currently performed by the Financial Services Authority (which is the current UK regulatory body for the supervision of financial services other than consumer credit activities). While there is no clear indication of what those changes might be, it is possible that the requirements applicable to our industry will increase and that the FCA will have substantially greater powers than the OFT has (for example, to issue greater fines, to ban activities or products being sold and to issue public notices of investigatory action). In addition, it is likely that the compliance framework that will be needed to satisfy the FCA requirements will demand additional investment and resources in our compliance governance framework. There is a risk that we could become subject to additional or new regulatory obligations resulting from this change, which could have an adverse effect on our operations.

The legislative and regulatory environment is also challenging for originators of consumer credit. Regulators are increasingly requiring lenders and debt collectors to exercise “forbearance” in relation to consumer debt, accept low repayment offers and refrain from placing customers under undue pressure in relation to the repayment of debt. To the extent that new laws or regulations reduce the profitability of issuing credit and result in lower consumer credit issuance volume, we could see a reduced supply of debt portfolios for sale, which could among other things lead to increased prices and lower returns on our investments.

Our databases contain personal data of our customers, and our ability to obtain, retain and otherwise manage such data is governed by data protection and privacy requirements and regulatory rules and guidance issued by, among others, the UK Information Commissioner. Depending on their nature and scope, changes to such laws, regulations and guidance could require additional investments and resources in our compliance governance framework, or could alter the way in which we collect and use data. Our ability to price debt portfolios, trace consumers and develop tailored repayment plans depends on our ability to use personal data in our consumer data intelligence systems. Any regulatory changes that impair our ability to continue to use our consumer data in such systems in the way in which we currently use them could have a material adverse effect on our operations.

The value of our Backbook may deteriorate, or we may not be able to collect sufficient amounts on our debt portfolios to fund our operations.

We purchase non-performing debt portfolios from consumer creditors. Substantially all the debt consists of account balances that the originator has made numerous attempts to collect, subsequently deemed uncollectible, and written off. The debt is purchased at a significant discount—typically a small percentage of face value—and, although we estimate that the recoveries on the debt will be in excess of the amount paid for it, actual recoveries will vary and may be less than the amount expected, and may even be less than the total amount paid for such debt. Our Purchased Assets comprised 56.6% of our assets as of August 31, 2012, and any condition or event that causes them to lose value, such as the inability of our customers to pay their debt, or inflation, will have a material adverse effect on our financial condition.

Because of the length of time involved in collecting non-performing debt on purchased portfolios, we may not be able to identify economic trends or make changes in our purchasing strategies in a timely manner. This could result in a loss of value in a portfolio after purchase. Our analytical models may not identify changes that originators make in the quality of the debt portfolios that they sell. If we overpay for debt portfolios, and thus the value of our Purchased Assets, ERC and our cash flows from operations are less than anticipated, we may have difficulty servicing our own debt obligations and may not be able to purchase new debt portfolios, and our future growth and profitability will be materially adversely affected.

We are highly dependent on our intelligence systems and proprietary customer profiles.

OTIS, our automated tracing and customer intelligence system, along with our proprietary PPM, provides information that is critical to our business. In order to operate this system, develop our proprietary customer profiles and run our business generally, we rely to a large extent on data provided to us by a single private credit reference agency (Our contract with the credit reference agency may be terminated at any time by such agency with three months notice). If this private supplier were to terminate its agreement with us or stop providing us with data for any reason, or if such private supplier were to considerably raise the price of its services, our business would be materially and adversely affected. Also, if any of the information or data that we use became public, for example due to a change in government regulations, or if the United Kingdom were to introduce measures that have the effect of facilitating the tracing of consumers, we would lose a significant competitive advantage and our business could be negatively impacted. Furthermore, private or public sources of our data could make claims that the way in which we collect or use information and data violates terms and conditions applicable to such use, and whether or not such claims have any merit, our reputation could be harmed and our ability to continue to use such information and data in the manner in which it is currently used could be impaired. If our competitors are able to develop or procure similar systems or methods to develop data, or if we become unable to continue to acquire or use such information and data in the manner in which it is currently acquired and used, we would lose a significant competitive advantage and our business could be materially and adversely affected. If we were prohibited from accessing or aggregating the data in these systems or profiles for any reason, our operations and financial condition would be negatively and materially impacted.

In addition, for certain of the systems, technologies and programs that we use, we rely on specialist IT providers. Some of these providers are small companies and their long-term financial viability cannot be assured. In our 2009 financial year, we were able to acquire the intellectual property rights to a core system when the system provider became subject to a winding up petition, but we cannot assure you that we will be able to find and retain alternative providers or acquire the rights to intellectual property important to our operations if our current or future providers become financially unstable in the future. To the extent any of these systems, technologies or programs do not function properly and we cannot find and retain a suitable IT provider to help remedy the fault, we may experience material adverse effects on our business that require substantial additional investments to remedy, or which we may not be able to remedy at all.

Further, as some of the systems, technologies and programs that we use have been developed internally, we cannot be assured that our level of development documentation is comparable to that of third-party software packages and we may have certain employees that possess important, undocumented knowledge of our systems. If any such employee no longer worked for us, our ability to maintain, repair or modify our collections platform may be limited.

The failure of our confidentiality agreements to protect our proprietary processes and systems, including OTIS, could materially and adversely affect our business.

We rely upon unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. This includes our OTIS system, which is not protected by a patent. Certain of our employees possess valuable trade secrets about our OTIS program and our business processes, and the risk of disclosure of such proprietary know-how could be heightened if any such employee ceased to work for us. While it is our policy to enter into confidentiality agreements with our employees and third parties to protect our proprietary know-how, there can be no assurances that:

- our confidentiality agreements will not be breached or will be of sufficient duration;
- such agreements will provide meaningful protection for our trade secrets or proprietary know-how; or
- adequate remedies will be available in the event of an unauthorized use or disclosure of these trade secrets and know-how.

In addition, there can be no assurances that others will not obtain knowledge of these trade secrets through independent development or other access by legal means.

We may initiate lawsuits to enforce our confidentiality agreements and the ownership of our intellectual property. Initiating litigation relating to intellectual property rights is costly and may divert technical and management personnel from their day-to-day responsibilities. In many cases it may not be possible to initiate a lawsuit prior to the disclosure of our trade secrets or proprietary know-how, at which point the damage to our competitive position may be severe or irreparable. Furthermore, we may not prevail in any such litigation or proceeding. A determination in a proceeding that results in a finding of non-infringement or non-violation by others to our intellectual property or confidential agreements may result in the use by competitors of our technologies or processes, which may materially and adversely affect our business.

The statistical models we use to project remaining cash flow generation from our purchased debt portfolios may prove to be inaccurate and may not achieve the recoveries forecasted by our models.

We use internally developed models to project the remaining cash flow generation from our purchased debt. However, at the time of purchase, we have imperfect information about the precise age of the receivables, the ability of the consumer debtors to pay and the cost required to service and ultimately collect on such debts. This lack of total information can lead to mispricing of the purchased debt portfolios, which may have a material and adverse impact on our Unlevered Net IRR and results of operations. Furthermore, we may pursue the purchase of debt portfolios of asset types in which we currently have little experience, and our limited experience in these asset types may impair our ability to price and collect on these receivables.

There also can be no assurance that we will be able to achieve the recoveries forecasted by the models that we use to calculate ERC and to value our Purchased Assets or that our models appropriately capture and weigh the important predictive elements or that all the models we create and use will yield correct or accurate forecasts, as our historical collection experience may not reflect current or future realities. Our models are based in part on information provided to us by third parties and by software products. We have no control over the accuracy of such information. If our models (including their data inputs) are not accurate, it could lead us to paying too much for debt, valuing our Purchased Assets inaccurately, pursuing the wrong collection techniques on accounts and experiencing lower liquidation rates or larger operating expenses. Overpaying for portfolios and lower returns could impair our ability to purchase more portfolios or cause us to breach the terms and conditions that govern our indebtedness. In addition, we forecast ERC and certain other key performance indicators over a period of 84 months, and the risk of error in our forecast is increased by the significant length of this time period. If we are not able to achieve these levels of forecasted collections, valuation impairments may be recognized and our amortisation , turnover and returns on portfolio purchases may be reduced. Any of these events may have a material and adverse effect on our financial condition, financial returns and results of operations.

Our forward flow agreements may contractually require us to purchase portfolios at a higher price than desired.

Approximately 44% of the face value of the debt we purchased in our 2012 financial year involved forward flow agreements whereby we purchase non-performing debt based upon contracts that require us to make multiple buys from a vendor at a fixed price. Depending upon the length of the contractual arrangements, forward flow agreements typically contain termination clauses that allow the arrangement to be terminated only for a number of limited specific reasons. We may be required to purchase debt under a forward flow agreement for an amount higher than we would otherwise agree and therefore, these purchases may result in reduced returns. In a more competitive environment, we could be faced with a decision to either decrease our purchasing volume, agree to forward flow agreements at a higher average price or agree to fewer contractual protections concerning the portfolios we purchase, any of which could have a material and adverse effect on our results of operations. We generally allow for some margin for future fluctuations in value of the debt we purchase through forward flow agreements, but future fluctuations in value may exceed that margin. If the quality of debt purchased varies from our pricing assumptions, we may price the contract improperly, which could have a material and adverse effect on our business.

Our need to adapt to customers' changing financial circumstances may result in increased servicing costs, reduced cash flow or imprecise modelling.

We proactively work with customers who experience a reduced ability to pay their debts to try to reach an appropriate payment plan through means such as reduced average monthly payments. This adaptability on our part could lead to increased servicing costs as our employees renew contact with customers and revise pre-existing payment arrangements. Furthermore, a reduction in monthly payments would reduce our cash generation and returns on capital. These higher costs and lower returns would reduce our Unlevered Net IRR and ERC. A change from our original estimates of servicing costs or customers' monthly payments may mean we cannot achieve our expected returns. Additionally, our modelling for future pricing decisions may be rendered less reliable if we are unable to accurately predict the number of customers who will, or which customers will, need to reduce their debt payments or the amounts of such reductions. As a result, our financial condition, financial returns and results of operations may be materially and adversely affected.

It can take several years to realize cash returns on our investments in purchased debt, during which time we are exposed to a number of risks in our business.

It is not unusual to take in excess of 30 months for us to recoup the original purchase price of our investment in debt portfolios after taking into consideration our direct and indirect operating costs, our financing costs, taxes and other factors. We typically underwrite our investments based on a projected return over five or more years. During this period, significant changes may occur in the economy, the regulatory environment, our business or our markets, which could lead to a substantial reduction in our expected returns or ERC, or reduce the value of the debt portfolios that we have purchased. Given the multi-year payback period on substantially all our purchases, we are exposed to the risk of any such changes for a significant period of time.

Our operations could suffer from telecommunications or technology downtime, increased technology costs, or an inability to successfully anticipate, manage or adopt technological advances within our industry.

Our success depends in large part on sophisticated telecommunications and computer equipment and software systems. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our pricing and collection activities. We also use these systems to identify and contact large numbers of customers and record the results of our collection efforts. These systems could be interrupted by terrorist acts, natural disasters, power losses, computer viruses or similar events. Any failure of our systems, especially if it also impacts our backup or disaster recovery systems, would disrupt our operations and materially and adversely affect our business. This risk is exacerbated by the fact that our operations are concentrated in two buildings on one site in Leeds. Any temporary or permanent loss of our ability to use our telecommunications or computer equipment and software systems at any of our buildings in Leeds could disrupt our operations and have a material adverse effect on financial condition, financial returns or our results of operations.

Further, our business depends heavily on services provided by various internet service providers and local and long distance telephone companies. Our ability to use telecommunications systems to contact debtors is governed by data protection, telecommunications, and privacy requirements and regulatory rules and guidance issued by the UK regulator OFCOM. These may change and may make using, accessing, transferring or storing customer documentation more onerous in the future. If our equipment or systems cease to work or it becomes difficult to continue to use them in the same manner as we do today as a result of any regulatory development, if there is any change in the telecommunications market that would affect our ability to obtain favourable rates on communication services or if there is any significant interruption in internet or telephone services, we may be prevented from providing services and we may not be able to collect on the receivables we have purchased. Because we generally recognize revenue and generate operating cash flow primarily through collections, any failure or interruption of services and collections would mean that we would continue to incur payroll and other expenses without any corresponding income.

Additionally, computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis, which could reduce our profitability or disrupt our operations and harm our business. While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We depend on having the capital resources necessary to invest in new technologies to acquire and service our debt portfolios. We cannot ensure you that adequate capital resources will be available to us when we need to make such investments.

Security and privacy breaches of the systems we use to protect personal data could adversely affect our reputation, financial condition, financial returns and results of operations.

Our databases contain personal data of our customers. This information includes (i) personal information relating to the customer, such as name and credit card account number; (ii) location information relating to the address and telephone numbers for the customer and (iii) account specific information such as the date of issuance of the card, write-off date and write-off balance for the card. These databases are vulnerable to damage from a variety of sources, including telecommunications and network failures and natural disasters. The databases are also vulnerable to human acts both by individuals outside Lowell as well as our employees, including fraud, identity theft and other misuse of personal data. Moreover, despite the security measures we have implemented, our systems may be subject to physical or electronic break-ins, computer viruses and similar disruptive problems. Any security or privacy breach of these databases could expose us to liability, increase our expenses relating to the resolution of these breaches, harm our reputation and deter vendors from selling debt to us. Our data security procedures may not effectively counter evolving security risks, address the security and privacy concerns of existing or potential vendors or be compliant with laws and regulations in all respects.

We are dependent upon third parties to service certain of our purchased debt.

In certain situations, we outsource some of our accounts to third-party DCAs for collection. For example, we may use third-party agencies late in the collections process where we deem it more efficient to benchmark internal performance and where our in-house methods of contact have not succeeded. Collections by third-party agencies have increased from approximately 6% of the total amount of collections in our financial year ended August 31, 2008 to approximately 11% of the total amount of collections in our financial year ended August 31, 2012. Any failure by these third parties to adequately perform collection services for us or to remit such collections to us could materially reduce our cash flow, income and profitability. We rely on these third parties to effectively manage their operations and to meet our servicing needs efficiently, but these third parties may not have the resources, management training and management depth that we have. This may negatively impact their ability to comply with applicable laws or other regulatory requirements. To the extent these third parties violate laws or other regulatory requirements in their collection efforts, it could negatively impact our business and reputation, and we may not be aware of the risk or occurrence of any such violation. See also "—Any failure to comply with applicable legislation or regulation of the collections and the broader consumer credit industry could result in the suspension, termination or impairment of our ability to conduct business."

We are subject to examinations and challenges by tax authorities, and changes in tax laws or regulations, or the application thereof, could materially and adversely affect our business.

The group's tax returns are prepared in accordance with UK tax legislation and prevailing case law. Certain tax positions we take are based on industry practice, tax advice and drawing similarities from our facts and circumstances to those in case law. These positions may relate to tax compliance, sales and use, value-added, franchise, gross receipts, payroll, property and income tax issues, including tax base and apportionment. Challenges made by tax authorities to our application of tax rules may result in adjustments to the timing or amount of taxable income or deductions. If any such challenges are made and are not resolved in our favour, they could have an adverse effect on our financial condition and result of operations. Additionally, changes in tax laws or rules or the application thereof could increase the amount of tax we must pay. For example, value-added tax is not currently required to be paid on the collections we make on communications or home retail credit debt, as the sale of such debt triggers a tax exemption. However, a change in the rules of application of value-added tax on communications or home retail credit debt, providing that such tax would be payable, could have a material and adverse effect on our business.

Our senior management team members and key employees are important to our continued success and the loss of one or more members of our senior management team or one or more of our key employees could materially and adversely affect our business.

The loss of the services of one or more of our key management team members, including our Chief Executive Officer and Chief Operating Officer, or of one or more of our key employees could disrupt our operations. Some of the employment agreements that we have in place contain non-compete provisions that survive termination of employment. However, these agreements do not and will not assure the continued services of our senior management team members and key employees and we cannot ensure that we will be able to enforce such non-compete provisions. Our success depends on the continued service and performance of our senior management team members and key employees, and we cannot guarantee that we will be able to retain those individuals. The loss of the services of our senior management team members or key employees could seriously impair our ability to continue to purchase or collect on receivables and to manage and expand our business.

We may be unable to obtain account documents for some of the accounts that we purchase.

When we collect accounts judicially, courts require that a copy of the account statements or applications be attached to the pleadings in order to obtain a judgment against the account debtors. If we are unable to produce account documents, courts may deny our claims. Additionally, our ability to collect by means other than legal proceedings may be impacted by laws which require that certain types of account documentation be in our possession prior to the institution of any collection activities.

We experience high employee turnover rates and we may not be able to hire and retain enough sufficiently trained employees to support our operations.

The industry in which we operate is very labour intensive and, similar to other companies in our industry, we typically experience a high rate of employee turnover, especially in the collections department. In financial year 2012, for example, staff turnover was approximately 29%. Our growth requires that we continually hire and train new collectors. A higher turnover rate among our collectors will increase our recruiting and training costs and limit the number of experienced collection personnel available to service our purchased debt. If this were to occur, we would not be able to service our purchased debt effectively and this would reduce our ability to operate profitability.

We may purchase portfolios that contain accounts which are not eligible to be collected or we could be the subject of fraud when purchasing debt portfolios.

In the normal course of our portfolio acquisitions and management of our forward flow agreements, some receivables may be included in the portfolios that fail to conform to the terms of the purchase agreements and we may seek to return these receivables to the vendor for payment or replacement. However, we cannot guarantee that such vendor will be able to meet its obligations to us or that we will identify non-conforming accounts soon enough to qualify for recourse. Each contact specifies which accounts are eligible and which are not. Examples of ineligible accounts could include those that have a foreign address, have been subject to fraud, or have an incorrect balance, or those where the customer is serving in prison. Accounts that would be eligible for recourse if discovered in a timely fashion but that we are unable to return to vendors are likely to yield no return. If we purchase portfolios containing too many accounts that do not conform to the terms of the purchase contracts or contain accounts that are otherwise uncollectible, we may be unable to recover a sufficient amount and the portfolio purchase could be unprofitable, which would have a material adverse effect on our financial condition, financial returns and results of operations. In addition, because of fraud by a vendor or by one of our employees, we could purchase so-called "phantom portfolios" that have been sold to more than one person. We would not be able to collect on a portfolio to which someone else held legal ownership, or would need to spend time and resources establishing our own legal ownership of the portfolio if such ownership was unclear. The internal controls we have in place to detect such types of fraud may fail. If we are the victim of fraud, we could lose cash or reduce our collections, in either case negatively affecting our financial condition, financial returns and results of operations.

Our collections may decrease if the number of consumers becoming subject to personal insolvency procedures increases.

We recover on consumer receivables that become subject to insolvency procedures under applicable laws, and we also purchase accounts that are currently subject to insolvency proceedings. Various economic trends and potential changes to existing legislation may contribute to an increase in the number of consumers subject to personal insolvency procedures. Under some insolvency procedures a person's assets may be sold to repay creditors, but since the non-performing consumer receivables we service are generally unsecured, we often would not be able to collect on those receivables. Our ability to successfully collect on our debt portfolios may decline with an increase in personal insolvency procedures or a change in insolvency laws, regulations, practices or procedures. If our actual collections with respect to a non-performing consumer receivables portfolio are significantly lower than we projected when we purchased the portfolio, our financial condition, financial returns and results of operations could be materially and adversely affected.

We are subject to on-going risks of litigation, under consumer credit, collections and other laws.

In recent years, there has been a substantial increase in consumer claims being brought through the courts and before the FOS in attempts to claim refunds of sums paid under consumer credit agreements or to avoid making payment going forward. This litigation has been fuelled by a substantial rise in claims management companies that aggressively advertise for potential claimants and then bring claims in the hope and expectation that they will be paid a portion of any debt written off. Substantial claims volumes have been made in relation to payment protection insurance premiums (which can form part of the debt being collected) and other types of charges added onto credit accounts. Claims could also be brought in relation to other areas of alleged non-compliance, which could affect a large portfolio of agreements. We may in the future be named as defendants in litigation, including under consumer credit, collections, and other laws. Such claims against us, regardless of merit, could subject us to costly litigation and divert our management personnel from their regular responsibilities. Furthermore, if such claims are adversely determined against us, we could be forced to suspend certain collection efforts or pay damages, and our reputation, financial condition, financial returns and results of operations could be materially and adversely affected.

We may make acquisitions that prove unsuccessful or strain or divert our resources.

We may seek to grow our business by acquiring other businesses. In 2011, for example, we acquired the assets of J2 Solutions Limited, a tracing services business, which now forms part of Tocatto Limited. Successful growth through future acquisitions is dependent upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favourable terms and ultimately complete such transactions and integrate the acquired business into our group.

If we make acquisitions, there can be no assurance that we will be able to generate expected margins or cash flows, or to realize the anticipated benefits of such acquisitions, including growth or expected synergies. There can be no assurance that our assessments of and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations. We may not be able to integrate acquisitions successfully into our business or such integration may require more investment than we expect, and we could incur or assume unknown or unanticipated liabilities or contingencies with respect to customers, employees, suppliers, government authorities or to other parties, which may impact our results of operations. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our results of operations as a result of difficulties or risks, including:

- unforeseen legal, regulatory, contractual and other issues;
- difficulty in standardizing information and other systems;
- difficulty in realizing operating synergies;
- diversion of management's attention from our day-to-day business; and
- failure to maintain the quality of services that we have historically provided.
- Moreover, any acquisition may result in the incurrence of additional debt, which could reduce our profitability and harm our business.

The revaluation of our portfolios and phasing of portfolio purchases during the financial year may result in volatility in our reported financial results.

Our debt portfolios are recorded at purchase cost at the time of their purchase and thereafter held at fair value through profit and loss. The fair value of a portfolio is tested monthly. Any movement in fair value is charged through the profit and loss statement. Accordingly, the value of our debt portfolios recorded on our balance sheet may fluctuate each time management reassesses forecasted cash flows. Our forecasted cash flows are based on a number of assumptions, including an estimated annual discount rate and lifetime servicing costs. Any increases to these assumptions would result in revaluations, which would have the effect of reducing the value of Purchased Assets on our consolidated balance sheet and lead to a negative fair value movement in our consolidated profit and loss accounts. For example, an increase in interest rates or data indicating that other debt purchasers have raised their discount rates may result in an upward adjustment to our discount rate, which would have the corresponding effect of reducing the fair value of our debt portfolios. Fair value movements are non-cash movements but affect turnover and subsequently flow through to other profit and loss statement line items, including gross profit, operating profit, and the amount of tax on ordinary activities. They would also impact our cash outflows for tax payments. The uneven phasing of purchases during the year and the fact that our accounting policies do not allow the fair valuation of strongly performing portfolios until they reach their six-month purchase anniversary can also lead to volatility in our reported quarterly financial results and comparability of performance between quarters.

Our work force could become further unionized in the future, which could adversely affect the stability of our production and increase our costs.

We estimate that approximately 6% of our total employees are members of unions. If any union reached membership levels of 10% or more of our total employees and were to be formally recognized, such union would need to be consulted on a number of business decisions affecting their members' terms of employment. In addition, if the unions to which our employees currently belong were to consolidate, or if any union were to attract more employees, that union may seek employment terms that adversely affect the stability of our work force and increase our costs.

Terrorist attacks, war, and threats of attacks and war may materially and adversely affect consumer spending, and in turn, our financial condition, financial returns and results of operation.

Terrorist attacks in the United Kingdom and abroad, as well as war and threats of war or actual conflicts involving the United Kingdom or other countries, may dramatically and adversely impact the economy of the United Kingdom and cause consumer confidence and spending to decrease. Any of these occurrences could affect our ability to collect our receivables and result in a material adverse effect on our financial condition, financial returns and results of operation.

We operate in markets that are competitive. We may be unable to compete with businesses that offer higher prices than us for the purchase of debt portfolios, or our competitors may develop competitive strengths that we cannot match.

We face competition from new and existing purchasers of debt portfolios. We compete on the basis of bid prices, the terms we offer, as well as reputation, industry experience and performance. Our current competitors and any new competitors may have substantially greater financial, personnel and other resources. In the future, we may not have the resources or ability to compete successfully. Even though we have a small DCA business, we focus on the purchase of debt portfolios. Some of our competitors have more significant DCA businesses, in addition to operations involving the purchase of debt portfolios. These competitors may be able to offer originators a "bundle" of services, or they may be able to use the consumer data provided at the DCA stage to help them price debt portfolios more accurately, or collect debt receivables more effectively or efficiently, than us. Accordingly, there can be no assurance that we will be able to offer competitive bids for debt portfolios, or that we will be able to maintain the advantages in tracing technology, customer profile development, or low servicing costs that we believe that we currently possess. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, or if our competitors are able to make advances in their pricing or collections methods that we are not able to make, we may be unable to purchase debt portfolios at prices we deem appropriate in order to operate profitably.

There may not be a sufficient supply of debt, or appropriately priced debt, to purchase, and a decrease in our ability to purchase portfolios of debt could materially and adversely affect our business.

The availability of debt portfolios at prices that generate profits depends on a number of factors, some of which are outside of our control, including:

- the level of consumer spending;
- the availability of credit to consumers, which is driven by a number of factors, including heightened regulation of the credit card and consumer lending industry, changing credit origination strategies and economic conditions;
- the level of non-performance on consumer receivables and the proportion of such non-performing receivables that are written off by originators, which also in turn may affect the availability of credit to consumers identified above;
- sales of debt portfolios by originators, which could be jeopardized by a change in accounting policies or practices, the consolidation of credit card issuers, increased sophistication in internal collections efforts or increased reliance on DCAs;
- potential concerns that the small value received for non-performing debt portfolios as a percentage of their face value may not outweigh the potential reputational risks or required management attention associated with selling non-performing debt portfolios;
- negative publicity or a loss of trust in our industry, whether due to the failure of one or more of our competitors to meet their legal or regulatory obligations or otherwise; and
- increased government regulation of the circumstances in which originators, especially FSA-regulated entities, have a right to collect on debt.

If originators choose to rely more heavily on DCAs, there would be a reduction in the availability of debt that is early in the financial difficulty cycle and has had little or no exposure to collection activity. This "fresher" debt typically has higher collection expectations. If originators were to perform more of their own collections, or were to further outsource collections to DCAs, the volume of debt sales or the quality of debt sold could decrease and consequently, we may not be able to buy the type and quantity of receivables at prices consistent with our historic return targets.

If we are unable to purchase non-performing debt portfolios from originators at appropriate prices, or if one or more originators stop or decrease their sale of non-performing debt portfolios due to one of the factors listed above or any other factors, we could lose a potential source of income and our business may be harmed. If we do not continually replace the debt portfolios we service with additional portfolios, our business could be materially and adversely affected.

A significant portion of our portfolio purchases may at any time be concentrated with a small number of debt originators and a loss of any of our principal vendors could materially and adversely affect our business.

A significant percentage of our portfolio purchases are concentrated with a few large debt originators. For example, in our 2012 financial year, we purchased 55% of our portfolios (measured by total amount paid) from our five top vendors. Our contract with the UK's largest home retail credit company (based on turnover) accounted for the vast majority of our new home retail credit portfolio purchases, and for approximately 25% of our portfolio purchases (measured by total amount paid) for our 2012 financial year. We have had a contract in place with this client since February 2008. This contract has been extended several times since such date, including in August 2012. The current contract expires in August 2014 and may also be terminated by the vendor before such date under certain circumstances. There can be no assurance that we will be successful in extending the contract.

A vendor's decision to sell debt to us is based on price, reputation, compliance history and other factors, and we cannot be certain that any of our significant vendors will continue to sell debt to us on terms or in quantities acceptable to us, or that we would be able to replace such purchases with purchases from other vendors. In the event that one or more of our significant vendors terminates or significantly cuts back any relationship with us, our portfolio purchases may materially decrease relative to historical trends and our financial condition, financial returns and results of operations could be materially adversely affected.

A significant decrease in the volume of purchases available from any of our principal vendors on terms acceptable to us would force us to seek alternative sources of debt to purchase. Furthermore, because reputation is paramount in our industry, the loss of a key vendor relationship could jeopardize our existing relationship with other vendors or our ability to establish new relationships with other vendors. We may be unable to find alternative sources from which to purchase debt, and even if we could successfully replace such purchases, the search could take time, the receivables could be of lower quality or cost more, any of which could materially adversely affect our business.

Deterioration of the economic environment in the United Kingdom may have a material adverse effect on our financial condition, financial returns and results of operation.

Our performance may be affected by further deterioration of economic conditions in the United Kingdom, which could have varied impacts on our business. One impact is that consumers may be less able to pay their debts due to a reduction in income. Government actions taken in response to the economic downturn may include cuts in public benefits or public sector employment, or other austerity measures that may directly affect our customers by reducing or eliminating their disposable income. This reduction in disposable income could impair customers' abilities to pay their debts. Further, private businesses may reduce hiring or implement layoffs, again potentially affecting our customers. Also, rising interest rates could impair the financial viability of customers who have variable interest rate home mortgages or other significant debt that bears floating rate interest. If our customers experience a reduced ability to pay their debts, we could face increased servicing costs and lower average payments, therefore reducing our cash generation and returns on capital, and in turn our Unlevered Net IRR and ERC. Even if we are able to develop tailored payment plans for certain of the affected customers in order to try to reduce the number of defaults, such measures may prove unsuccessful, or if successful in avoiding some defaults, total collections may be reduced or the timing of receipt of payments may be extended, any of which would also impair these financial performance metrics. As a result, this may materially and adversely affect our financial condition, financial returns and results of operations.

The recent volatility affecting the banking system and financial markets and the possibility that financial institutions may consolidate, go out of business or be taken over by the government have resulted in a tightening in credit markets. There could be a number of follow-on effects from the credit crisis or the government's response to the credit crisis on our business, including a reduction in estimated collections, as our customers are unable to obtain credit to refinance their obligations with us. Further, the insolvency of lending institutions could result in our own inability to obtain credit. These and other economic factors could have a material adverse effect on our financial condition, financial returns and results of operations.

Our purchasing patterns and the seasonality of our business may lead to volatility in our cash flow.

Our business depends on the ability to collect on our debt portfolios. Collections within portfolios tend to be seasonally higher in the third and fourth quarters of our financial year, due to customers generally having lower expenses during these months, for example because of lower heating costs. Conversely, collections within portfolios tend to be lower in months where there are fewer working days, for example months with public holidays. Operating expenses are higher following months where there are more volumes of accounts purchased. Furthermore, our purchase of debt portfolios is likely to be uneven over the course of a year due to the fluctuating supply and demand within the market. The combination of seasonal collections and uneven servicing costs and purchases of debt portfolios may result in low cash flow at a time when portfolios appropriate for purchase become available. A lack of cash flow could prevent us from purchasing debt portfolios that we would otherwise purchase as they become available, and a significant cash shortage could prevent us from meeting our obligations under our forward flow agreements, which would materially and adversely affect our business.

Negative attention and news regarding the debt collection industry and individual debt collectors may have a negative impact on a debtor's willingness to pay the debt owed to us.

The following factors, among others, may cause consumers to be more reluctant to pay their debts in full or at all or more willing to pursue legal actions against us:

- print and television media, from time to time, may publish stories about the debt collection or debt purchasing industry that may cite specific examples of real or perceived abusive collection practices. These stories are also published on websites, which can lead to the rapid dissemination of the story and increase the exposure to negative publicity about us or the industry;

- the internet has websites where consumers list their concerns about the activities of debt collectors and seek guidance from other website posters on how to handle the situation. These websites are increasingly providing consumers with legal forms and other strategies to protest collection efforts and to try to avoid their obligations. To the extent that these forms and strategies are based upon erroneous legal information, the cost of collections is increased; and
- consumer blog sites and claims management companies are becoming more common and add to the negative attention given to our industry. Certain of these organizations may also enable consumers to negotiate a larger discount on their payments than we would otherwise agree to.

As a result of this negative publicity, debtors may be more reluctant to pay their debts or could pursue legal action against us regardless of whether those actions are warranted. These actions could impact our ability to collect on the receivables we purchase and materially and adversely affect our financial condition, financial returns and results of operations.

Risks related to our financial profile

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Note Guarantees.

On March 30, 2012 we issued £200 million of Senior Secured Notes. We are, and following the issuance of the Notes, continued to be, highly leveraged. As at August 31, 2012 we have had total financial liabilities of £200 million. On March 30, 2012 we also entered into the new Senior Revolving Credit Facilities Agreement for a committed amount of £40 million of secured credit borrowings. The Senior Revolving Credit Facilities remain undrawn.

The level of our indebtedness could have important consequences to holders of the Notes, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow for, and limiting the ability to obtain additional financing to fund, working capital, capital expenditure, debt purchases, acquisitions, joint ventures, or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate; and
- placing us at a competitive disadvantage compared to our competitors, to the extent that they are not as highly leveraged.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

In addition, our debt under the new Senior Revolving Credit Facilities Agreement will bear interest at a variable rate which is based on LIBOR plus an agreed margin and certain additional costs (as defined in the new Senior Revolving Credit Facilities Agreement). Fluctuations in LIBOR, or the occurrence of a market disruption event (as defined in the new Senior Revolving Credit Facilities Agreement) may increase our overall interest burden and could have a material adverse effect on our ability to service our debt obligations.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and the new Senior Revolving Credit Facilities Agreement will contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, the Indenture and the new Senior Revolving Credit Facilities Agreement will not prevent us from incurring obligations that do not constitute indebtedness under those agreements.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture and the Senior Facilities Agreement will restrict, among other things, our ability to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions or purchase or redeem our stock;
- make investments or other restricted payments;
- enter into agreements that restrict our restricted subsidiaries' ability to pay dividends;
- transfer or sell assets;
- engage in transactions with affiliates;
- create liens on assets to secure indebtedness;
- impair security interests; and
- merge or consolidate with or into another company.

All these limitations will be subject to significant exceptions and qualifications. The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

Our failure to comply with the covenants under the Senior Facilities Agreement or the Indenture, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our financial condition, financial returns and results of operations.

The Senior Facilities Agreement will require us to maintain an LTV Ratio, as defined in the new Senior Facilities Agreement, of 0.75. Our ability to meet this financial ratio could be affected by deterioration in our operating results, as well as by events beyond our control, including decreases in collections and unfavourable economic conditions, and we cannot assure you that we will be able to meet this ratio.

Moreover, the Senior Facilities Agreement includes certain events of default (such as breach of representations and warranties and cross-payment defaults) that are in addition to the events of default set forth in the Indenture. If an event of default occurs under the Senior Facilities Agreement or any other of our debt instruments and is not cured or waived, borrowings under any other debt instruments that we have outstanding, including the Notes, that contain cross-acceleration or cross-default provisions may also be accelerated or become payable on demand, together with accrued and unpaid interest and other fees payable thereunder. In these circumstances, our assets and cash flow may not be sufficient to repay in full all of our indebtedness that has been accelerated, including the Notes then outstanding, which could force us into bankruptcy or liquidation. We might not be able to repay our obligations under the Notes in such an event.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our debt, and to fund working capital, to purchase new debt portfolios and to make capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends on the success of our business strategy and on general economic, financial, competitive, market, legislative, regulatory and other factors, many of which are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations, that turnover growth, cost savings and operating improvements will be realized or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs.

If our future cash flows from operations and other capital resources (including borrowings under the Senior Facilities Agreement) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and any capital expenditures;
- sell assets;
- breach our forward flow agreements;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes and the Senior Facilities Agreement, limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

Derivative transactions may expose us to unexpected risk and potential losses.

From time to time, we may be party to certain derivative transactions, such as interest rate swap contracts, with financial institutions to hedge against certain financial risks. Changes in the fair value of these derivative financial instruments that are not cash flow hedges are reported in income, and accordingly could materially affect our reported income in any period. Moreover, in light of current economic uncertainty and potential for financial institution failures, we may be exposed to the risk that our counterparty in a derivative transaction may be unable to perform its obligations as a result of being placed in receivership or otherwise. In the event that a counterparty to a material derivative transaction is unable to perform its obligations thereunder, we may experience losses that could materially adversely affect our financial condition, financial returns and results of operations.

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Definitions and reconciliations

› Key Performance Indicator Definitions

(1) Estimated Remaining Collections

ERC means our estimated remaining collections, which represent the expected collections of our Purchased Assets over an 84-month period, based on our proprietary valuation model. Please see "Presentation of financial and other information." for a description of how ERC is calculated.

(2) Portfolio purchases

Reported portfolio purchases represent the cost of all debt portfolios purchased in the period. Purchase activity can vary from one quarter to the next.

(3) Number of accounts

Number of accounts represents the total number of individual consumer debts that we own as of the date specified.

(4) Number of owned debt portfolios

Number of owned debt portfolios represents the number of individual portfolios of accounts that we own as of the date specified. Where more than one portfolio has been purchased from a vendor in the same month, such portfolios are grouped together and treated as one portfolio purchase.

(5) Net Debt

Net Debt represents third-party debt less cash and cash equivalents and excludes subordinated shareholder instruments included in the "Creditor" line item of the balance sheet. To enhance comparability, third-party debt also excludes any mezzanine debt, as all mezzanine debt was repaid in full in September 2011 as part of Metis Bidco Limited's acquisition of Lowell.

(6) Collections/income on owned portfolios

Collections/income on owned portfolios represents the sum of "collections on owned portfolio" and "other turnover," as reported in our profit and loss account.

(7) Servicing costs

Servicing costs represents our total cost of servicing owned portfolios in a period, comprised of the total of cost of sales and administration expenses (and excluding any depreciation). There may be limitations in using servicing costs expressed as a percentage of collections as a measure of our operational efficiency across a limited period of time, because servicing costs are impacted by the phasing, mix and volume of new portfolio purchases in a period. For example, portfolios of different types (e.g., sector or average balance) have different servicing cost ratio characteristics.

(8) Adjusted EBITDA

Adjusted EBITDA represents collections on owned portfolios plus other turnover, less cost of sales and administrative expenses (which, together, equals servicing costs), which is the same as operating profit before exceptional and non-recurring items, depreciation, fair value movement in loan portfolios and amount of purchase cost recovered.

(9) Cash flow before debt and tax servicing

Cash flow before debt and tax servicing represents Adjusted EBITDA less capital expenditure and working capital movement but excluding portfolio purchases in the period. Management monitors cash flow before debt and tax servicing as a measure of the cash available to us to pay down or service debt, pay income taxes, purchase new debt portfolios and for other uses.

(10) Unlevered Net IRR

Unlevered Net IRR of a portfolio means the internal rate of return of that portfolio and is calculated using the collections and servicing cost assumptions described in "Presentation of financial and other information." Unlevered Net IRR of owned portfolios represents our aggregate Unlevered Net IRR for our entire owned portfolio as of the end of a certain period.

(11) Annual collections per collector FTE

Annual collections per collector FTE represents total collections in the period divided by the average number of collector FTEs in such period. Management uses this metric as a measure of productivity and service efficiency.

(12) Payment plans per collector FTE

Payment plans per collector FTE represents the number of payment plans set up in the period divided by the average number of collector FTEs in such period. Management uses this metric as a measure of productivity and service efficiency.

› Other Definitions

(1) Collections on owned portfolios

Collections on owned portfolios consist of the total amount of reported collections across our Purchased Assets.

(2) Amount of purchase cost recovered and fair value movement in Loan Portfolios

We value our portfolios of purchased assets in our balance sheet under FRS 26 "—Fair Value Through Profit or Loss." Amount of purchase cost recovered and fair value movement in loan portfolios represent the amortisation resulting from collections on Purchased Assets and any fair value movement resulting from the revaluation of each portfolio between the beginning and the end of the period, respectively. The annual portfolio amortisation expense is calculated as the difference between the opening and closing balance sheet valuations of portfolios (indicated under "Loan Portfolios" or "Purchased Assets" (under Current Assets) above) plus the cost of in-year portfolio purchases.

(3) Turnover

Turnover consists of turnover from loan portfolios and other turnover.

Turnover from loan portfolios represents our collections on owned portfolios, less amortisation of the loan portfolio purchase price, which includes any fair value movement in loan portfolios.

Other turnover consists of a combination of monies received for third party trace services and third party contingent debt collection commissions generated by Tocatto Limited.

(4) Cost of sales

Our cost of sales represents the direct costs of collections related to our loan portfolios. Our main cost of sales is the cost of collection letters sent to our customers, including printing and postage costs. Other costs of sales include credit bureau data costs, commissions paid to third party outsource providers and legal costs associated with collections.

(5) Administrative expenses

Administrative expenses consist primarily of staff salaries and benefits costs. The remainder of the expenses predominantly relate to information technology, property and professional services costs.

(6) Interest payable

Our interest payments include payments under our Existing Senior Facilities Agreement (and historically included payments on the mezzanine facilities, before the mezzanine facility was repaid in September 2011) and non-cash, paid-in-kind interest payments related to subordinated shareholder instruments, such as preference shares, which will be redeemed in connection with the offering.

(7) Tax on profit on ordinary activities

The charge for taxation is based on trading results, and takes account of taxation deferred or accelerated because of timing differences between the treatments of certain items for taxation and accounting purposes, principally the treatment of capital expenditure, for which depreciation allowable for taxation purposes differs from depreciation for accounting purposes.

(8) Profit/ (Loss) on ordinary activities after taxation for the year

Profit or loss on ordinary activities after taxation represents the result of the consolidated profit and loss account after provision for taxation.

(9) Net Cash-on-Cash multiple

The Net Cash-on-Cash multiple of a portfolio is the actual collections received on a portfolio to the date that the multiple is measured, plus forecast collections up to 84 months from the date of purchase of the portfolio less the estimated servicing cost of that portfolio over the same period based on actual and assumed cost assumptions, divided by the total amount paid for the portfolio at date of purchase.

› Reconciliation of adjusted EBITDA to operating profit

	2011	2012
Operating profit	41.3	48.5
Portfolio amortisation	40.6	43.2
Depreciation	1.8	2.0
Non-recurring cost (a)	1.5	1.8
Adjusted EBITDA	**85.2**	**95.5**

(a) Non-recurring costs represent expenditure on M&A activity and the bonus paid on completion of the acquisition of Lowell by Metis Bidco Limited payable to certain key employees, which is reflected within administration expenses in our audited consolidated financial statements for the years ended August 31, 2011 and August 31, 2012.

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