Garfunkelux Holdco 2 S.A.

QE 30 June 2018 Results

1. Highlights

- **120 Month Estimated Remaining Collections** ("ERC") at £2,909.2m as of 30 June 2018.
- **Portfolio investments acquired** for the three months ending 30 June 2018 total £109.4m.
- **Debt Purchase gross cash collections** of £170.0m in the three months ending 30 June 2018 including £37.8m from the Carve-out Business.
- **Cash income** of £213.8m in the three months ending 30 June 2018, up 50.0% compared to the three month period ending 30 June 2017 and including £56.8m contribution from the Carve-out Business.
- **Cash EBITDA**(1) for the three months ended 30 June 2018 of £105.7m, including £26.5m contribution from the Carve-out Business with LTM Cash EBITDA to June 2018 of £333.5m.
- **Net debt to LTM Pro forma Cash EBITDA**(2) is at 5.3x as at 30 June 2018.
- **Net secured debt to LTM Pro forma Cash EBITDA**(2) is at 4.7x as at 30 June 2018.

(1) Cash EBITDA is defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation.

(2) Pro forma LTM Cash EBITDA as quoted is defined as Group Cash EBITDA for the twelve months ended 30 June 2018, adjusted to include the Cash EBITDA contribution of the Carve-out business as if this acquisition had occurred at 1 July 2017 and further adjusted for the Carve-out Business management fee adjustment, Carve-out Business depreciation charge adjustment, SRG contract adjustment and DACH division reorganisation cost adjustment.

1. Highlights (continued)

Commenting on the results, James Cornell CEO said:

"I am very pleased with the progress we have made in the first half of the year. These positive results demonstrate both the organic growth of the business and the strength our new Nordic region brings to the Group.

We are now a very different business to the one that reported 12 months ago – in scale, in capability and diversity. These factors enable us to be more agile. With more sectors, in more markets, the business can quickly shift focus for the best returns. Across the first half of the year, we used that agility to invest capital strategically to deliver long-term, sustainable returns – growing our business the right way.

The evolution of Lowell is supported by the platform we have built over the last 14 years. Clear customer-focus, the effective application of data science, prudent investment and a robust risk framework remain the pillars upon which we will grow."

About Lowell:

Lowell is one of Europe's largest credit management companies with a mission to make credit work better for all. It operates in the UK, Germany, Austria, Switzerland, Denmark, Norway, Finland, Sweden and Estonia.

Lowell's unparalleled combination of data analytics insight and robust risk management provides clients with expert solutions in debt purchasing, third party collections and business process outsourcing. With its ethical approach to debt management, Lowell always looks for the most appropriate, sustainable and fair outcome for each customer's specific circumstances.

Lowell was formed in 2015 following the merger of the UK and German market leaders: the Lowell Group and the GFKL Group. In 2018, Lowell completed the acquisition of the Carve-out Business from Intrum, which has market leading positions in the Nordic region. It is backed by global private equity firm Permira and Ontario Teachers' Pension Plan.

For more information on Lowell, please visit our investor website: www.lowell.com

1. Highlights (continued)

Non-IFRS financial measures

We have included certain non-IFRS financial measures in this trading update, including **Estimated Remaining Collections** ("ERC"), **Cash EBITDA** and **Gross Money Multiples**.

We present ERC because it represents our expected gross cash proceeds of the purchased debt portfolios recorded on our balance sheet over the 84-month, 120-month and 180-month periods. ERC is calculated as of a point in time assuming no additional purchases are made. ERC is a metric that is also often used by other companies in our industry. **We present ERC because it represents our best estimate of the undiscounted cash value of our purchased debt portfolios at any point in time, which is an important supplemental measure for our board of directors and management to assess the gross cash generation capacity of the assets backing our business**. In addition, the instruments governing our indebtedness use ERC to measure our compliance with certain covenants and, in certain circumstances, our ability to incur indebtedness. Our ERC projection, calculated by our proprietary analytical models, utilises historical portfolio collection performance data and assumptions about future collection rates. While we cannot guarantee that we will achieve such collections and while our ERC projection may not be comparable to similar metrics used by other companies in our industry, our ERC forecasts have historically proven to be somewhat conservative through all phases of the economic cycle.

We present Cash EBITDA because we believe it may enhance an investor's understanding of our underlying cash flow generation at a given point in time that can be used to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses. Cash EBITDA is defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation.

Our board of directors and management use Cash EBITDA to understand cash profit in a period, mindful it is neither a proxy for future periods (since it is a lagged measure which can be influenced by the volume and mix of purchases in the latter months of the reported period), nor is it an indication of run off cash generation as the current cost base is representative of our front loaded cost curves and recent purchasing activity. Cash EBITDA is not a measure calculated in accordance with IFRS and our use of the term Cash EBITDA may vary from others in our industry. For a reconciliation of Cash EBITDA to operating profit, see page 20.

We present Gross Money Multiples ("GMMs") because it represents our expected gross cash return from purchased debt portfolios. In addition, GMMs are one of a number of return metrics that we use when making pricing and investment decisions. GMMs can be reported on a rolling basis or on a static basis. On a rolling basis, GMMs are calculated as the sum of gross collections achieved to date plus our ERC as at the reporting date, divided by purchase price. All things being equal and based on this rolling definition, GMMs should improve over time as portfolios and vintages mature. On a static basis, GMMs are calculated over a static time-period – for example, a static 120m GMM will be based upon either gross collections achieved to date plus the remaining months of ERC required to get to a 120m total period or the original priced 120m collection expectations, divided by purchase price.

ERC, Cash EBITDA and Gross Money Multiples and all other non-IFRS measures have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS.

2. Operating & financial review

The following table summarises key performance indicators at, and for the periods ended 30 June 2018 and 30 June 2017.

(£ in millions unless otherwise noted)	**Three months ended or as at 30 June 2018[1]**	**Three months ended or as at 30 June 2017**
Portfolio investments acquired	109.4	73.0
Gross cash collections (in total)	466.4	219.8
Gross cash collections (DP ‘debt purchase’)	170.0	114.5
Gross cash collections (3PC ‘third party collections’)	296.4	105.3
3PC income	42.0	28.0
Cash income	213.8	142.5
Cash EBITDA[2]	105.7	70.9
84 month ERC	2,453.8	1,607.6
120 month ERC	2,909.2	1,898.0
180 month ERC	3,395.3	2,199.5

(1) The effective date of the Carve-out Business acquisition was 31 March 2018 and as such these measures for the three months ended 30 June 2018 and as at 30 June 2018 include the results of the Carve-out Business. 2017 comparatives do not include the Carve-out Business.

(2) Cash EBITDA is defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation.

2. Operating & financial review (continued)

Collections
Strong quarterly collections on DP Portfolios were achieved by the business totalling £170.0m in the three months ending 30 June 2018, including £37.8m from the Carve-out Business.

Income
Total income of £170.9m was generated in the three months ending 30 June 2018 including the Carve-out Business. Service revenue in the three months to 30 June 2018 of £54.6m included 3PC income of £42.0m and lawyer service revenue of £12.6m (three months to 30 June 2017: 3PC income of £28.0m and lawyer service revenue of £14.5m).

Operating expenses
Operating expenses including exceptional costs of £6.5m were £136.0m for the period, of which £76.2m were collection activity costs. Collection costs include lawyer service costs which totalled £12.8m in the three months to 30 June 2018 (three months to June 2017: £14.8m).

Finance costs
Excluding foreign exchange effects, finance costs totalled £45.4m for the three months ended 30 June 2018, see note 3.

Cash flow
Net cash used in operating activities after portfolio purchases and exceptional costs totalled £16.1m in the three months to 30 June 2018. Net cash generated from operating activities before portfolio purchases and income taxes paid totalled £90.1m in the 3 months to June 2018.

While returns achieved on an individual portfolio can vary, the business has a consistent and impressive track record of generating strong and sustainable unlevered returns on its aggregate purchased portfolios. Gross Money Multiple as at 30 June 2018 is shown below.

	UK As at 30 June 2018		DACH As at 30 June 2018		Nordics As at 30 June 2018	
	Invested (£ millions)	Gross Money Multiple (1)	Invested (€ millions)	Gross Money Multiple (1)	Invested (€ millions)	Gross Money Multiple (1)
Total 120 month	1,535.3	2.5	542.7	2.9	982.9	2.4
Total 180 month	1,535.3	2.7	542.7	3.1	982.9	2.6

(1) Gross Money Multiple presented in this quarterly report only includes actuals to date and forecast collections for the next 120 or 180 months, although collections can extend past that period.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of comprehensive income
3 months ended 30 June 2018

	Note	3 months to 30 June 2018 £000	3 months to 30 June 2017* £000
Continuing operations			
Income			
Income from portfolio investments	4	89,920	58,730
Net portfolio write up	4	23,522	29,322
Portfolio fair value release	4	(497)	(641)
Service revenue	2	54,559	42,486
Other revenue		3,154	840
Other income		248	352
Total income		**170,906**	**131,089**
Operating expenses			
Collection activity costs		(76,191)	(59,785)
Other expenses		(59,826)	(36,914)
Total operating expenses		**(136,017)**	**(96,699)**
Operating profit		**34,889**	**34,390**
Finance income		2,581	140
Finance costs	3	(45,438)	(45,388)
Loss for the period, before tax		**(7,968)**	**(10,858)**
Tax credit		278	2,297
Loss for the period		**(7,690)**	**(8,561)**
Other comprehensive expenditure			
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(5,218)	(3,296)
Other comprehensive expenditure, net of tax		**(5,218)**	**(3,296)**
Total comprehensive expenditure for the period		**(12,908)**	**(11,857)**

The notes on pages 11 to 19 form part of the interim financial statements.

* Prior period figures have been restated to reclassify an amount from other expenses to collection activity costs and to reclassify net portfolio write up to income. See note 1 for further detail.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of financial position
As at 30 June 2018

	Note	30 June 2018 £000	30 June 2017 £000
Assets			
Non-current assets			
Goodwill		1,209,740	1,018,109
Intangible assets		165,485	119,268
Property, plant and equipment		12,461	10,163
Portfolio investments	4	900,366	522,767
Other financial assets		8,714	4,792
Deferred tax assets		9,382	-
Total non-current assets		**2,306,148**	**1,675,099**
Current assets			
Portfolio investments	4	538,930	363,897
Inventories		106	57
Trade and other receivables	5	84,520	42,542
Other financial assets		8,863	8,048
Assets for current tax		2,278	590
Cash and cash equivalents		112,945	92,085
Total current assets		**747,642**	**507,219**
Total assets		**3,053,790**	**2,182,318**
Equity			
Share capital		4,385	3,730
Share premium and similar premiums		516,721	400,396
Reserves		(95,114)	(23,399)
Retained deficit		(198,910)	(109,308)
Total equity		**227,082**	**271,419**
Liabilities			
Non-current liabilities			
Borrowings	7	2,369,916	1,723,605
Provisions		10,261	7,128
Other financial liabilities		147	131
Deferred tax liabilities		47,756	43,330
Total non-current liabilities		**2,428,080**	**1,774,194**
Current liabilities			
Trade and other payables	6	121,288	70,743
Provisions		13,494	14,950
Borrowings	7	220,220	27,768
Derivatives		4,166	-
Other financial liabilities		7,029	6,785
Current tax liabilities		32,431	16,459
Total current liabilities		**398,628**	**136,705**
Total equity and liabilities		**3,053,790**	**2,182,318**

The notes on pages 11 to 19 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of changes in equity
As at 30 June 2018

	Share Capital	Share premium and similar premiums	Capital Reserve	Translation reserve	Valuation reserve	Retained earnings	Total
Balance at 1 April 2017	**3,730**	**400,396**	**(7,948)**	**(11,727)**	**(428)**	**(100,747)**	**283,276**
Loss for the period	-	-	-	-	-	(8,561)	(8,561)
Exchange Differences	-	-	-	(3,296)	-	-	(3,296)
Total comprehensive expenditure	**-**	**-**	**-**	**(3,296)**	**-**	**(8,561)**	**(11,857)**
Balance at 30 June 2017	**3,730**	**400,396**	**(7,948)**	**(15,023)**	**(428)**	**(109,308)**	**271,419**
Loss for the period	-	-	-	-	-	(53,119)	(53,119)
Actuarial gains on pension	-	-	-	-	95	-	95
Deferred tax on pensions	-	-	-	-	(29)	-	(29)
Exchange differences	-	-	-	(1,004)	-	-	(1,004)
Total comprehensive income/ (expenditure)	**-**	**-**	**-**	**(1,004)**	**66**	**(53,119)**	**(54,057)**
Balance at 31 December 2017	**3,730**	**400,396**	**(7,948)**	**(16,027)**	**(362)**	**(162,427)**	**217,362**
Loss for the period	-	-	-	-	-	(28,793)	(28,793)
Exchange differences	-	-	-	3,099	-	-	3,099
Total comprehensive income/ (expenditure)	**-**	**-**	**-**	**3,099**	**-**	**(28,793)**	**(25,694)**
Capital contribution	-	48,322	-	-	-	-	48,322
Functional currency adjustment	655	68,003	2	(68,660)	-	-	-
Balance at 31 March 2018	**4,385**	**516,721**	**(7,946)**	**(81,588)**	**(362)**	**(191,220)**	**239,990**
Loss for the period	-	-	-	-	-	(7,690)	(7,690)
Exchange Differences	-	-	-	(5,218)	-	-	(5,218)
Total comprehensive expenditure	**-**	**-**	**-**	**(5,218)**	**-**	**(7,690)**	**(12,908)**
Balance at 30 June 2018	**4,385**	**516,721**	**(7,946)**	**(86,806)**	**(362)**	**(198,910)**	**227,082**

The notes on pages 11 to 19 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of cash flows
3 months ended 30 June 2018

	Note	3 months to 30 June 2018 £000	3 months to 30 June 2017 £000
Net cash used in operating activities	**8**	**(16,103)**	**(7,163)**
Investing activities			
Interest received		-	79
Purchase of property, plant and equipment		(1,228)	(797)
Purchase of intangible assets		(4,254)	(414)
Net cash used in investing activities		**(5,482)**	**(1,132)**
Financing activities			
Proceeds from loans and borrowings		74,520	148,486
Transaction costs related to loans and borrowings		(2,942)	(832)
Repayment of borrowings		(4,031)	(82,500)
Interest paid		(49,407)	(39,986)
Net cash generated from financing activities		**18,140**	**25,168**
Net (decrease)/increase in cash and cash equivalents		**(3,445)**	**16,873**
Cash and cash equivalents at beginning of period		114,987	73,448
Effect of movements in exchange rates on cash held		1,403	1,764
Cash and cash equivalents at end of period		**112,945**	**92,085**

The notes on pages 11 to 19 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

1. Accounting policies

General information and basis of preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These interim financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value. Those standards have been applied consistently to the historical periods.

Restatement of prior year presentation

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications have no effect on the reported loss for the period. An adjustment has been made to the Consolidated Statement of Comprehensive Income ("SCI") for the 3 months ended 30 June 2017 to reclassify appropriate staff costs as collection activity costs. In addition, as a result of the adoption of IFRS 9 on 1 January 2018, an adjustment has been made to present net portfolio write up within income for the 3 months to 30 June 2017. Previously, net portfolio write up was presented within revenue and operating expenses.

Basis of consolidation

The Group interim financial statements consolidate the interim financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and its subsidiaries (together "the Group") for the three month period ending 30 June 2018.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing voting rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable return from its involvement with the investee; and
- The ability to use its power over the investee to affect its return.

Generally there is a presumption that a majority of voting rights results in control. To support its presumption and when the Group has less than a majority of voting rights or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

- The contractual arrangements with the other investee;
- Rights arising from the contractual arrangements; and
- The Group voting rights and potential voting rights.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

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

1. Accounting policies (continued)

Foreign currency
The Group entities initially record all their transactions in the Functional Currency of each entity and items included in the financial statements of these entities are measured using their Functional Currency.

Transactions in foreign currencies are translated to the respective Functional Currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the Functional Currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income ("SCI"). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the Functional Currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's Presentational Currency (Sterling) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the SCI as incurred.

Goodwill
Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Total goodwill is tested for impairment annually. Additionally, if there is evidence of impairment in any cash-generating unit ("CGU"), goodwill allocated to that CGU is also tested for impairment.

1. Accounting policies (continued)

Revenue recognition and effective interest rate method

Finance revenue on portfolio investments

Income from portfolio investments represents the yield from acquired portfolio investments, net of VAT where applicable. Acquired portfolio investments are financial instruments that are accounted for using IFRS 9, and are measured at amortised cost using the effective interest method.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition, (i.e. the price paid to acquire the asset). These estimated future cash receipts are reflective of the conditions within the markets which the Group operates and range from 84 months to 120 months. An initial EIR is determined at the acquisition of the portfolio investment, following this there is a short period that is required to adjust the EIR due to the complexity of the portfolios acquired. Reassessing and changing the EIR in this way does not have a material impact on the financial statements.

Acquired portfolio investments are acquired at a deep discount and as a result the estimated future cash flows reflect the likely credit losses within each portfolio.

Increases in portfolio carrying values can and do occur should forecasted cash flows be deemed greater than previous estimates and because of the rolling nature of the period to derive future cash receipts. The difference in carrying value following an enhanced collection forecast is recognised in the net portfolio write up line within income, with subsequent reversals also recorded in this line. This line represents the net impairment gains on portfolio investments.

As part of the acquisition accounting around the purchase of Metis Bidco Limited by Simon Bidco Limited on 13 October 2015 the portfolio investments were uplifted to their fair value at the date of acquisition. The portfolio fair value release represents the unwinding of this fair value uplift. This uplift is being unwound in line with the profile of gross ERC over an 84 month period, in keeping with a standard collection curve profile in the UK.

Service Revenue

Service revenue represents amounts receivable for tracing and debt collecting services (commissions and fees) provided to third party clients including collection lawyers, net of VAT where applicable. Performance obligations within service contracts are the collection of cash and hence these are satisfied when the Group collects on debt. Payment is due from clients shortly after cash is collected on their behalf. Revenue is recognised when performance obligations are satisfied.

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment at the Statement of Financial Position ("SFP") date in accordance with IFRS 9. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio investment. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio investment and is included in net portfolio write up. If the forecast portfolio collections are lower than previous forecasts the revenue from previous upward revaluations are reversed and this reversal is recognised in net portfolio write up.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

1. Accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised in the Group's consolidated SFP when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities at fair value through profit or loss

This category relates to financial assets and liabilities that must be recognised at fair value through profit or loss. Such assets or liabilities are initially recognised at cost, which at this point equates to fair value. They must be measured subsequently at fair value.

Loans and receivables

Acquired portfolio investments are acquired from institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the EIR method.

The portfolio investment is analysed between current and non-current in the SFP. The current asset is determined using the expected cash flows arising in the next twelve months after the SFP date. The residual amount is classified as non-current.

Litigation costs represent upfront fees paid during the litigation process, expected to be recoverable from the customer and added to the customer account balance to be recovered at a later date. Release to the SCI is in line with the collection profile.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Trade and other receivables'. Trade and other receivables are measured at amortised cost using the EIR method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables (including trade receivables) when the recognition of interest would be immaterial.

The Group has forward flow agreements in place in relation to the future acquisition of portfolio investments. The fair value and subsequent amortised cost of portfolios acquired under these agreements are determined on the same basis as the Group's other portfolio investments.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss / SCI (FVTPL), are assessed for indicators of impairment at each period end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

All financial liabilities held by the Group are measured at amortised cost using the EIR method, except for those measured at fair value through the SCI, e.g. derivative liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

1. Accounting policies (continued)

Collection activity costs

Collection activity costs represents direct staff costs and the direct third party costs in providing services as a debt collection agency or collecting debts on acquired portfolio investments; examples include printing and postage, third party commissions, search and trace costs, litigation, telephone and SMS text costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the SCI because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle that obligation and if a reliable estimate of the amount of the obligation can be made.

2. Service revenue

	3 months to 30 June 2018 £000	3 months to 30 June 2017 £000
3PC income	41,970	28,016
Lawyer service revenue	12,589	14,470
	54,559	**42,486**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

3. Finance costs

	3 months to 30 June 2018 £000	3 months to 30 June 2017 £000
Interest payable on the Senior Secured Notes	27,794	22,271
Interest payable on the Senior Unsecured Notes	6,325	6,325
Fees payable on the notes	1,947	1,775
Interest and fees payable on Revolving Credit Facility	1,607	992
Interest payable on shareholder loan	7,941	6,563
Net gain on financial instruments designated as FVTPL	(1,398)	-
Other interest payable	1,222	147
Net foreign exchange loss	-	7,315
	45,438	**45,388**

4. Portfolio investments

	30 June 2018 £000	30 June 2017 £000
Non-current	900,366	522,767
Current	538,930	363,897
Total	**1,439,296**	**886,664**

	30 June 2018 £000	30 June 2017 £000
At start of the period	1,381,014	835,072
Portfolios acquired during the period	109,440	73,019
Collections in the period	(170,021)	(114,545)
Income from portfolio investments	89,920	58,730
Net portfolio write up	23,522	29,322
Portfolio fair value release	(497)	(641)
Other	5,918	5,707
At end of the period	**1,439,296**	**886,664**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

5. Trade and other receivables

	30 June 2018 £000	30 June 2017 £000
Trade receivables	14,030	7,828
Prepayments and accrued income	18,727	8,197
Other receivables	51,763	26,517
	84,520	**42,542**

6. Trade and other payables

	30 June 2018 £000	30 June 2017 £000
Trade payables	19,420	10,028
Other taxes and social security	5,808	1,993
Accruals and deferred income	34,743	17,991
Other payables	61,317	40,731
	121,288	**70,743**

Other payables includes amounts due of £14.8m in respect of portfolios purchased but not yet paid for as at 30 June 2018 (30 June 2017: £15.0m).

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

7. Borrowings

	30 June 2018 £000	30 June 2017 £000
Non-current		
Unsecured borrowing at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on unsecured borrowings	(5,844)	(7,683)
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	352,251	295,044
Total unsecured	**576,407**	**517,361**
Secured borrowing at amortised cost		
Senior Secured Notes	1,829,457	1,243,590
Prepaid costs on secured borrowings	(39,925)	(37,346)
Securitisation loans	3,977	-
Total secured	**1,793,509**	**1,206,244**
Total borrowings due for settlement after 12 months	**2,369,916**	**1,723,605**
Current		
Unsecured borrowing at amortised cost		
Interest on Senior Notes	4,218	4,217
Other interest payable	584	600
Total unsecured	**4,802**	**4,817**
Secured borrowing at amortised cost		
Interest on Senior Secured Notes	22,021	22,951
Revolving credit facility	171,892	-
Securitisation loans	21,505	-
Total secured	**215,418**	**22,951**
Total borrowings due for settlement before 12 months	**220,220**	**27,768**

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Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 30 June 2018

8. Note to the statement of cashflows

	Note	3 months to 30 June 2018 £000	3 months to 30 June 2017 £000
Loss for the period before tax		**(7,968)**	**(10,858)**
Adjustments for:			
Income on portfolio investments		(89,920)	(58,730)
Net portfolio write up		(23,522)	(29,322)
Portfolio fair value release		497	641
Collections on owned portfolios		170,021	114,545
Depreciation and amortisation		7,262	4,806
Finance income		(2,581)	(140)
Loss on sale of property, plant and equipment and intangible assets		54	-
Finance costs		45,438	45,388
Unrealised losses from foreign exchange		(3,238)	(1,340)
Decrease/(increase) in trade and other receivables		3,642	(4,412)
(Decrease)/increase in trade and other payables		(3,879)	3,815
Movement in other net assets		(5,668)	(735)
Cash generated from operating activities before portfolio acquisitions		**90,138**	**63,658**
Portfolios acquired (1)		(103,880)	(70,030)
Net cash used in operating activities		**(13,742)**	**(6,372)**
Income taxes paid		(2,361)	(791)
Net cash used in operating activities		**(16,103)**	**(7,163)**

(1) Portfolios acquired represents the amount paid for portfolio purchases in the period, taking into account timing differences.

Reconciliations

Profit to Cash EBITDA

	3 months to 30 June 2018 £000
Loss for the period	(7,690)
Net finance costs	42,857
Taxation credit	(278)
Operating profit	**34,889**
Portfolio amortisation	80,101
Net portfolio write up	(23,522)
Portfolio fair value release	497
Non-recurring costs / exceptional items, net of exceptional income	6,457
Depreciation and amortisation	7,262
Cash EBITDA	**105,684**

Cash collections to Cash EBITDA

	3 months to 30 June 2018 £000
Cash collections	170,021
Other income	57,961
Operating expenses	(136,017)
Non-recurring costs / exceptional items, net of exceptional income	6,457
Depreciation and amortisation	7,262
Cash EBITDA	**105,684**

Net cash flow to Cash EBITDA

	3 months to 30 June 2018 £000
Decrease in cash in the period	(3,445)
Movement in debt	(70,489)
Portfolios acquired	103,880
Interest paid, net of interest received	49,407
Income taxes paid	2,361
Transaction costs related to loans and borrowings	2,942
Capital expenditure and financial investment	5,482
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**90,138**
Working capital adjustments	9,089
Non-recurring costs /exceptional items, net of exceptional income	6,457
Cash EBITDA	**105,684**