Lowell

Garfunkelux Holdco 2 S.A.

QE 31 March 2017 Results

1. Highlights

- **120 Month Estimated Remaining Collections** ("ERC") at £1,782.3m as of 31 March 2017, up 22.6% since 31 March 2016.
- **Portfolio investments acquired** for the three months ending 31 March 2017 total £36.0m.
- **Debt Purchase gross cash collections** of £119.6m in the three months ending 31 March 2017, up 31.9% compared to the three month period ended 31 March 2016.
- **Cash Income** of £147.6m in the three months ending 31 March 2017, up 37.3% compared to the three month period ended 31 March 2016.
- **Cash EBITDA**(1) for the three months ended 31 March 2017 of £78.3m, a 32.0% increase on Q1 2016.
- **Operating profit** for the three months ended 31 March 2017 of £34.5m, up 72.5% compared to the three month period ended 31 March 2016.
- **The number of owned accounts** is 26.7m as at 31 March 2017, an increase of 14.1% since 31 March 2016.
- As at 31 March 2017, the aggregate **face value of debt** purchased since inception(2) totalled £21.9bn, a 13.5% increase from 31 March 2016.
- **Loan to value ratio** (net debt/(Lowell 120m ERC + GFKL 180m ERC)) of 70.9% at 31 March 2017.
- **Net debt to proforma LTM Cash EBITDA**(3) is at 4.7x cover at 31 March 2017, down from 4.9x at 31 December 2016.
- **Net secured debt to proforma LTM Cash EBITDA**(3) is at 3.9x cover at 31 March 2017, down from 4.0x at 31 December 2016.

(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) Inception is defined as the inception of Lowell, GFKL and Tesch as trading entities.

(3) Proforma LTM Cash EBITDA as quoted is defined as both Lowell's and GFKL's Cash EBITDA for the twelve months ended 31 March 2017, further adjusted to include the Cash EBITDA contributions of the Tesch Group and IS Inkasso Group for the twelve months ending 31 March 2017.

1. Highlights (continued)

Commenting on the results, Colin Storrar CFO said:

"Lowell has again delivered strong quarterly growth across its metrics. This is a consistent performance from the now fully integrated Group which demonstrates continued good operational strategy and execution.

With our strategy focused on expansion and diversification, these results, combined with the strong foundations we have in place, enable us to view 2017 with confidence."

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About Lowell:

Lowell is one of Europe's largest credit management companies with operations in the UK, Germany and Austria, and a vision to be the best in its field in Europe. Lowell combines its principled approach, international experience, deep understanding of data analytics and operational efficiency to serve every part of the credit management value chain, with expertise in debt purchasing, third party collections, business process outsourcing, credit management and e-commerce. Previously named Lowell GFKL Group, Lowell was formed in 2015 following the merger of the UK and German market leaders: the Lowell Group and the GFKL Group. It is backed by global private equity firm Permira, and Ontario Teachers' Pension Plan, and is headquartered in both Leeds (UK) and Essen (Germany). For more information on Lowell, please visit our investor website: www.lowellgroup.com

Non-IFRS financial measures

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

We present ERC because it represents our expected gross cash proceeds of the purchased debt portfolios recorded on our balance sheet (the "Purchased Assets") 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 Assets at any point in time, which is an important supplemental measure for our board of directors and management to assess our performance, and underscores the 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. ERC is a projection, calculated by our proprietary analytical models, which utilise historical portfolio collection performance data and assumptions about future collection rates, and we cannot guarantee that we will achieve such collections. ERC, as computed by us, may not be comparable to similar metrics used by other companies in our industry.

1. Highlights (continued)

Non- IFRS financial measures

We present Cash EBITDA because we believe it may enhance an investor's understanding of our 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, our board of directors and management also use Cash EBITDA to assess our performance. 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 19.

ERC and Cash EBITDA and all the other non-IFRS measures presented 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 period ended 31 March 2017 and 31 March 2016.

(£ in millions unless otherwise noted)	**Three months ended or as at 31 March 2017**	**Three months ended or as at 31 March 2016**
Portfolio investments acquired	36.0	70.6
Number of owned accounts (in millions)	26.7	23.4
Gross cash collections (in total)	220.7	145.6
Gross cash collections (3PC 'third party collections')	101.1	54.9
Gross cash collections (DP 'debt purchase')	119.6	90.7
3PC income	28.0	16.8
Cash income	147.6	107.5
Cash EBITDA [1]	78.3	59.3
84 month ERC	1,506.9	1,236.1
120 month ERC	1,782.3	1,453.5
180 month ERC	2,072.9	1,674.8

(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. Operating & financial review (continued)

Estimated Remaining Collections (ERC)

The table below summarises the ERC over the 180 month outlook period, split by the financial year in which the portfolios were acquired. 33.0% of the 180 month ERC is likely to be recovered in the next 24 months, with 53.1% of these projected collections expected to be recovered in the next four years. 38.4% of the 120 month ERC is estimated to be recovered in the next 24 months.

180 month ERC on owned portfolios as of 31 March 2017 by year of purchase

£m	0-12 Months	13-24 Months	25-36 Months	37-48 Months	49-60 Months	61-72 Months	73-84 Months	85-120 Months	121-180 Months	Total
Year of Purchase										
2003	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	1.2
2004	1.2	1.1	1.0	0.9	0.8	0.8	0.8	2.0	2.8	11.3
2005	0.9	0.7	0.6	0.5	0.5	0.4	0.4	1.0	1.1	6.2
2006	3.1	2.7	2.4	2.1	1.9	1.8	1.7	4.3	5.5	25.5
2007	11.9	10.4	9.2	8.1	7.2	6.4	5.8	14.3	16.5	89.7
2008	4.0	3.1	2.5	2.0	1.6	1.4	1.3	3.0	3.2	22.0
2009	17.9	15.1	12.8	10.9	9.5	8.3	7.4	17.5	18.5	117.9
2010	8.7	7.0	5.6	4.5	3.7	3.3	2.9	6.7	7.0	49.3
2011	13.0	10.0	7.9	6.2	5.1	4.4	3.8	8.9	8.9	68.3
2012	24.7	19.1	15.1	12.0	10.0	8.7	7.7	18.1	19.1	134.6
2013	35.0	26.8	21.1	16.7	13.8	11.9	10.3	23.6	23.5	182.8
2014	54.4	41.7	32.7	25.8	21.3	18.4	16.0	37.0	37.5	284.9
2015	83.5	62.5	49.1	39.0	32.7	28.6	25.3	59.6	63.6	443.9
2016	113.4	81.3	63.0	50.4	41.6	35.7	31.0	72.4	76.4	565.1
2017	17.2	13.1	8.6	6.3	4.7	3.7	3.1	6.8	6.8	70.3
Total	**389.0**	**294.7**	**231.6**	**185.6**	**154.7**	**134.0**	**117.4**	**275.4**	**290.6**	**2,072.9**
Cumulative %										
180 month	18.8%	33.0%	44.2%	53.1%	60.6%	67.0%	72.7%	86.0%	100.0%	
120 month	21.8%	38.4%	51.4%	61.8%	70.4%	78.0%	84.5%	100.0%		

180 month ERC on owned portfolios as of 31 March 2017 by year of purchase

£m	0 - 84 Months	0 - 120 Months	0-180 Months
Year of purchase			
2003	0.7	0.9	1.2
2004	6.5	8.5	11.3
2005	4.1	5.1	6.2
2006	15.7	20.0	25.5
2007	59.0	73.2	89.7
2008	15.8	18.8	22.0
2009	81.9	99.4	117.9
2010	35.6	42.3	49.3
2011	50.5	59.4	68.3
2012	97.3	115.5	134.6
2013	135.7	159.3	182.8
2014	210.4	247.4	284.9
2015	320.7	380.3	443.9
2016	416.3	488.7	565.1
2017	56.7	63.5	70.3
Total	**1,506.9**	**1,782.3**	**2,072.9**
Percentage of 180 month ERC	72.7%	86.0%	100%

2. Operating & financial review (continued)

Collections
Strong quarterly collections on DP Portfolios of £119.6m were achieved by the business in the three months ending 31 March 2017, an increase of 31.8% on the corresponding three months to 31 March 2016.

Revenue
Total revenue of £128.4m was generated in the three months ending 31 March 2017, an increase of £36.6m on Q1 2016, with increases in both yield and portfolio write up as well as service revenue.

Operating Expenses
Operating expenses including exceptional costs of £2.7m were £94.2m for the period, of which £46.1m were deemed collection activity costs.

Finance Costs
Excluding foreign exchange effects, finance costs totalled £36.6m for the three months ended 31 March 2017, see note 2.

Cash flow
Net cash used in operating activities totalled £15.5m in the three months ended 31 March 2017.

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 cash-on-cash multiple as at 31 March 2017 is shown below.

	Lowell As of 31 March 2017		GFKL As of 31 March 2017	
	Invested (£ millions)	Gross cash-on-cash multiple (1)	Invested (€ millions)	Gross cash-on-cash multiple (1)
Total 120 month	1,243.4	2.4	463.5	3.0
Total 180 month	1,243.4	2.6	463.5	3.1

(1) Gross Cash-On-Cash 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 31 March 2017

	Note	3 months to 31 March 2017 £000	3 months to 31 March 2016 £000
Continuing operations			
Revenue			
Income from portfolio investments	3	57,241	45,851
Portfolio write up	3	27,574	10,708
Portfolio fair value release	3	(641)	(857)
Service revenue		43,487	35,469
Other revenue		754	661
Total revenue		**128,415**	**91,832**
Other income		283	1,368
Operating expenses			
Collection activity costs		(46,110)	(41,456)
Other expenses		(48,059)	(31,759)
Total operating expenses		**(94,169)**	**(73,215)**
Operating profit		**34,529**	**19,985**
Interest income		141	1,593
Finance costs	2	(36,732)	(51,263)
Loss before tax		**(2,062)**	**(29,685)**
Tax expense		986	(1,672)
Loss for the period		**(1,076)**	**(31,357)**
Profit/(loss) attributable to:			
Equity holders of the parent		(1,076)	(31,331)
Non-controlling interests		-	(26)
		(1,076)	**(31,357)**
Other comprehensive income/(expenditure)			
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		359	12,147
Other comprehensive income/(expenditure), net of tax		**359**	**(12,147)**
Total comprehensive expenditure for the period		**(717)**	**(19,210)**
Total comprehensive expenditure attributable to:			
Equity holders of the parent		(717)	(19,184)
Non-controlling interests		-	(26)
		(717)	**(19,210)**

The notes on pages 12 to 18 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of financial position
As at 31 March 2017

	Note	31 March 2017 £000	31 March 2016 £000
Assets			
Non-current assets			
Goodwill		1,005,420	883,952
Intangible assets		120,131	79,125
Property, plant and equipment		9,817	6,759
Portfolio investments	3	490,568	373,803
Other financial assets		2,542	3,204
Total non-current assets		**1,628,478**	**1,346,843**
Current assets			
Portfolio investments	3	344,504	285,219
Inventories		37	32
Trade and other receivables	4	38,599	39,186
Other financial assets		8,449	11,282
Assets for current tax		1,423	4,378
Cash and cash equivalents		73,448	79,053
Total current assets		**466,460**	**419,150**
Total assets		**2,094,938**	**1,765,993**
Equity			
Share capital		3,730	3,730
Share premium and similar premiums		400,396	357,233
Reserves		(20,103)	(2,062)
Retained deficit		(100,747)	(99,906)
Total equity attributable to equity holders of the parent		**283,276**	**258,995**
Non-controlling interests		-	500
Total equity		**283,276**	**259,495**
Liabilities			
Non-current liabilities			
Borrowings	6	1,538,499	1,261,461
Provisions		6,926	4,427
Derivatives		88	450
Other financial liabilities		61	61,192
Deferred tax liabilities		45,023	28,856
Total non-current liabilities		**1,590,597**	**1,356,386**
Current liabilities			
Trade and other payables	5	62,760	56,888
Provisions		14,431	10,493
Borrowings	6	120,052	60,074
Derivatives		229	314
Other financial liabilities		6,555	6,388
Current tax liabilities		17,038	15,955
Total current liabilities		**221,065**	**150,112**
Total equity and liabilities		**2,094,938**	**1,765,993**

The notes on pages 12 to 18 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of changes in equity
As at 31 March 2017

	Share capital	Share premium and similar premiums	Capital reserve	Translation reserve	Valuation reserve	Retained earnings	Total	Non-controlling Interest	Total equity
Balance at 1 January 2016	**3,730**	**357,233**	**(8,443)**	**(6,048)**	**282**	**(68,575)**	**278,179**	**526**	**278,705**
Loss for the period	-	-	-	-	-	(31,331)	**(31,331)**	(26)	**(31,357)**
Exchange Differences	-	-	-	12,147	-	-	**12,147**	-	**12,147**
Total comprehensive income/(expenditure)	**-**	**-**	**-**	**12,147**	**-**	**(31,331)**	**(19,184)**	**(26)**	**(19,210)**
Balance at 31 March 2016 (unaudited)	**3,730**	**357,233**	**(8,443)**	**6,099**	**282**	**(99,906)**	**258,995**	**500**	**259,495**
Profit/(Loss) for the period	-	-	-	-	-	235	**235**	(93)	142
Actuarial losses on pension	-	-	-	-	(1,048)	-	**(1,048)**	-	(1,048)
Deferred tax on pensions	-	-	-	-	338	-	**338**	-	338
Exchange differences	-	-	-	(18,066)	-	-	**(18,066)**	-	(18,066)
Total comprehensive income/(expenditure)	**-**	**-**	**-**	**(18,066)**	**(710)**	**235**	**(18,541)**	**(93)**	**(18,634)**
Capital Contribution	-	43,163	-	-	-	-	**43,163**	-	43,163
Purchase of non-controlling interest	-	-	526	(119)	-	-	**407**	(407)	-
Adjustments in relation to purchase of shares in subsidiary	-	-	20	-	-	-	**20**	-	20
Other	-	-	(51)	-	-	-	**(51)**	-	(51)
Balance at 31 December 2016	**3,730**	**400,396**	**(7,948)**	**(12,086)**	**(428)**	**(99,671)**	**283,993**	**-**	**283,993**
Loss for the period	-	-	-	-	-	(1,076)	(1,076)	-	(1,076)
Exchange differences	-	-	-	359	-	-	359	-	359
Total comprehensive income/(expenditure)	**-**	**-**	**-**	**359**	**-**	**(1,076)**	**(717)**	**-**	**(717)**
Balance at 31 March 2017 (unaudited)	**3,730**	**400,396**	**(7,948)**	**(11,727)**	**(428)**	**(100,747)**	**283,276**	**-**	**283,276**

The notes on pages 12 to 18 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of cash flows
3 months ended 31 March 2017

	3 months to 31 March 2017 £000	3 months to 31 March 2016 £000
Loss for the period before tax	**(2,062)**	**(29,685)**
Adjustments for:		
Depreciation and amortisation	4,827	2,690
Gain on disposal of a subsidiary	-	(299)
Interest income	(141)	(1,593)
Loss on sale of property, plant and equipment and intangible assets	2	44
Finance costs	36,732	51,263
Unrealised gains from foreign exchange	39	(6,673)
Increase in portfolio investments	(3,728)	(35,003)
Increase in trade and other receivables	(10,190)	(16,514)
(Decrease)/increase in trade and other payables	(38,951)	4,205
Movement in other net assets	(214)	111
Cash used in operating activities	**(13,686)**	**(31,454)**
Income taxes paid	(1,824)	(157)
Net cash used in operating activities	**(15,510)**	**(31,611)**
Investing activities		
Interest received	38	272
Proceeds from sale of subsidiary	-	478
Purchase of property, plant and equipment	(307)	(789)
Purchase of intangible assets	(393)	(596)
Proceeds from sale of property, plant and equipment	-	13
Net cash used in investing activities	**(662)**	**(622)**
Financing activities		
Proceeds from loans and borrowings	7,500	13,164
Interest paid	(15,841)	(11,900)
Net cash used in financing activities	**(8,341)**	**1,264**
Net decrease in cash and cash equivalents	**(24,513)**	**(30,969)**
Cash and cash equivalents at beginning of period	98,053	106,938
Effect of movements in exchange rates on cash held	(92)	3,084
Cash and cash equivalents at end of period	**73,448**	**79,053**

The notes on pages 12 to 18 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2017

1. Accounting policies

General information and basis of preparation

These interim financial statements are prepared under the historical cost convention and in accordance with applicable International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). Those standards have been applied consistently to the historical periods.

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 31 March 2017.

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.

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.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2017

1. Accounting policies (continued)

Foreign currency (continued)
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 or non-controlling interest, as the case may be.

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.

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 IAS 39, 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 portfolio write up line within revenue, with subsequent reversals also recorded in this line. If these reversals exceed cumulative revenue recognised to date, an impairment is recognised in the SCI.

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.

1. Accounting policies (continued)

Revenue recognition and effective interest rate method (continued)

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. The revenue is recognised when the service is provided (accruals basis).

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 IAS 39. 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 revenue. If the forecast portfolio collections are lower than previous forecasts the revenue from previous upward revaluations are reversed and this reversal is recognised in revenue, up to the point that the reversals equal the previously recognised cumulative revenue. If these reversals exceed the previously recognised cumulative revenue then an impairment is recognised in the SCI.

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.

The main assets and liabilities in the Group falling into this category are derivative financial instruments that do not fall under the scope of hedge accounting in accordance with IAS 39.

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.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2017

1. Accounting policies (continued)

Financial instruments (continued)

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.

Derivative financial instruments

The Group does not hold derivative instruments for trading purposes.

Derivative financial instruments have been used for hedging. As of the statement of financial position date, they relate both to hedges taken out to hedge the risk of a change in the fair value of a recognised asset or a recognised liability and to hedge the risk of variability in cash flows.

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 SCI immediately. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Collection activity costs

Collection activity costs represent the direct third party costs incurred 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. They are recognised as the costs are incurred (accruals basis).

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3 months ended 31 March 2017

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. Finance costs

	3 months to 31 March 2017 £000	3 months to 31 March 2016 £000
Interest payable on the senior secured notes	20,586	17,344
Interest payable on the senior unsecured notes	6,325	6,327
Fees payable on the notes	1,717	1,104
Interest and fees payable on Revolving Credit Facility	1,245	654
Interest payable on shareholder loan	6,442	4,876
Other interest payable	326	479
Notional interest on financial liabilities relating to non-controlling interest	-	1,554
Foreign exchange losses	91	18,925
	36,732	**51,263**

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3 months ended 31 March 2017

3. Portfolio investments

	31 March 2017 £000	31 March 2016 £000
Opening balance	831,705	616,461
Portfolios acquired during the period	35,996	70,606
Collections in the period	(119,594)	(90,739)
Income from portfolio investments	57,241	45,851
Portfolio fair value release	(641)	(857)
Portfolio write-up	27,574	10,708
Impairment of non-performing loans	(914)	(1,137)
Other	3,705	8,129
	835,072	**659,022**

4. Trade and other receivables

	31 March 2017 £000	31 March 2016 £000
Trade receivables	8,889	7,441
Prepayments and accrued income	7,404	6,388
Other receivables	22,306	25,357
	38,599	**39,186**

5. Trade and other payables

	31 March 2017 £000	31 March 2016 £000
Trade payables	8,023	6,603
Other taxes and social security	1,745	3,082
Accruals and deferred income	13,584	13,159
Other payables	39,408	34,044
	62,760	**56,888**

Other payables includes amounts due of £10.6m in respect of portfolios purchased but not yet paid for at 31 March 2017 (31 March 2016 £12.7m).

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Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2017

6. Borrowings

	31 March 2017 £000	31 March 2016 £000
Non-current		
Unsecured borrowing at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on Senior Notes	(7,986)	(9,059)
Shareholder loan owed to Garfunkelux Holdco 1 S.A.R.L.	280,486	218,189
Total unsecured	**502,500**	**439,130**
Secured borrowing at amortised cost		
Senior Secured Notes	1,073,725	853,715
Prepaid costs on Senior Secured Notes	(37,726)	(31,384)
Total secured	**1,035,999**	**822,331**
Total borrowings due for settlement after 12 months	**1,538,499**	**1,261,461**
Current		
Unsecured borrowing at amortised cost		
Interest on Senior Note	10,543	11,388
Other interest payable	392	302
Total unsecured	**10,935**	**11,690**
Secured borrowing at amortised cost		
Interest on Senior Secured Notes	26,617	25,220
Revolving credit facility	82,500	23,164
Total secured	**109,117**	**48,384**
Total borrowings due for settlement before 12 months	**120,052**	**60,074**

7. Subsequent Events

On 21 April 2017, Garfunkelux Holdco 3 S.A., a direct subsidiary of Garfunkelux Holdco 2 S.A., issued €175m Senior Secured Notes due 2021 under an indenture dated 28 September 2016, at a price of 101.25%.

Reconciliations

Profit to Cash EBITDA	3 months to 31 March 2017 £000
Loss for the period	(1,076)
Net finance costs	36,591
Taxation charge	(986)
Operating profit	**34,529**
Portfolio amortisation	62,353
Portfolio write-up	(27,574)
Portfolio fair value adjustment	641
Impairment of non-performing loans	914
Non-recurring costs / exceptional items	2,655
Depreciation and amortisation	4,827
Cash EBITDA	**78,345**

Cash collections to Cash EBITDA	3 months to 31 March 2017 £000
Cash collections	119,594
Other income	44,524
Operating expenses	(94,169)
Non-recurring costs / exceptional items	2,655
Impairment of non-performing loans	914
Depreciation and amortisation	4,827
Cash EBITDA	**78,345**

Net cash flow to Cash EBITDA	3 months to 31 March 2017 £000
Increase in cash in the period	(24,513)
Movement in debt	(7,500)
Purchases of loan portfolios	35,996
Interest paid, net of interest received	15,803
Income taxes paid	1,824
Capital expenditure and financial investment	700
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**22,310**
Working capital adjustments	53,380
Non-recurring costs /exceptional items	2,655
Cash EBITDA	**78,345**