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GROUP

**Lowell Group**

# Q3 2013 Results

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## Highlights

- **Estimated Remaining Collections** (“ERC”) at £473.2 million as of May 31, 2013, up 24% since May 31, 2012. As at June 30, 2013 ERC is £512.7million representing a 33% increase on the same period in 2012.
- **Unlevered Net IRR** remains strong at 22.4% for the quarter/35.5% after collection activity costs<sup>1</sup>.
- **Cash asset return** (LTM Adjusted EBITDA / Average ERC) also strong at 25.6%, up from 24.9% as at Q3 2012, highlighting strength of underlying return on capital and speed of conversion of ERC into cash flow<sup>2</sup>
- **Collections** of £39.9m million in the quarter, up 11% compared to the three months ended May 31, 2012. Collections on portfolios owned at August 31, 2012 for the nine months to May 31, 2013 performing at 102% of ERC projections as of August 31, 2012
- **Adjusted EBITDA** for the quarter up 14% to £28.4 million with a servicing cost ratio of 29.1%, a 1.6 percentage points decrease compared to the quarter ended May 31, 2012
- **Portfolio purchases** in the three months to May 31, 2013 of **£19.3 million, 31% lower than Q3 2012**. Portfolio purchases in June 2013 were a record £30.3 million (June 2012: £5.0 million). The portfolio purchases for the 10 months to June 30, 2013 are £105.8 million, an increase of 58% on the same period in 2012.
- **Customer account numbers** increased to 11.1 million from 9.1 million in Q3 2012. Aggregate **face value of debt** of £10.0 billion, a 21% increase compared to Q3 2012
- **Loan to value ratio** (net debt/ERC) reduced from 57% at bond issuance to 51% as of May 31, 2013. **Net debt to Adjusted EBITDA** reduced from 2.3x at bond issuance to 2.2x as of May 31, 2013 and **fixed charge cover ratio** decreased from 3.9x to 3.5x over the same period (excluding the effect of the additional bond issue on February 11, 2013 the cover ratio would have increase to 4.6).
- 98% **cash flow conversion** of adjusted EBITDA for the quarter into cash flow before debt and tax servicing
- **Recent development to Jun 30, 2013** showing a continuation of strong performance:
  - June 2013 Collections £12.4m, Adjusted EBITDA £7.7m and Portfolio Purchases £30.3m.
  - Budgeted portfolio purchases for the 2013 financial year expected to be achieved through commitments under forward flow agreements and the strong pipeline of spot deals

<sup>1</sup> Unlevered Net IRR after direct cost of collections on our purchased loan portfolios only. Metric is sometimes presented by industry peers and shown for comparability purposes

<sup>2</sup> Represents LTM EBITDA divided by the average of ERC at the beginning and end of the last 12-month period. Shown to illustrate the speed of cash conversion and underlying return/profitability of our purchased portfolio assets (ERC)

## 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.

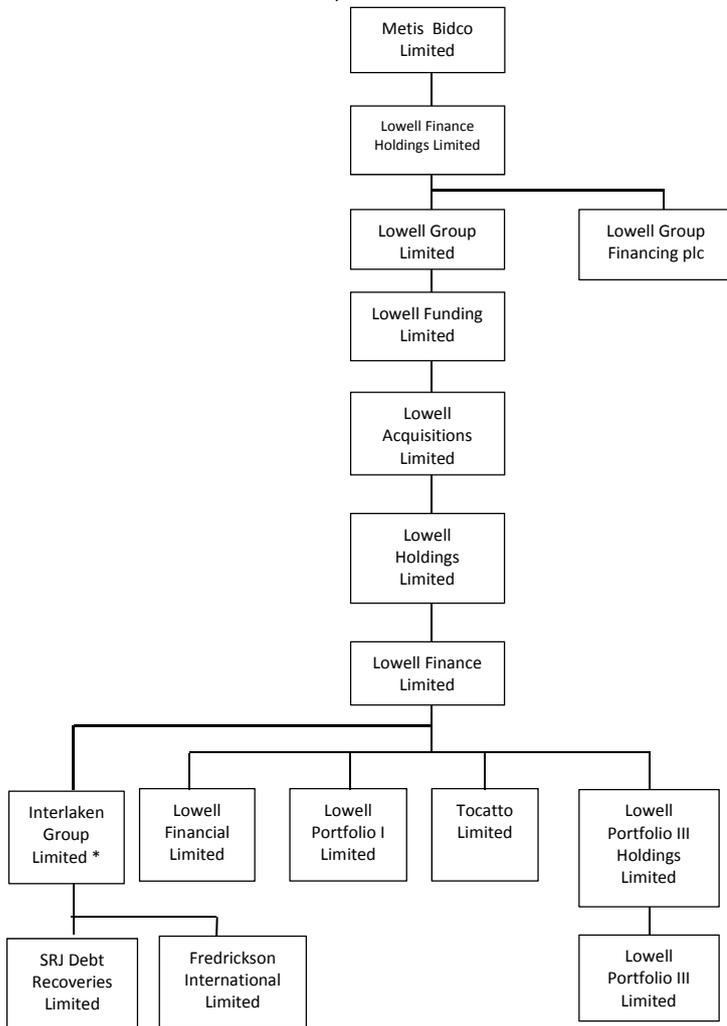
Headquartered in Leeds with more than 635 full-time equivalent (“FTE”) employees; we benefit from significant scale and experience in debt markets. Since inception in May 2004 to May 31, 2013, we have purchased debt portfolios (“Purchased Assets”) with an aggregate face value of approximately £10.0 billion, having invested £548 million at an average price paid of 5.5 pence per pound sterling of the debt’s face value. On the total capital invested as of May 31, 2013, we had 11.1 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.

Because of the diversification of the debt portfolios on our balance sheet across millions of accounts and our focus on establishing sustainable, long-term payment plans, we believe our purchased assets provide significant, predictable and cash generative asset backing. As of May 31, 2013 and based on our proprietary analytical models, which utilise historical portfolio collection performance data and assumptions about future cash collection rates, the gross cash proceeds which we expect to collect over the subsequent 84 months from our purchased Assets (our “Estimated Remaining Collections” or “ERC”) amount to £473.2 million. ERC is only a projection and is based on historical and current data, trends and assumptions, and we cannot guarantee that we will achieve such collections.

## Presentation of financial and other information

The historical and other financial data presented in this quarterly report is derived from consolidated financial statements for Lowell Finance Holdings Limited (in respect of 2013 information) and Metis Bidco Limited (in respect of 2012 information). The diagram below summarizes the corporate structure:



\* On the 16<sup>th</sup> May 2013 Lowell Finance Limited acquired 100% ownership of Interlaken Group Limited. Interlaken Group Limited consists of 3 entities:

- Interlaken Group Limited
- Fredrickson International Limited
- SRJ Debt Recoveries Limited

The consolidated financial statements for the three months ended May 31, 2012 and May 31, 2013 are presented in accordance with UK GAAP, are unaudited and are derived from internal management reporting. The results of operations for prior years or interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

In addition, certain non-UK GAAP financial measures are included in this report, including Estimated Remaining Collections (“ERC”), Adjusted EBITDA, Unlevered Net IRR, Cash asset return, 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 vintage (i.e. the year of purchase) or since inception, or for a sector (i.e. financial services). Unlevered Net IRR after collection activity costs is based on the same methodology but instead of using total servicing costs the metric is calculated after direct costs of collections only. Direct costs of collections are defined as the costs directly attributable to collection activity and includes staff, letters and agency costs. Unlevered Net IRR or Unlevered Net IRR after collection activity costs, 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, Cash asset return, 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.

In addition, this quarterly report includes certain unaudited consolidated profit and loss information as well as certain other financial and operating information, for the twelve months ended May 31, 2013. This information was derived by adding the relevant item for the year ended August 31, 2012 to the relevant item for the nine months ended May 31, 2013 and subtracting the relevant item for the nine months ended May 31, 2012. This twelve month data has been prepared solely for the purpose of this quarterly report, is not prepared in the ordinary course of the company's financial reporting and has not been audited or reviewed by our auditors, KPMG.

Financial information prepared in accordance with IFRS or US GAAP is not included in this quarterly report. UK GAAP differs in certain significant respects from IFRS and US GAAP. In making an investment decision, you should rely upon your own examination of the terms of the offering and the financial information contained in this quarterly report. You should consult your own professional advisors for an understanding of the differences between UK GAAP, IFRS and US GAAP, and how those differences could affect the financial information contained in this quarterly report.

## Key performance indicators

The following table summarises key financial data and key performance indicators as of the dates and for the periods indicated.

| (£ in millions, except for percentages and ratios or unless otherwise noted)                  | Three months ended or as of May 31 |        | 12 months ended or as of May 31 |
|---|------------------------------------|--------|---------------------------------|
|   | 2012                               | 2013   | 2013                            |
| <b>Other financial, operating and pro forma data:</b>   |                                    |        |                                 |
| <b>Cash generative asset backing:</b>   |                                    |        |                                 |
| ERC <sup>(1)</sup> .....  | 383.1                              | 473.2  | 473.2                           |
| Reported portfolio purchases <sup>(2)</sup> .....   | 27.8                               | 19.3   | 106.7                           |
| Number of accounts (in millions) <sup>(3)</sup> .....   | 9.1                                | 11.1   | 11.1                            |
| Number of owned debt portfolios (#) <sup>(4)</sup> .....                                      | 548                                | 674    | 674                             |
| Net Debt <sup>(5)</sup> .....   | 186.5                              | 240.7  | 240.7                           |
| <b>Cash generation:</b>   |                                    |        |                                 |
| Collections/income on owned portfolios <sup>(6)</sup> .....                                   | 35.7                               | 39.9   | 156.6                           |
| Other income .....  | 0.1                                | 0.1    | 0.4                             |
| Servicing costs <sup>(7)</sup> .....  | (11.0)                             | (11.6) | (47.4)                          |
| Adjusted EBITDA <sup>(8)</sup> .....  | 24.8                               | 28.4   | 109.6                           |
| Cash flow before debt and tax servicing <sup>(9)</sup> .....                                  | 28.2                               | 27.7   | 104.8                           |
| <b>Return on capital:</b>   |                                    |        |                                 |
| Unlevered Net IRR (after total costs) of owned portfolios <sup>(10)</sup> .....               | 24.1%                              | 22.4%  | 22.4%                           |
| Unlevered Net IRR (after collection activity costs) of owned portfolios <sup>(11)</sup> ..... | n/a                                | 35.5%  | 35.5%                           |

For definitions please see section "Key Reconciliations and Definitions"

The summary historical consolidated financial data for the three months ended May 31, 2012 and May 31, 2013 have been derived from unaudited condensed consolidated interim financial statements and management information, which have been prepared on a basis consistent with annual audited consolidated financial statements. In the opinion of management, such unaudited financial data reflect all adjustments necessary for a fair presentation of the results for those periods. The financial statements have been prepared in accordance with UK GAAP. These financial statements are based on a combination of Metis Bidco Limited and Lowell Finance Holdings Limited.

The profit and loss account information, as well as the other financial and operating information, presented

for the twelve months ended May 31, 2013 is derived by adding the relevant item for the year ended August 31, 2012 and for the nine months ended May 31, 2013, and subtracting the relevant item for the nine months ended May 31, 2012.

The results of operations and other financial and operating information for prior years or the interim periods are not necessarily indicative of the results to be expected for the full year or any future period. This financial information should be read in conjunction with the Annual Report 2012, historic consolidated financial statements of Metis Bidco Limited and Lowell Finance Holdings Limited.

## Operating and financial review

The section below provides a more detailed overview of management's observations of activity in the marketplace, along with an overview of performance in relation to a number of the key metrics that management use when assessing the performance of the business.

### Portfolio Purchases

Portfolio purchases for the three months ended May 31, 2013 were £19.3 million, a decrease by £8.5 million on the corresponding period in 2012, however purchases in June 2013 were a record £30.3 million (June 2012: £5.0 million). Portfolio purchases for the 10 months to June 30, 2013 were £105.8 million (10 months to June 30, 2012: £67.2 million), an increase of 58% on the same period in 2012.

Over the three-month period to May 31, 2013, 50% of portfolio purchases value came from the forward flow purchase contracts the company has in place, with the remainder being spot purchases. The financial services credit sector contributed 35% to the quarter's purchases, 29% from communications and 36% from home retail.

Overall, the company has continued focusing on purchases of low balance portfolios across its three core sectors (financial services, communications and home retail credit).

The company continues to see good prospects in the market for further growth of portfolio purchases on the back of a strong pipeline.

As of June 30, 2013, the company's budgeted portfolio purchases for the financial year 2013 had almost fully been achieved. The volumes of portfolio purchase opportunities available over July and August 2013 that the company is aware of should allow the company to exceed the budgeted purchases plan for the financial year. The company's strong strategic relationships with customers further supports the visibility on portfolio purchases.

### Market

As highlighted by the strength of Lowell's portfolio purchases to date the overall market continues to be very active. The company is focusing on market segments it knows well and fit its operational strengths, as well on segments where there is a commercially attractive opportunity to further diversify our asset base.

All of the company's main sectors, namely financial services, communications and home retail credit, continue to show strong activity.

Furthermore, vendors in sectors new to the debt purchasing market, such as utilities, insurance and certain government agencies, have already sold or have shown strong signals indicating their intentions to start to sell debt portfolios. Lowell is active in all three sectors, either in emerging debt sales or in trials.

### Collections

Strong quarterly collections of £39.9 million (excluding Interlaken) were achieved by the business in the three months ending May 31, 2013, an increase of 11% on the corresponding three months to May 31, 2012. Collection performance remains strong across the portfolio:

- Underlying performance on portfolios owned at the financial year end of August 31, 2012 for the nine months to May 31, 2013 remained strong, at £100.3 million being 102% of the ERC projections at August 31, 2012 for these portfolios.
- Collections on portfolios purchased in the last 9 months were £19.3 million, being 97% of the pricing assumptions for these portfolios.

## Servicing costs

Servicing costs were £11.6 million for the three months ended May 31, 2013, a service cost ratio of 29.1%. Although costs were £0.6 million higher than the three months ended May 31, 2012, the service cost ratio has fallen by 1.6 percentage points, highlighting strong operational efficiency and economies of scale. Costs continue to be in line with management expectations and reflect the mix, phasing and volume of portfolio purchases during the period and the back book of the business.

The majority of costs to service a portfolio are incurred at the beginning of the ownership of the portfolio, mainly driven by the cost of printing and postage associated with sending letters to customers and time spent attempting to make contact with customers. The front-loaded nature of the servicing costs combined with the volume of portfolios purchased in a period therefore has an impact on the servicing cost ratio of the business in any particular period.

The proportion of customer payments from preferred payment methods, such as direct debits was 91% for both the three months ended May 31, 2013, and the three months ended May 31, 2012. Not only does this reduce the level of defaults seen on payments, but it also is a more cost efficient way of managing the customer base.

For the three months ended May 31, 2013 the default rate among its customers, which drives collections and operating efficiency, was 20.3%, compared to 19.9% for the same period last year.

The business continues to pursue a number of operating initiatives within its collections operations in order to continue to drive efficiency.

## Asset Base

As of May 31, 2013 the ERC that underpins the balance sheet value of all loan portfolios owned by the company was £473.2 million. Over the 12 months from May 31, 2012 the ERC has grown by 23.5% from £383.1 million, as a result of the combination of strong portfolio purchases and the underlying collections performance. The table below summarises the ERC over the 84 month outlook period, split by the financial year portfolios were purchased.

49% of these collections are likely to be recovered in the next 24 months, with almost 77% of these projected collections expected to be recovered over the next four years.

Collections in the three months to May 31, 2013 on portfolios owned as of August 31, 2012 were 103% of the ERC projections as of August 31, 2012.

## ERC on owned portfolios as of May 31, 2013 by year of purchase

|                                   | 0 – 12<br>Months | 13 – 24<br>Months | 25 – 36<br>Months | 37 – 48<br>Months | 49 – 60<br>Months | 61 – 72<br>Months | 73 – 84<br>Months | Total        |
|-----------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------|
| <b>Financial Year of purchase</b> |                  |                   |                   |                   |                   |                   |                   |              |
| 2005.....                         | 1.1              | 0.9               | 0.8               | 0.6               | 0.5               | 0.4               | 0.4               | 4.7          |
| 2006.....                         | 1.8              | 1.5               | 1.2               | 1.0               | 0.8               | 0.7               | 0.6               | 7.5          |
| 2007.....                         | 4.1              | 3.3               | 2.7               | 2.2               | 1.8               | 1.4               | 1.2               | 16.7         |
| 2008.....                         | 6.7              | 5.5               | 4.5               | 3.7               | 3.0               | 2.5               | 2.0               | 27.8         |
| 2009.....                         | 12.6             | 10.3              | 8.3               | 6.7               | 5.4               | 4.4               | 3.6               | 51.3         |
| 2010.....                         | 13.7             | 10.9              | 8.6               | 6.8               | 5.4               | 4.2               | 3.4               | 53.1         |
| 2011.....                         | 20.9             | 16.0              | 12.4              | 9.6               | 7.4               | 5.8               | 4.5               | 76.6         |
| 2012.....                         | 37.3             | 27.8              | 21.4              | 16.6              | 13.0              | 10.2              | 8.0               | 134.4        |
| 2013 <sup>(a)</sup> .....         | 33.9             | 21.5              | 15.1              | 11.1              | 8.5               | 6.6               | 4.3               | 101.1        |
| <b>Total</b> .....                | <b>132.1</b>     | <b>97.7</b>       | <b>74.9</b>       | <b>58.3</b>       | <b>45.9</b>       | <b>36.3</b>       | <b>27.9</b>       | <b>473.2</b> |
| Cumulative Percentage.....        | 27.9%            | 48.6%             | 64.4%             | 76.7%             | 86.4%             | 94.1%             | 100.0%            |              |

Source: Management data

(a) Reflects purchases from September 1, 2012 to May 31, 2013

## Operating cash generation

Cash flow before debt and tax servicing for the three months and twelve months ending May 31, 2013 was £27.7 million and £104.8 million, respectively, being a conversion rate of 98% and 96% of Adjusted EBITDA, respectively. This highlights the business' continued strong cash-flow conversion.

## Compliance

Compliance continues to play a key part of our operational activity. During the quarter, the industry responded to a consultation paper on the transfer of consumer credit activity to the Financial Conduct Authority (FCA). Lowell contributed to this via our Legal & Compliance Director, Sara de Tute who continues in dialogue with the FCA regarding the regulation of the debt collection and purchase industry. Our application to renew the Consumer Credit Licence for Lowell Finance Limited was successful.

## Returns on portfolios purchased

While returns achieved on an individual portfolio can vary, the company has a track record of generating strong and consistent unlevered returns on its aggregate purchased portfolios. Lowell typically target an Unlevered Net IRR of 18% over 84 months for each portfolio purchased, and on average have historically surpassed this return target. Based on historical collections and expected collections, as of and for May 31, 2013, it is estimated that ERC was £473.2 million and that the company achieved a 22.4% Unlevered Net IRR, as shown below:

| Segment            | As of May 31, 2013    |                                  |  |  |
|--------------------|-----------------------|----------------------------------|--|--|
|                    | Invested (£ millions) | Unlevered Net IRR <sup>(i)</sup> | Gross cash-on-cash multiple <sup>(i)</sup> | Net cash-on-cash multiple <sup>(i)</sup> |
| <b>Total .....</b> | <b>548.4</b>          | <b>22.4%</b>                     | <b>1.95x</b>                               | <b>1.42x</b>                             |

(i) Unlevered Net IRRs and Gross and Net Cash-On-Cash Multiples presented in this quarterly report only include actual and forecast collections up to 84 months from the date the portfolio was purchased, although collections can extend past that period. ERC shows estimated collections for the 84 months following May 31, 2013. As a result, Gross Cash-On-Cash Multiple is lower than the ratio of total estimated collections over purchase price

For definition of Unlevered Net IRR please see section "Key Reconciliations and Definitions" on Page 28.

Unlevered Net IRR calculated after applying only collection activity costs (i.e. direct cost of collection) was 35.5% for the quarter ending May 31, 2013 with a Net Cash on Cash multiple of 1.72x. This metric is sometimes presented by industry peers and is shown for comparability purposes.

## Recent developments

As of June 30, 2013 management believe the business is continuing to perform very strongly and in line with historical trends.

Collections on owned portfolios (excluding Interlaken) in June 2013 were another strong month for the business at £12.4 million, being 4.1% higher than June 2012. During the month of June 2013, Lowell completed portfolio purchases of £30.3 million (June 2012: £5.0 million). Total portfolio purchases year to date (10 months to June 2013) are therefore at £105.8 million (2012: £67.2 million).

ERC as of June 30, 2013 was £512.7 million. The increase in ERC is the result of the significant purchases during the month.

The business continues to invest in systems development to enhance operational efficiency, including the roll out of speech analytics software to allow on-going monitoring of calls using technology.

Further developments to the collections system continue in order to reduce postage costs and increase the use of email.

The business has seen a significant volume of debt sale activity in the market, with opportunities presented to the company since May 31, 2013 totaling over £2.5 billion of face value of debt from 17 different vendors. The company continues to focus on the segments of the market where it believes it has the greatest competitive operational advantage, and to look for transactions exclusive or with limited competition and where it can develop strategic relationships with clients. Purchases in June reflect the businesses strategic intent to grow market share in the high balance financial services sector.

## Significant factors affecting quarterly results of operations

Certain items in the consolidated profit and loss account, such as turnover, gross profits, operating profits and profit/loss on ordinary activities can be impacted, positively or negatively, by short term, non-cash movements in the fair value of portfolios that reach their six-month purchase anniversary during the period. Movements in these items may not be reflective of their long-term trends. This is due to the fact that, under the company's accounting policies, a portfolio will not be re-valued above its purchase price during the six-month period after purchase, even if it outperforms its original collection expectations. Portfolios can be re-valued downwards during this period based on performance beginning in the third month after purchase. After six months, all portfolios are re-valued using the company's portfolio valuation models. Positive revaluation of portfolios which outperform collection forecasts in the first six months

after purchase can impact the items in the consolidated profit and loss account to a different degree in each quarter. This can affect comparability between short measurement periods disproportionately because fair value movements on the Purchased Assets are deducted from a smaller collection base in shorter periods. Management monitors Adjusted EBITDA as a measure of profitability because it is not impacted by such short-term non-cash movements.

The uneven phasing of portfolio purchases can drive movements in the Purchased Assets shown on the balance sheet, as well as ERC, which are not reflective of their long-term trends. This can affect the comparability of balance sheet items over short periods.

## Unaudited consolidated interim financial statements

The unaudited consolidated interim financial statements below show the financial performance for the three month period to May 31, 2013.

Comparatives for these financial results included in the interim statements are as follows:

*Consolidated profit & loss Account*

- Three months to May 31, 2013 compared to three months to May 31, 2012

*Consolidated balance sheet*

- May 31, 2013 compared to February 28, 2013 and May 31, 2012

*Consolidated cash flow statement*

- Three months to May 31, 2013 compared to three months to May 31, 2012

**Lowell Finance Holdings Limited \*\***  
**Consolidated profit and loss account**  
**3 months ended 31<sup>st</sup> May 2013**  
**(Comparative: Metis Bidco Ltd 3 months ended 31<sup>st</sup> May 2012)**

|   | Note | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|---|------|---|---|
| Collections on owned portfolios .....   |      | 39,843  | 35,760  |
| Amount of purchase cost recovered .....   |      | (19,134)  | (12,427)  |
| Fair value movement in loan portfolios .....                                    |      | 6,763   | 2,836   |
| Turnover from loan portfolios .....   |      | 27,472  | 26,169  |
| Other turnover .....  |      | 98  | 81  |
| <b>Turnover</b> .....   |      | <b>27,570</b>                                       | <b>26,250</b>                                       |
| Cost of sales .....   |      | (4,774)   | (4,767)   |
| <b>Gross profit</b> .....   |      | <b>22,796</b>                                       | <b>21,483</b>                                       |
| Administrative expenses .....   |      | (6,853)   | (6,236)   |
| Depreciation .....  | 6    | (554)   | (509)   |
| Interlaken profit .....   |      | 63  | –   |
| <b>Operating profit</b> .....   |      | <b>15,452</b>                                       | <b>14,738</b>                                       |
| Interest receivable .....   |      | 66  | 5   |
| Interest payable .....  | 3    | (7,893)   | (15,749)  |
| Amortisation of Intangible asset .....  | 5    | (2,098)   | (2,077)   |
| <b>Profit/(loss) on ordinary activities before taxation</b> .....               |      | <b>5,527</b>  | <b>(3,083)</b>                                      |
| Tax charge on profit/(loss) on ordinary activities .....                        | 4    | (1,834)   | (1,388)   |
| <b>Profit/(loss) on ordinary activities after taxation for the period</b> ..... |      | <b>3,693</b>  | <b>(4,471)</b>                                      |

\*\* The historical and other financial data presented in this quarterly report is derived from historical consolidated financial statements for Metis Bidco Limited. For reporting periods after May 31, 2012, financial data is presented from the consolidated financial statements of Lowell Finance Holdings Limited.

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 17 to 27 form part of the interim financial statements.

**Lowell Finance Holdings Limited**  
**Consolidated balance sheet**  
**31<sup>st</sup> May 2013**  
**(Comparative: Lowell Finance Holdings Limited**  
**28<sup>th</sup> February 2013; Metis Bidco Limited 31<sup>st</sup> May 2012)**

|  | Note | 31 <sup>st</sup><br>May<br>2013<br>£000 | 28 <sup>th</sup><br>February<br>2013<br>£000 | 31 <sup>st</sup><br>May<br>2012<br>£000 |
|--|------|---|--|---|
| <b>Fixed assets</b>  |      |   |  |   |
| Intangible assets .....  | 5    | 177,975                                 | 148,722                                      | 154,827                                 |
| Tangible assets .....  | 6    | 4,429                                   | 4,632  | 4,126                                   |
|  |      | 182,404                                 | 153,354                                      | 158,953                                 |
| <b>Current assets</b>  |      |   |  |   |
| Loan portfolios .....  |      | 263,618                                 | 256,581                                      | 212,698                                 |
| Debtors .....  | 7    | 16,876                                  | 17,637                                       | 16,043                                  |
| Cash .....   |      | 34,309                                  | 71,186                                       | 15,713                                  |
|  |      | 314,803                                 | 345,404                                      | 244,454                                 |
| <b>Creditors: amounts falling due within one year</b> .....          | 8    | (28,457)                                | (30,264)                                     | (14,924)                                |
| <b>Net current assets</b> .....                                      |      | 286,346                                 | 315,140                                      | 229,530                                 |
| <b>Total assets less current liabilities</b> .....                   |      | 468,750                                 | 468,494                                      | 388,483                                 |
| <b>Creditors: amounts falling due after more than one year</b> ..... | 9    | (275,000)                               | (275,000)                                    | (403,309)                               |
|  |      | 193,750                                 | 193,494                                      | (14,826)                                |
| Interlaken net assets .....  |      | 3,437                                   | –  | –                                       |
| <b>Net assets/(liabilities)</b> .....                                |      | 197,187                                 | 193,494                                      | (14,826)                                |
|  |      |   |  |   |
| Called up share capital .....  | 10   | 182,913                                 | 182,913                                      | 1,231                                   |
| Profit and loss account .....  |      | 14,274                                  | 10,581                                       | (16,057)                                |
| <b>Total equity shareholders' funds surplus/(deficit)</b> .....      |      | 197,187                                 | 193,494                                      | (14,826)                                |

The notes on pages 17 to 27 form part of the interim financial statements.

**Lowell Finance Holdings Limited**  
**Consolidated cash flow statement**  
**3 months ended 31<sup>st</sup> May 2013**  
**(Comparative: 3 months ended 31<sup>st</sup> May 2012**  
**Metis Bidco Limited)**

|  | Note      | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|--|-----------|---|---|
| <b>Cash flow from operating activities</b> .....         | <i>11</i> | 8,822   | 863   |
| Returns on investments and servicing of finance.....     | <i>12</i> | (15,348)  | (16,353)  |
| Taxation.....  | <i>12</i> | (1,000)   | (1,012)   |
| Capital expenditure and financial investment .....       | <i>12</i> | (29,351)  | (568)   |
| <b>Cash outflow before financing</b> .....               |           | (36,877)  | (17,070)  |
| Financing.....   | <i>12</i> | -   | 23,335  |
| <b>(Decrease) / increase in cash in the period</b> ..... |           | (36,877)  | 6,265   |

**Reconciliation of net cash flow to movement in net debt**

|  | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|--|---|---|
| (Decrease) / increase in cash in the period..... | (36,877)  | 6,265   |
| Cash inflow from increase in debt financing..... | -   | (23,335)  |
| Interest paid on Shareholder Loan .....          | -   | 7,604   |
| Non cash movements.....                          | 7,683   | (11,665)  |
| <b>Movement in net debt in the period</b> .....  | (29,194)  | (21,131)  |
| Net debt at start of the period.....             | (223,199)   | (370,164)   |
| <b>Net debt at end of the period</b> .....       | (252,393)   | (391,295)   |

May 31, 2013: The net debt balance of £ 252,393 includes £ 4,927 of accrued interest and £6,775 of deferred income on the Bond Note.

May 31, 2012: The net balance of £ 391,295 includes £ 3,699 of accrued interest, £183,753 Preference Shares and £19,556 Shareholder Loan Notes.

**Lowell Finance Holdings Limited**  
**Notes to the interim financial statements**  
**3 months ended 31<sup>st</sup> May 2013**

## **1. Accounting policies**

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

### **Basis of accounting**

The interim 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**

There are long term business plans and short term forecasts in place which are reviewed and updated on an on-going regular basis by management. The Group is in a net asset position.

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

### **Basis of consolidation**

The historical and other financial data presented in this quarterly report are derived from historical consolidated financial statements for Metis Bidco Limited. For reporting periods after May 31, 2012, financial data is presented from the consolidated financial statements of Lowell Finance Holdings Limited.

The Group interim financial statements consolidate the interim financial statements of Lowell Finance Holdings Limited and all its subsidiary undertakings drawn up to May 31, 2013. 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.

### **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 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 financial liabilities 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 February 28, 2013 and May 31, 2013 the Group did not hold any derivative contracts.

**Turnover**

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

The turnover and pre-tax profit/(loss), 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 nine months to May 31, 2013 the fair value movement is the difference in net collection projections at May 31, 2013 between the original curves based on the price paid for the portfolio and the current collection projections, less the fair value movement reported for the six months to February 28, 2013 for portfolios purchased during the six months to February 29, 2012.

For portfolios owned at the August 31, 2012 the fair value movement is the difference in net collection projections from May 31, 2013, compared to the collections as forecasted at 31 August 2012 for the period from May 31, 2013, less the fair value movement reported for the six months to February 28, 2013 for the same portfolios.

**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 interim 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 interim 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. Critical accounting policies, judgements and estimates**

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

**Purchased loan portfolios**

Non-performing loan 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 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% for non-paying portfolios and 12% for paying portfolios. Changes in this assumption to a reasonably possible alternative would lead to the following financial impact:

|                         | 31 <sup>st</sup> May 2013<br>Movement in<br>profit and loss<br>£000 | 28 <sup>th</sup> February 2013<br>Movement in<br>profit and loss<br>£000 | 31 <sup>st</sup> May 2012<br>Movement in<br>profit and loss<br>£000 |
|-------------------------|---|--|---|
| - 250 basis points..... | 12,000  | 11,528   | 8,753   |
| +250 basis points.....  | (11,073)  | (10,569)   | (8,079)   |

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.

### 3. Interest payable

|  | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|--|---|---|
| Senior bank facility (RBS).....                    | –   | 3,430   |
| 15.25% Cumulative preference shares (Note 13)..... | –   | 6,373   |
| Bond interest & fees.....                          | 7,544   | 3,902   |
| RCF interest & fees.....                           | 349   | 163   |
| Interest on loan with Parent Undertaking.....      | –   | 1,881   |
|  | <u>7,893</u>  | <u>15,749</u>                                       |

#### 4. Tax on profit/(loss) on ordinary activities

|   | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|---|---|---|
| <b>UK Current taxation:</b>                                       |   |   |
| UK Corporation tax .....  | (1,834)   | (1,388)   |
| <b>Total charge on profit/(loss) on ordinary activities .....</b> | <b>(1,834)</b>                                      | <b>(1,388)</b>                                      |

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

|   | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|---|---|---|
| <b>Profit/(Loss) on ordinary activities before tax.....</b>   | <b>5,527</b>  | <b>(3,083)</b>                                      |
| Tax (charge)/credit on profit/(loss) on ordinary activities at standard UK corporation tax rate of 23.6% (2012: 25.2%)..... | (1,303)   | 776   |
| Effects of:   |   |   |
| Expenses not deductible for tax purposes .....  | (531)   | (2,164)   |
| <b>Current tax charge for the period.....</b>   | <b>(1,834)</b>                                      | <b>(1,388)</b>                                      |

## 5. Intangible fixed assets

### (a) Lowell Finance Holdings Limited

|  | Goodwill<br>£000 |
|--|------------------|
| <b>Cost</b>                            |                  |
| At 28 <sup>th</sup> February 2013..... | 156,148          |
| Additions (see below for details)..... | 31,351           |
| At 31 <sup>st</sup> May 2013.....      | 187,499          |
| <b>Accumulated amortisation</b>        |                  |
| At 28 <sup>th</sup> February 2013..... | (7,426)          |
| Charge for the 3 months.....           | (2,098)          |
| At 31 <sup>st</sup> May 2013.....      | (9,524)          |
| <b>Net book value</b>                  |                  |
| At 28 <sup>th</sup> February 2013..... | 148,722          |
| At 31 <sup>st</sup> May 2013.....      | 177,975          |

Goodwill is being amortised over twenty years.

The addition relates to the acquisition of Interlaken Group Limited on 16 May 2013. Goodwill has been calculated as follows:

|   | £'000   |
|---|---------|
| <b>Consideration:</b>                                 |         |
| Cash consideration (Paid: £29,000; Accrued £815)..... | 29,815  |
| Contingent consideration.....                         | 5,200   |
| Total consideration.....                              | 35,015  |
| Costs of acquisition (Provisional).....               | 925     |
| Total cost of Investment (Provisional).....           | 35,940  |
| Net Assets at acquisition (Provisional).....          | (4,589) |
| Goodwill at acquisition (Provisional).....            | 31,351  |

### (b) Metis Bidco Limited

|  | Goodwill<br>£000 |
|--|------------------|
| <b>Cost</b>                            |                  |
| At 29 <sup>th</sup> February 2012..... | 160,696          |
| At 31 <sup>st</sup> May 2012.....      | 160,696          |
| <b>Accumulated amortisation</b>        |                  |
| At 29 <sup>th</sup> February 2012..... | (3,792)          |
| Charge for the 3 months.....           | (2,077)          |
| At 31 <sup>st</sup> May 2012.....      | (5,869)          |
| <b>Net book value</b>                  |                  |
| At 29 <sup>th</sup> February 2012..... | 156,904          |
| At 31 <sup>st</sup> May 2012.....      | 154,827          |

Goodwill is being amortised over twenty years.

## 6. Tangible fixed assets

|  | Office<br>equipment<br>£000 |
|--|-----------------------------|
| <b>Cost</b>                            |                             |
| At 28 <sup>th</sup> February 2013..... | 13,187                      |
| Additions.....                         | 351                         |
| At 31 <sup>st</sup> May 2013.....      | <u>13,538</u>               |
| <b>Accumulated depreciation</b>        |                             |
| At 28 <sup>th</sup> February 2013..... | (8,555)                     |
| Charge for the 3 months.....           | (554)                       |
| At 31 <sup>st</sup> May 2013.....      | <u>(9,109)</u>              |
| <b>Net book value</b>                  |                             |
| At 28 <sup>th</sup> February 2013..... | <u>4,632</u>                |
| At 31 <sup>st</sup> May 2013.....      | <u>4,429</u>                |

## 7. Debtors

|                                     | 31 <sup>st</sup> May<br>2013<br>£000 | 28 <sup>th</sup> February<br>2013<br>£000 | 31 <sup>st</sup> May<br>2012<br>£000 |
|-------------------------------------|--------------------------------------|---|--------------------------------------|
| Trade debtors .....                 | 9                                    | 45  | 80                                   |
| Other debtors.....                  | 4,313                                | 4,734                                     | 2,907                                |
| Deferred taxation.....              | 399                                  | 399                                       | 418                                  |
| Prepayments and accrued income..... | 12,155                               | 12,459                                    | 12,638                               |
|                                     | <u>16,876</u>                        | <u>17,637</u>                             | <u>16,043</u>                        |

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

|                                      | 31 <sup>st</sup> May<br>2013<br>£000 | 28 <sup>th</sup> February<br>2013<br>£000 | 31 <sup>st</sup> May<br>2012<br>£000 |
|--------------------------------------|--------------------------------------|---|--------------------------------------|
| Accelerated capital allowances ..... | 382                                  | 382                                       | 281                                  |
| Short term timing differences.....   | 17                                   | 17  | 137                                  |
|                                      | <u>399</u>                           | <u>399</u>                                | <u>418</u>                           |

## 8. Creditors: amounts falling due within one year

|   | 31 <sup>st</sup> May<br>2013<br>£000 | 28 <sup>th</sup> February<br>2013<br>£000 | 31 <sup>st</sup> May<br>2012<br>£000 |
|---|--------------------------------------|---|--------------------------------------|
| Trade creditors.....                                    | 2,225                                | 1,753                                     | 3,095                                |
| Other taxes and social security.....                    | 520                                  | 611                                       | 745                                  |
| Corporation tax.....                                    | 2,931                                | 2,128                                     | 1,730                                |
| Other creditors.....                                    | 6,267                                | 822                                       | 243                                  |
| Accruals and deferred income.....                       | 10,504                               | 9,316                                     | 5,412                                |
| Interest due on Bond Loan (10.75%).....                 | 4,927                                | 12,317                                    | 3,699                                |
| Amounts owing to Company's immediate parent.....        | –                                    | 2,234                                     | –                                    |
| Amounts owing to a parent company for group relief..... | 1,083                                | 1,083                                     | –                                    |
|   | <u>28,457</u>                        | <u>30,264</u>                             | <u>14,924</u>                        |

## 9. Creditors: amounts falling due after more than one year

|   | 31 <sup>st</sup> May<br>2013 (a)<br>£000 | 28 <sup>th</sup> February<br>2013 (a)<br>£000 | 31 <sup>st</sup> May<br>2012 (b)<br>£000 |
|---|--|---|--|
| 15.25% cumulative redeemable preference shares (note 13)..... | –  | –   | 183,753                                  |
| Unsecured loan notes 2021.....                                | –  | –   | 19,556                                   |
| Bond Loan (10.75%).....                                       | 275,000                                  | 275,000                                       | 200,000                                  |
|   | <u>275,000</u>                           | <u>275,000</u>                                | <u>403,309</u>                           |

### (a) Lowell Finance Holdings Limited

At 31st May 2013, the Group had available undrawn committed borrowing facilities for which conditions precedent had been met.

The subsidiary Lowell Group Financing Plc issued £200m 10.75% Senior Secured Notes and £75m 10.75% Senior Secured Notes on the 30<sup>th</sup> March 2012 and 11 February 2013 respectively. The interest rate on the Notes is fixed at 10.75% for the entirety of its term. The interest on the Notes is payable 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 and 11 February 2013.

### (b) Metis Bidco Limited

The senior bank loan was repaid on 30th March 2012, following the issue of the £200m 10.75% Senior Secured Notes. 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 note holders with the lead investor's consent on the occurrence of any event specified in the Loan Note Instrument.

The rights attached to the preference shares 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 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 winding up

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. The preference shares do not confer any further right of participation in the profits or assets of the Company.

## 10. Called up share capital

### Group and Company

|   | 31 <sup>st</sup> May<br>2013 (a)<br>£000 | 28 <sup>th</sup> February<br>2013 (a)<br>£000 | 31 <sup>st</sup> May<br>2012 (b)<br>£000 |
|---|--|---|--|
| <b>Authorised, called up, allotted and fully paid</b> |  |   |  |
| 940,478 'A' ordinary shares of £1.00 each.....        | –  | –   | 940                                      |
| 250,000 'B' ordinary shares of £1.00 each.....        | –  | –   | 250                                      |
| 40,800 'C' ordinary shares of £1.00 each.....         | –  | –   | 41                                       |
| 182,913,396 ordinary shares of £1.00 each.....        | 182,913                                  | 182,913                                       | –  |
|   | 182,913                                  | 182,913                                       | 1,231                                    |

### (a) Lowell Finance Holdings Limited

#### 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 shall have one vote for each ordinary share held by them.

#### Dividends

The profits of the Company available for distribution and resolved to be distributed shall be distributed in proportion to the number of the ordinary shares held by them.

#### Return of capital

Ordinary shareholders are entitled to participate in any surplus assets on the winding up of the company.

**(b) Metis Bidco Limited****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 shall have one vote for each ordinary share held by them,

**Dividends**

The profits of the Company available for distribution and resolved to be distributed shall be distributed in proportion to the number of the A and B ordinary shares held by them.

**Return of capital**

Ordinary shareholders are entitled to participate in any surplus assets on the winding up of the company.

**11. Reconciliation of operating profit to operating cash flows**

|   | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|---|---|---|
| Operating profit for the 3 months                 | 15,452  | 14,738  |
| Depreciation, amortisation and impairment charges | 554   | 509   |
| Increase in loan portfolios                       | (7,037)   | (18,226)  |
| Decrease in debtors                               | 477   | 1,536   |
| (Decrease) / Increase in creditors                | (624)   | 2,306   |
| Net cash inflow from operating activities         | 8,822   | 863   |

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

## 12. Analysis of cash flows

|   | 3 months to<br>31 <sup>st</sup> May<br>2013<br>£000 | 3 months to<br>31 <sup>st</sup> May<br>2012<br>£000 |
|---|---|---|
| <b>Returns on investment and servicing of finance</b> |   |   |
| Shareholder Loan interest paid                        | –   | (7,604)   |
| Senior Bank Loan interest & fees paid (RBS)           | –   | (2,096)   |
| RCF interest & fees paid                              | (431)   | (1,708)   |
| Bond interest & fees paid                             | (14,983)  | (4,950)   |
| Bank Interest received                                | 66  | 5   |
|   | (15,348)  | (16,353)  |
| <b>Taxation</b>                                       |   |   |
| UK Corporation tax paid                               | (1,000)   | (1,012)   |
| <b>Capital expenditure and financial investment</b>   |   |   |
| Purchase of tangible fixed assets                     | (351)   | (568)   |
| Purchase of investment (Interlaken Group)             | (29,000)  | –   |
|   | (29,351)  | (568)   |
| <b>Financing</b>                                      |   |   |
| Issue of Loan Notes                                   | –   | 200,000   |
| Repayment of Bank Loan                                | –   | (84,270)  |
| Repayment of Shareholder Loan                         | –   | (92,395)  |
|   | –   | 23,335  |

## 13. Related party transactions

### Metis Bidco Limited

During the period movements in preference shares issued to related parties are detailed below:

|  | Directors<br>£000 | Ultimate<br>controlling<br>party<br>£000 | Other<br>shareholders<br>£000 | Total<br>£000 |
|--|-------------------|--|-------------------------------|---------------|
| As at 29 <sup>th</sup> February 2012.....          | (4,921)           | (172,205)                                | (254)                         | (177,380)     |
| Interest accrued to 31 <sup>st</sup> May 2012..... | (177)             | (6,187)                                  | (9)                           | (6,373)       |
| As at 31 <sup>st</sup> May 2012.....               | (5,098)           | (178,392)                                | (263)                         | (183,753)     |

## Key reconciliations and definitions

### *Definitions*

- (1) ERC means the estimated remaining collections, which represent the expected collections of the Purchased Assets over an 84-month period, based on the company's proprietary valuation model and methodology. Please see "Presentation of financial and other information" for a description of how ERC is calculated.
- (2) 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 represents the total number of individual consumer debts that Lowell own as of the date specified.
- (4) Number of owned debt portfolios represents the number of individual portfolios of accounts that Lowell 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 represents third-party debt less cash and cash equivalents and excludes subordinated shareholder instruments included in the "Creditor" line item of the balance sheet.
- (6) Collections/income on owned portfolios represents the sum of "collections on owned portfolio" and "other turnover," as reported in the profit and loss account.
- (7) Servicing costs represents the 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 the 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 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.
- (9) 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 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 the aggregate Unlevered Net IRR for the entire owned portfolio that are greater than 6 months old as at a specific point in time.
- (11) Unlevered Net IRR after collection activity costs is based on the same methodology as Unlevered Net IRR but instead of using total servicing costs the metric is calculated after direct costs of collections only. Direct costs of collections are defined as the total costs directly attributable to collection activity and includes staff, letters and agency costs.

## Reconciliations

### Operating Profit to 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 items, depreciation, fair value movement in loan portfolios and amount of purchase cost recovered.

The following table provides a reconciliation of Adjusted EBITDA to operating profit.

| (£ in millions)   | Three months ended |                 |
|---|--------------------|-----------------|
|   | 2012               | May 31,<br>2013 |
| Operating profit .....                                      | 14.7               | 15.5            |
| Depreciation .....  | 0.5                | 0.5             |
| Fair value movement in Loan Portfolios <sup>(a)</sup> ..... | (2.8)              | (6.7)           |
| Amount of purchase cost recovered <sup>(b)</sup> .....      | 12.4               | 19.1            |
| <b>Adjusted EBITDA.....</b>                                 | <b>24.8</b>        | <b>28.4</b>     |

- (a) Fair value movement in loan portfolios represents any fair value movement resulting from the revaluation of each portfolio between the beginning and end of the period.
- (b) Amount of purchase cost recovered represents the amortization resulting from collections on Purchased Assets between the beginning and the end of the period.

### Increase in Cash in the Period to Cash-flow before Debt Service

The following table sets forth the company's 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 in cash in the period.

| (£ in millions)  | Three months ended |                |
|--|--------------------|----------------|
|  | 2012               | May 31<br>2013 |
| <b>Increase/(decrease) in cash in the period .....</b> | <b>6.3</b>         | <b>(36.9)</b>  |
| Movement in debt <sup>(1)</sup> .....                  | (23.3)             | -              |
| Portfolio purchases <sup>(2)</sup> .....               | 27.8               | 19.3           |
| Debt servicing <sup>(3)</sup> .....                    | 16.4               | 15.3           |
| Tax servicing <sup>(4)</sup> .....                     | 1.0                | 1.0            |
| Other cash flows <sup>(5)</sup> .....                  | 0.0                | 29.0           |
| <b>Cash flow before debt and tax servicing.....</b>    | <b>28.2</b>        | <b>27.7</b>    |
| Capital expenditure <sup>(6)</sup> .....               | 0.6                | 0.4            |
| Working capital <sup>(7)</sup> .....                   | (4.0)              | 0.3            |
| <b>Adjusted EBITDA<sup>(8)</sup> .....</b>             | <b>24.8</b>        | <b>28.4</b>    |

- (1) Movement in debt relates to the net movement on borrowings 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.

| (£ in millions)  | Three months ended |         |
|--|--------------------|---------|
|  | May 31,            |         |
|  | 2012               | 2013    |
| <b>Calculation of purchases from consolidated financial statements</b> |                    |         |
| Opening Purchased Asset value .....                                    | 194.5              | 256.6   |
| Less: Amortization <sup>(a)</sup> .....                                | (9.6)              | (12.3)  |
| Less: Closing Purchased Asset value .....                              | (212.7)            | (263.6) |
| Reported portfolio purchases .....                                     | (27.8)             | (19.3)  |
| Reported portfolio purchases (see above) .....                         | 27.8               | 19.3    |
| Portfolio purchases (cash flow) .....                                  | (27.8)             | (19.3)  |
| Timing difference <sup>(b)</sup> .....                                 | -                  | -       |

- (a) Amortization is the sum of “amount of purchase cost recovered” and “fair value movement in loan portfolios” as reported in the consolidated interim financial statements.
- (b) Timing difference means the difference between the amount of portfolio purchases contracted and 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 the Senior Facilities Agreement, the RCF and the £275m Bond. 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.
- (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) This represents the cash consideration paid for the acquisition of Interlaken Group Limited.
- (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.

### *Reconciliation of Servicing Costs to Consolidated Profit & Loss Account*

The following table sets out a reconciliation of the Servicing Costs shown in the table on page 7 with the Consolidated profit and loss account in the consolidated financial statements for the three month period to May 31, 2013:

| (£ in millions)                                  | Three months<br>ended<br>May 31 |        |
|--|---------------------------------|--------|
|  | 2012                            | 2013   |
| <b>Servicing costs in adjusted EBITDA table</b>  |                                 |        |
| Servicing Costs .....                            | (11.0)                          | (11.6) |
| <b>Consolidated interim Financial Statements</b> |                                 |        |
| Cost of Sales.....                               | (4.8)                           | (4.8)  |
| Administrative expenses.....                     | (6.2)                           | (6.8)  |
| Total.....                                       | (11.0)                          | (11.6) |

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