a better way forward

LOWELL GROUP

# Year End Report

LOWELL GROUP 13 MONTH CONSOLIDATED FINANCIAL RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2013

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# Highlights

## ERC

£530.3 million, up 24%

## Unlevered Net IRR

net IRR remains strong at 35.6%, after deducting collections activity costs

## Collections

£173.5 million, up 28%

£160.0 million for the 12 months ending 31 Aug 13, up 18% on the 12 months to 31 Aug 2012.

## Adjusted EBITDA

£119.4 million, up 25%

£110.7 million for the 12 months ending 31 Aug 13, up 17% on the equivalent prior year period*.

## Portfolio Purchases

£124.4 million, up 37%

£121.0 million for the 12 months ending 31 Aug 13, up 33% on the equivalent prior year period.

## Customer accounts

12.3 million, up 23%

* prior year numbers are restated

**Note: Unless otherwise stated all figures presented on pages 3 to 18 are quoted post exceptional and non recurring items and do not include Interlaken group.**

- Significant balance sheet and earnings growth
- Impressive unlevered net IRR across the portfolio
- Continued underlying asset diversification and risk management
- Strategic partnerships in place with key clients on a "forward flow" basis to secure purchase volumes going forward
- Strong underlying growth expected to continue in existing key market segments
- Strong progress being made in developing the new sectors of utilities and government
- Continued investment made into our 3 core areas, our people, our practices and our technology
- Successful strategic acquisition of Interlaken group (including Fredrickson International Ltd)
- Significant investment and progress in compliance in readiness for FCA regulation

# 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, UK only, technology-driven call centre operations.


Headquartered in Leeds, with more than 900* full-time equivalent ("FTE") employees; we benefit from significant scale and experience in debt markets. Since inception in May 2004 to September 30, 2013, we have purchased 715 debt portfolios ("Purchased Assets") with an aggregate face value of approximately £11.0 billion, having invested £597 million at an average price paid of 5.4 pence per pound sterling of the debt's face value. On the total capital invested, as of September 30, 2013, the Unlevered Net IRR was 35.6%**. At September 30, 2013, we had 12.3 million customer accounts.

We seek to recover outstanding balances by offering customers realistic, affordable and sustainable long-term payment plans with instalments tailor-made to their individual circumstances. The collection strategy is centred on assessing 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.

Following on from our Investors in People (IIP) Gold award into 2012, in 2013 we were accredited as an IIP champion, one of only 200 companies in the country and we have achieved an "Outstanding" rating for our Investors in Customers (IIC), the first ever debt purchaser to receive a rating from IIC.

**In 2013 Lowell was accredited as an Investors in People champion, one of only 200 companies in the country.**

** Including Interlaken*
*** Unlevered Net IRR after collection costs*

# Key performance indicators

| | 13 months ended 30 Sept 13 | 12 months ended 31 Aug | | |
|---|---|---|---|---|
| (£ in millions, except for percentages and ratios or unless otherwise noted) | **2013** | **2013** | **2012*** | **Movement** |
| Other financial, operating and pro forma data: Cash generative asset backing: | | | | |
| ERC(1) | 530.3 | 531.5 | 428.8 | +24% |
| Reported portfolio purchases(2) | 124.4 | 121.0 | 90.7 | +33% |
| Number of accounts (in millions)(3) | 12.3 | 12.2 | 10.0 | +22% |
| Number of owned debt portfolios (4) | 715 | 709 | 586 | +21% |
| Net Debt(5) | 270.3 | 257.0 | 191.0 | |
| Cash generation: | | | | |
| Collections/income on owned portfolios(6) | 173.5 | 160.0 | 135.9 | +18% |
| Servicing costs(7) | 54.6 | 49.7 | 41.3 | +20% |
| Adjusted EBITDA(8) | 119.4 | 110.7 | 94.9 | +17% |
| Cash flow before debt and tax servicing(9) | 116.7 | 110.2 | 91.5 | +20% |
| Return on capital: | | | | |
| Unlevered Net IRR of owned porfolios (%)(10) | 35.6 | 35.9 | 37.9 | |
| Unlevered Net IRR of owned portfolios (%)(10) | 22.2 | 22.4 | 24.2 | |

** restated*

Please see KPI definitions on page 87

# Operating and financial review

**We purchased a further 129 portfolios during the period bringing the number of customer accounts managed to 12.3 million and increasing our ERC to £530.3 million. Our adjusted EBITDA grew to £119.4 million.**

## Portfolio purchases

Purchases of portfolios in the thirteen months to September 30, 2013 were at record levels of £124.4 million with our cumulative portfolio investment since inception having grown to £597.3 million. Our customer database is unsurpassed in the UK debt purchasing industry, having reached 12.3 million accounts as at September 30. The aggregate face value of debt reached £11.0 billion on the same date. During the 13 months to September 30, 2013 we purchased 129 portfolios bringing the total of purchased portfolios since inception to 715. The table below highlights the historical scale and stability of our purchasing activity by setting out our key purchasing metrics and blended Unlevered Net IRRs periods from 2010 to 2013.

In any period, we purchase debt portfolios that can vary in age, type and ultimate collectability, which explains the year-on-year variation in average prices paid and account balance indicated in the table below. Regardless of the price paid for a portfolio (which is driven by the varying collection expectations of portfolios with different characteristics), we typically target a minimum unlevered internal rate of return, after all costs, for any purchase of 15% over 84 months.

| | Financial period ended 31 August for prior periods and 13 months to 30 September 2013 | | | | |
|---|---|---|---|---|---|
| (£ in millions) | 2010 | 2011 | 2012 | 2013 | Total since inception (4) |
| Portfolio purchases - cost (in millions) | 57.9 | 70.0 | 90.7 | 124.4 | 597.3 |
| Average price paid (p/£) | 5.9 | 5.4 | 5.6 | 5.4 | 5.4 |
| Average account balance (£) | 733 | 830 | 851 | 860 | 895 |
| Number of portfolios purchased in the period (1) | 67 | 65 | 113 | 129 | 715 |
| Blended Unlevered Net IRR (all costs)(2) (3) | 24.0% | 25.6% | 24.2% | 22.2% | |
| Blended unlevered Net IRR (collection costs) (2) (3) | n/a | n/a | 37.9 | 35.6% | |

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

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

*(3) Unlevered Net IRR in 2013 was impacted downward by the proportion of portfolios under six months old which are still valued at cost.*

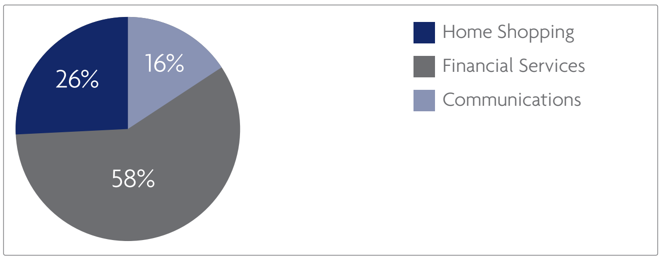
*(4) Total inception covers the period from when we bought our first portfolio in June 2004 to September 30, 2013.*

Our ability to purchase portfolios is dependent on market conditions and competition. We witnessed significant growth in 2013 and we continue to see the sale of portfolios through competitive tender processes. In our view, it is difficult for new competitors to successfully enter the market as technology, data intelligence on a large scale and a strong compliance track record are key to ensuring profitable returns. In addition, we have built a number of long standing strategic relationships with debt originators which enhances our portfolio purchasing ability. Over 96% of purchases made in 2013 were from clients we had purchased from previously. We have also successfully locked down future purchase volumes through forward flow agreements whereby we agree to purchase all or substantially all of the vendors accounts that are sold, subject to the vendor's compliance with pre-agreed qualitative criteria. In the thirteen months to September 30, 2013, approximately 32% of our portfolio purchases, (in terms of purchase price), came from such forward flow agreements.

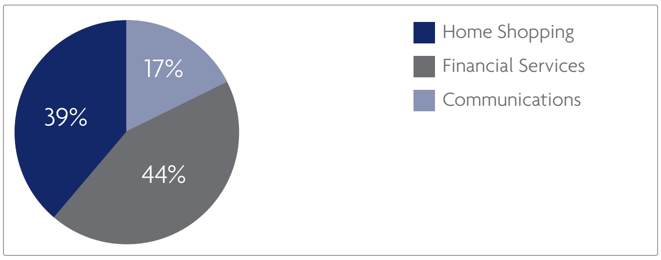
During the financial period ended September 30, 2013 we were successful in further diversifying our purchases across different market segments. We believe that diversification aids the robustness of our purchasing pipeline and we go into 2014 more diversified than most of our peers and indeed more diversified than we've ever been before.

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

Sector breakdown for acquisitions since inception




Sector breakdown for acquisitions 13 months ended 30 September 2013




A key enabler to purchasing portfolios is access to financing. Following the successful launch of a £200 million Senior Secured Note in March 2012, February 2013 saw us successfully execute a further £75 million bond tap from existing bondholders, completed within a 24 hour period at a premium to the original issue, demonstrating the ongoing proven support for the business in the bond markets. During the year we were also successful in extending our Senior Revolving Credit Facilities Agreement which means we ended the financial period with a facility of some £55 million available to us. The significant liquidity and flexibility afforded by this capital structure allows us to actively purchase debt portfolios as they become available and meet our return on capital requirements.

## Market

We continue to see significant activity in the market and we are invited to bid on 98% of the debt purchases being presented in our core market segments. We believe there is still significant market growth potential in our core focus areas, namely, financial services, communications and home retail credit. Banks are now showing an increased propensity to sell and with significant amounts of under performing debt still on their balance sheet, meaning the financial services sector continues to represent significant growth. We continue to focus primarily upon our areas where we have key competitive advantages through our lower cost platform. In addition to defending and extending our core market focus, we continue to see opportunities to capitalise on emerging markets such as utilities, insurance and Government, and during the financial period ended September 30, 2013 we successfully made purchases from both utilities and insurance companies.

## Interlaken Update

2013 also saw us acquire the Interlaken Group (together with its subsidiaries, including Fredrickson International Limited). The acquisition of arguably the leading debt collection agency in the United Kingdom, with its strong track record and 17 year history, means as a wider group we are better placed than ever to make further portfolio purchases. Interlaken employs around 300 people and manages 3.2 million customer accounts, with annual collections exceeding £100 million. Interlaken specialises in data driven collections across a range of sectors, including government, with significant experience in working financial services higher balance accounts. Access to both markets opens up Lowell's prospective purchase markets in a controlled and measured manner.

Lowell group has been clear about its strategy to enter new sectors when the right opportunity existed, with government being one area specifically targeted for growth. Interlaken is one of a select group of debt collection agencies appointed by HMRC to be a member of HMRC's framework agreement and provides collections services for central government departments. The combined group will be well-placed to continue to service HMRC's debt recovery needs.

**We continue to see significant activity in the market and we are invited to bid on 98% of the debt purchases being presented in our core market segments.**

## Collections

Our primary source of revenue is the cash proceeds received from our collection activity on the customer accounts in our owned debt portfolios. During the financial period ended September 30, 2013 our collections on owned portfolios were £174 million and 88% of these came from our in-house, UK based collections team as opposed to third party agents.

Our ability to collect is based on certain attributes of our customers, which can be influenced by macroeconomic factors.  We have a track record of resilient collections throughout all phases of the economic cycle as a result of:

- **Affordable payments and account diversification.** During the thirteen months ended September 30,2013, we received approximately 7.0 million payments from customers who paid us directly. As of September 30, 2013 the average account balance in our debt portfolios (at purchase) was £860 with 49% of balances being less than £1,000. During the economic downturn, we believe that our realistic, affordable monthly payments helped customers to continue to honour their repayment commitments at a time when disposable income was under pressure. Our current paying base is also not concentrated on any particular customer demographic, such as geographic postcode, income banding or customer age and we fundamentally believe that any macroeconomic improvement can only be advantageous to the business in achieving further collections from our existing account base.

**Our primary source of revenue is the cash proceeds received from our collection activity on the customer accounts in our owned debt portfolios**

- **Predictable, long-term payment methods.** Of the £174 million of collections in the financial period 2013, 79% came from existing accounts already owned at the beginning of the financial year. Moreover across our back book, as of September 30, 2013, the majority of our monthly collections came from recurring, more dependable payment methods such as direct debit which have lower default rates. During the thirteen months ended September 30, 2013, approximately 90% of payments from customer accounts directly managed by us were made from these preferred payments methods.

- **Close performance monitoring and sophisticated data mining capabilities.** We reduced our short term Default Rate from 19.7% to 19.3% between August 2012 and September 2013 at a time when disposable incomes were squeezed by inflationary pressures. By systematically tracking and analysing performance trends in the market and on our portfolios. We have also been able to proactively adjust the collection curves on which we price new portfolios, which we believe helped us reach our return targets.

## Servicing costs

Our servicing costs (sum of cost of sales and administrative expenses excluding non-recurring items) for the financial period ended September 30, 2013 were £54.6 million (£41.3 million for the twelve months to August 31, 2013).

Servicing costs should be judged in the context of our portfolio and collections, as the servicing costs in a period are primarily driven by the size of our back book at the beginning of a period and the number of customer accounts we purchase and start servicing in a period.

Our servicing cost ratio (defined as the ratio of servicing costs to collections and income on owned portfolios) consequently is a useful metric, and our service ratio excluding exceptional and non-recurring costs increased marginally in the period from 29.0% to 30.2% for the financial period ended September 30, 2013. Care must be taken however to look at this metric without context, year-on-year trends in our servicing cost ratio and resulting Adjusted EBITDA margin are not necessarily indicative of our operational efficiency and the return on capital we can achieve on portfolio purchases, as they are impacted by the varying characteristics of the portfolios we purchase in different years and differences in the phasing of portfolio purchases during the year.

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

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

Additionally, the average account balance on a portfolio can have an impact on servicing costs in any one financial year generally driven by the sector mix of purchased portfolios. Certain costs do not change with the average balance being collected and therefore servicing costs on low average balance portfolios tend to be higher than those on high average balance portfolios. For example, as of September 30, 2013, the average balance for communications services, home retail credit and financial services customers was £466, £799 and £1,271 respectively. As a result, communications services and home retail credit portfolios typically have higher servicing cost ratios than financial services portfolios.

## Servicing Cost Ratio

To this extent, maintaining the servicing cost ratio is all the more pleasing given that:

(a) our collection costs are front loaded and 2013 was a year of record portfolio acquisitions; and

(b) we have made some significant investments in our key back office functions (Finance, Data Analytics, IT and Compliance) which position the business well for the future growth and compliance in an FCA regulated environment.

**As a result, communications services and home retail credit portfolios typically have higher servicing cost ratios than financial services portfolios.**

## Operational efficiency

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

We have consistently focused on improving our contact centre for a number of years. In the period from August 31, 2009 to September 30, 2013, our annual collections per collector full time FTE grew from £367,000 to £615,000 and the annual number of payment plans arranged per collector FTE grew from 1,340 to 2,428. These are significant improvements to our operational efficiency. To give further context, given the collections per collector FTE metric on £174m of collections would have been £97 million in 2009, meaning our operational gains over the last four years yielded the equivalent of £65m incremental cash collections.

## Asset base

We have continued to achieve significant growth in our asset base as demonstrated by the table below. Estimated Remaining Collections ("ERC") grew from £428.8 million to £530.3 million in the current financial period.

| | Financial periods | | | |
|---|---|---|---|---|
| (£ in millions) | 2010 | 2011 | 2012 | 2013 |
| ERC | 289.7 | 344.7 | 428.8 | 530.2 |

We expect that the aggregate face value of our portfolios of £11.0 billion will generate some £530.3 million in gross collections over the 84 months from 30 September 2013.

The timing by which our ERC comes back to us is captured on the chart overleaf. We benefit from the fact that nearly 50% of our ERC 'crystallises' as cash within two years. This is an earlier level of cash collections compared to the wider industry and is one that allows us to achieve impressive internal rates of return and benefit from more visible, more predictable and less risky cashflows than were we to be more end-loaded, long duration asset exposed.

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

ERC on owned portfolios as of September 30, 2013 by year of purchase

| (£ in millions) | 0-12 months | 13-24 months | 25-36 months | 37-48 months | 49-60 months | 61-72 months | 73-84 months | Total |
|---|---|---|---|---|---|---|---|---|
| Financial year of purchase | | | | | | | | |
| 2005 | 1.0 | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 | 0.3 | 4.2 |
| 2006 | 1.8 | 1.4 | 1.1 | 0.9 | 0.8 | 0.6 | 0.5 | 7.2 |
| 2007 | 4.2 | 3.2 | 2.5 | 2.0 | 1.6 | 1.3 | 1.0 | 15.9 |
| 2008 | 7.3 | 5.7 | 4.5 | 3.6 | 2.8 | 2.3 | 1.8 | 27.9 |
| 2009 | 12.5 | 9.8 | 7.7 | 6.2 | 4.9 | 4.0 | 3.2 | 48.2 |
| 2010 | 13.0 | 10.0 | 7.8 | 6.1 | 4.8 | 3.8 | 3.0 | 48.5 |
| 2011 | 18.5 | 13.9 | 10.6 | 8.2 | 6.3 | 4.9 | 3.9 | 66.4 |
| 2012 | 31.6 | 23.3 | 17.7 | 13.7 | 10.6 | 8.3 | 6.5 | 111.6 |
| 2013 | 62.7 | 41.8 | 31.0 | 23.5 | 17.9 | 13.8 | 9.8 | 200.5 |
| **Total** | **152.5** | **110.0** | **83.7** | **64.6** | **50.2** | **39.3** | **30.1** | **530.3** |
| Cumulative % | 28.8% | 49.5% | 65.3% | 77.5% | 86.9% | 94.3% | 100.0% | |

We do also believe there to be material cash flow inherent in our portfolios past the 84 month ERC period which is not reflected in our prudent balance sheet valuation. Our forecast tail of cash flow from month 84 to month 120 is £61.2 million, which is in addition to the £530.3 million ERC.

| | Number of accounts (m) | Number of portfolios purchased | Number of payments received (£000) |
|---|---|---|---|
| Total | 12.3 | 715 | 6,989 |

**Cash Generation**

Beyond the speed by which ERC comes back as cash, our cashflows are also derisked by the diversification of our asset base. The table above brings alive how diversified we are.

Two non-UK GAAP measures of cash generation used by management are Adjusted EBITDA and cash flow before debt and tax servicing, which represents Adjusted EBITDA less working capital, less capital expenditure. We monitor these measures closely as they represent the operating cash flow generation potential of the business before mandatory servicing of debt and taxation (as investment decisions in portfolio purchases are discretionary). Between financial periods 2012 and 2013, Adjusted EBITDA grew from £94.9 million to £119.4 million and cash flow before debt and tax servicing grew from £91.5 million to £116.7 million. The following table sets forth our record of operating cash generation over a number of years and also shows a reconciliation of Adjusted EBITDA and cash flow before debt and tax servicing to increase/(decrease) in cash in the period.

| (£ in millions) | 2010 | 2011 | 2012 | Aug 13 | Sep 13 |
|---|---|---|---|---|---|
| | 12 months to August 31 for prior years and Aug 13 comparative, 13 months to September 30 | | | | |
| **Increase/(decrease) in cash in the period** | **5.7** | **1.7** | **(0.8)** | **9.0** | **5.7** |
| Movement in debt (1) | 3.5 | (9.6) | (19.4) | (85.0) | (95.0) |
| Portfolio purchases (2) | 55.7 | 68.4 | 90.6 | 124.8 | 128.3 |
| Debt servicing (3) | 6.0 | 11.2 | 14.6 | 28.7 | 43.5 |
| Tax servicing (4) | 4.2 | 10.1 | 6.5 | 3.4 | 3.9 |
| Other cash flows (5) | - | - | - | 29.4 | 30.4 |
| **Cash flow before debt and tax servicing** | **75.0** | **81.7** | **91.5** | **110.2** | **116.7** |
| Capital expenditure (6) | 2.4 | 2.3 | 2.0 | 2.3 | 2.5 |
| Working capital (7) | (1.1) | 1.2 | 1.4 | (1.8) | 0.1 |
| Adjusted EBITDA (8) | **76.2** | **85.2** | **94.9** | 110.7 | 119.4 |

| (£ in millions) | 2010 | 2011 | 2012 | Aug 13 | Sep 13 |
|---|---|---|---|---|---|
| Calculation of purchases from consolidated financial statements | | | | | |
| Opening purchased asset value | 135.6 | 159.9 | 189.3 | 236.8 | 236.8 |
| Less: Amortisation (a) | (33.6) | (40.6) | (43.2) | (58.5) | (62.9) |
| Less: Closing purchased asset value | (159.9) | (189.3) | (236.8) | (299.3) | (298.3) |
| Reported portfolio purchases | (57.9) | (70.0) | (90.7) | (121.4) | (124.4) |
| Reported portfolio purchases (see above) | 57.9 | 70.0 | 90.7 | 121.0 | 124.4 |
| Portfolio purchases (cash flow) | 55.7 | 68.4 | 90.6 | 124.8 | 128.3 |
| Timing difference (a) | 2.2 | 1.6 | 0.1 | (3.8) | (3.8) |

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

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

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

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

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

*(5) Other cash flows represent the amount of cash paid for Interlaken Group in May 2013.*

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

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

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

The table below demonstrates our growing levels of cash flow before debt and tax servicing over time. It also shows a consistent and high conversion of Adjusted EBITDA to cash flow before debt and tax servicing.

| | Financial year ended August 31 for prior periods and 13 months ended September 30 2013. | | | | |
|---|---|---|---|---|---|
| (£ in millions) | 2009 | 2010 | 2011 | 2012 | 2013 |
| Adjusted EBITDA | 63.7 | 76.2 | 85.2 | 94.9 | 119.4 |
| Cash flow before tax and debt servicing | 61.7 | 75.0 | 81.7 | 91.5 | 116.7 |
| % of adjusted EBITDA | 96.8% | 98.4% | 95.9% | 96.4% | 97.8% |

## Returns on portfolio purchases

Unlevered Net IRR for all portfolios purchased up to the period ended September 30, 2013 was 22.2% with an estimated ERC of £530.3 million. Returns across all of our segments continue to be strong.

| | As of September 30, 2013 | | | | |
|---|---|---|---|---|---|
| Segment | Invested (£ in millions) | Unlevered net IRR (all costs)(1) | Unlevered net IRR (collection costs)(1) | Gross cash-on-cash (1) | Net cash-on-cash (1) multiple |
| **Total** | **597.3** | **22.2%** | **35.6%** | **2.02x** | **1.48x** |

## People

We continue to invest in our people and during the year we have significantly bolstered the expertise and experience of our Executive Board and Leadership team with new appointments from blue chip organisations.

Given the strategic importance of information technology to our growth ambitions we appointed Gary Edwards to a newly created role of Chief Information Officer in November 2012. An experienced IT executive with significant expertise in the financial sector UK and overseas, Gary has since enhanced his leadership team with the recruitment of Tish Joyce into a newly created role of Director of Change Management. Tish has a strong track record of multichannel transformation projects for major blue chip organisations.

Our Chief Finance Officer Colin Storrar, joined us in February 2013. A qualified accountant, Colin has considerable consumer financial services and contact centre operations experience with HSBC, First Direct and GE Money, Colin has strengthened his team with two appointments from FTSE 100 financial institutions to lead our Finance and Pricing teams. Tony Cross, Director of Financial Planning & Analysis, and John Wood, Director of Pricing & Investments, joined in April and June respectively.

Internally we have developed a number of roles. Most significantly the role of Sara de Tute, recruited as Legal & Compliance Director in May 2012, has expanded to become Chief Risk Officer for the Group alongside her continued role as President of the Credit Services Association. Several other members of our management team have been promoted to sit on our now ten-strong Leadership Board, responsible for leading the operational day-to-day running of our business and enabling increased capacity within our strategy-focused Executive Board.

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

## Regulation and compliance

The industry in which we operate is highly regulated which requires significant investment in processes and management time. We believe that the regulatory environment creates strong barriers to entry as debt originators are increasingly careful in their selection of their debt purchase and collector partners, favouring those who can demonstrate robust compliance. We have now fully rolled out our Speech Analytics software with our customer services teams. This software allows us to monitor calls from a 'treating customers fairly' perspective in addition to being able to provide ongoing feedback to operators on calls.

During the year we have fully implemented the CSA new Code of Practice which had to be fully implemented by 1st January 2013. The previous code of practice had been in place since 1985 and it was clear that the Code needed to be revised. As a full member of the CSA we are fully compliant with the new Code of Practice.

In April 2013 we launched our FAIR programme which seeks to bring together all our work to date on:

- Treating Customers Fairly
- Customer focused behaviour
- Fair outcomes
- Assessing affordability
- Responding to client audits
- Our FCA preparations.

With a strong focus on how we can evidence that our practices are better and fair to our clients, customers and regulators.

In September 2013 Lowell Group was awarded an 'outstanding' rating by IIC, the UK's leading Customer Experience consultancy. The only provider to achieve the recognition in our industry, our rigorous assessment used feedback from over 2,500 customers and 500 team members and senior management in order to judge how well we understand the needs of our customers and the quality of the service we deliver. This research also looked at the strength of our customer relationships using the highly acclaimed 'net promoter score' measure. Whilst many financial service companies fail to get a positive score, Lowell received a favourable score of +0.25, testament to our approach of working with our customers to agree a mutually acceptable payment plan tailored to their personal circumstances.

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

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

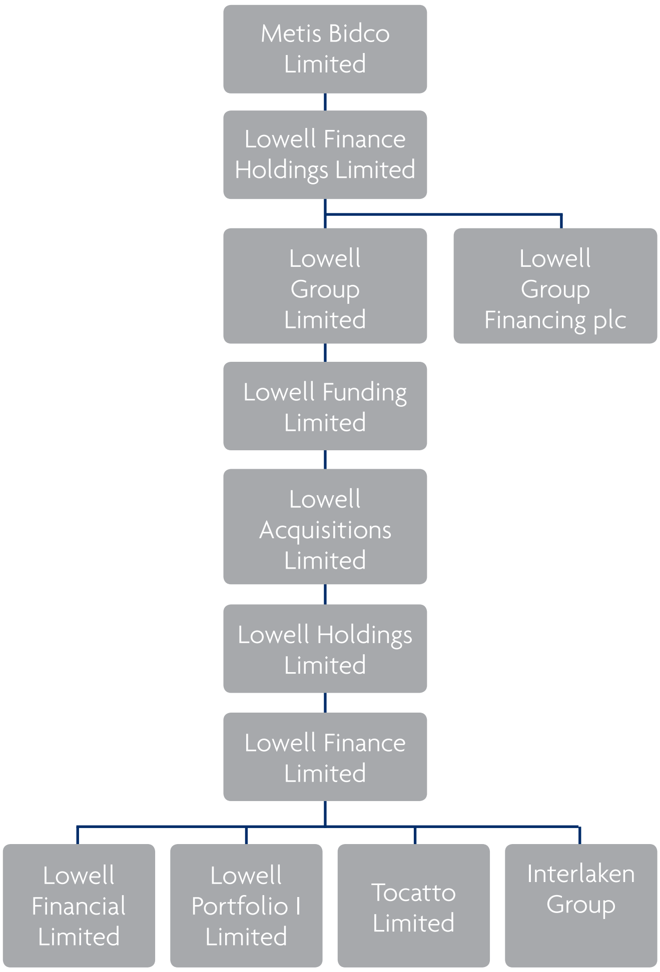
(ii) ensuring that the markets operate with integrity

(iii) the promotion of effective competition

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

# Presentation of financial and other information

The historical and other financial data presented in this annual report is derived from consolidated financial statements for Lowell Finance Holdings Limited and Metis Bidco Limited. The diagram below summarizes the key companies within our corporate structure.




The consolidated financial statements for the thirteen months ended September 30, 2013 are presented in accordance with UK GAAP. The consolidated annual financial statements for the period ended September 30, 2013 are audited.

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

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

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


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

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

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

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

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

# Review of statutory financial statements

**2013 was another successful year with portfolios on balance sheet having increased by 26% to £299.5 million, portfolio purchases up 37% to £124.4 million and collections up 28% to £173.7 million.**

The audited consolidated financial statements for the period ended September 30, 2013 have been derived from our audited financial statements. The financial statements have been prepared in accordance with UK GAAP.

A decision was taken to change the financial year end from August 31 to September 30 to align the financial reporting with the calendar quarters. As a result the comparative figures presented in these financial statements are not comparable.

## Consolidated profit and loss account

### Collections on owned portfolios (1)

Collections on owned portfolios increased by £37.8 million (28%) to £173.7 million for the financial period ended September 30, 2013 from £135.9 million for the financial year ended August 31, 2012, due to continued new portfolio purchases in the year and the strong collection performance on these new portfolios and portfolios already owned at the beginning of the period.

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

Portfolio amortisation increased by £20.3 million (47%) to £63.5 million for the financial period ended September 30, 2013 from £43.2 million for the financial year ended August 31, 2012. This increase was primarily a result of the increase in Purchased Assets over the period.

### Turnover (1)

Turnover increased by £24.0 million (26%) to £117.0 million for the financial period ended September 30, 2013 from £93.0 million for the financial year ended August 31, 2012. This resulted from the strong performance in collections both on portfolios owned at the start of the year and on portfolios purchased during the financial year together with resulting fair value movement of the Purchased Assets on the balance sheet as of September 30, 2013.

### Cost of sales (1)

As a result of the increase in purchased assets and additional collection efforts, the cost of sales increased by £7.7 million (48%) to £23.6 million for the financial period ended September 30, 2013. Additionally, the mix of portfolios purchased for the thirteen months ended September 30, 2013 included a higher percentage of communications portfolios, which are lower balance accounts, as compared to the prior period. The lower average balance on these portfolios drives a higher level of servicing costs as a result of the greater volumes of customer accounts purchased. In addition to this the consolidation of Interlaken group, which is a low margin business, gives the impression of increasing costs in the underlying business, however stripping out this effect costs have increased to £21.9 million (38%).

### Administrative expenses (1)

Administrative expenses increased by £11.9 million (47%) to £37.3 million for the financial period ended September 30, 2013 from £25.4 million for the financial year ended August 31, 2012. The main drivers in the increase are wages and salaries with an additional 169 members of staff, IT costs as we continue to invest in our systems and the purchase and consolidation of Interlaken group.

*1) See other definitions on page 89*

## Interest payable (1)

Interest payable increased by £9.9 million (19%) to £61.7 million for the financial period ended September 30, 2013 from £51.8 million for the financial year ended August 31, 2012. The year on year movement was driven by the Company issuing an additional £75 million listed bond in February 2013. The bond was issued under the same terms as the previous £200m bond with interest calculated at 10.75% fixed for the whole term but this was listed at a premium of 9.5%.

## Tax on loss on ordinary activities (1)

Tax on loss on ordinary activities reduced by £0.8 million (14%) to £4.8 million for the financial period ended September 30, 2013 from £5.6 million for the financial year ended August 31, 2012, as a result of a reduction in the effective taxation rate, partially offset by an increase in effective taxable profits.

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

Loss on ordinary activities after taxation increased by £5.9 million, to a loss of £21.4 million for the financial period ended September 30, 2013 from a loss of £15.5 million for the financial year ended August 31, 2012, as a result of the factors discussed above.

# Balance sheet

## Debt portfolios or purchased assets (under current assets)

Debt portfolios (or "Purchased Assets") increased by £62.7 million (26%) to £299.5 million at September 30, 2013 from £236.8 million at August 31, 2012, due to continued new portfolio purchases in the thirteen months to September 30, 2013 and the greater than expected collection performance on these new portfolios and portfolios already owned at the beginning of that period. This led to a positive fair value movement in debt portfolios of £11.0 million.

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

Cash increased by £6.3 million to £15.3 million as of September 30, 2013 from £9.0 million as of August 31, 2012. Creditors (amounts falling due within or after more than a year) increased by £118.3 million to £552.0 million as of September 30, 2013, from £433.7 million as of August 31, 2012.

Portfolio purchases to during the year have been funded through a mix of operating cash flow, proceeds from the Senior Secured Notes and the Revolving Credit Facility. During the year our Revolving Credit Facility was increased from £40 million to £55 million on January 21, 2013, until 31 March 2018. Since the year end a further £28 million has been secured bringing the total available funds over the coming year to £83 million. In addition, on February 11, 2013 the group raised a further £75 million of Senior Secured Notes at a premium of 9.5%, at a fixed rate of 10.75%.

## Fixed assets

Fixed assets increased by £22.1 million (14%) to £179.0 million as at September 30, 2013. The increase is a result of capital expenditure of £2.7 million, a £31.0 million increase in intangible fixed assets and a £0.3 million increase in tangible fixed assets on the back of the acquisition of Interlaken Group Limited, offset by depreciation of £2.5 million and goodwill amortisation of £9.5 million.

*1) See other definitions on page 89*

a better way forward

# Financial statements

## Lowell Finance Holdings Limited

**to 30th September 2013**

# Lowell Finance Holdings Limited
## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## Period Ended 30 September 2013

| | Note | 13 months ended 30 Sept 2013 | 5 ½ months ended 31 Aug 2012 (restated*) |
|---|---|---|---|
| | | £000 | £000 |
| Collections on owned portfolios | | 173,684 | 60,312 |
| Amount of purchase cost recovered | | (74,527) | (21,613) |
| Fair value movement in debt portfolios | | 10,997 | 7,187 |
| Turnover from debt portfolios | | 110,154 | 45,886 |
| Other turnover | | 6,849 | 176 |
| **Turnover** | 1 | **117,003** | **46,062** |
| Cost of sales | 1 | (23,609) | (6,339) |
| **Gross profit** | | **93,394** | **39,723** |
| Administrative expenses | 1 | (36,466) | (11,888) |
| Depreciation | 10 | (2,496) | (871) |
| **Operating profit** | 4 | **54,432** | **26,964** |
| Interest receivable | 6 | 940 | 105 |
| Interest payable and similar charges | 7 | (31,420) | (9,922) |
| Amortisation of intangible assets | 9 | (9,242) | (3,424) |
| **Profit on ordinary activities before taxation** | | **14,710** | **13,723** |
| Tax on loss on ordinary activities | 8 | (4,753) | (2,604) |
| **Profit on ordinary activities after taxation for the period** | 18 | **9,957** | **11,119** |

*Prior period figures have been restated due to a change in accounting policy regarding litigation costs.

See Note 1 for further details.

All amounts relate to continuing operations.

The prior period's figures are for the 5½ months from 13 March 2012 (date of incorporation) to 31 August 2012. The Group commenced trading on 19 March 2012 when it acquired the Lowell group of companies headed by Lowell Group Limited.

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

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

# › Lowell Finance Holdings Limited
## Consolidated balance sheet as at 30 September 2013

| | Note | 30 Sept 2013 £000 | 31 Aug 2012 (restated*) £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 9 | 174,482 | 152,724 |
| Tangible assets | 10 | 4,708 | 4,160 |
| | | **179,190** | **156,884** |
| **Current assets** | | | |
| Portfolios | 1 & 2 | 299,465 | 236,759 |
| Debtors | 13 | 22,498 | 16,657 |
| Cash at bank and in hand | | 14,820 | 8,939 |
| | | **336,783** | **262,355** |
| **Creditors: amounts falling due within one year** | 14 | (36,984) | (25,207) |
| **Net current assets** | | **299,799** | **237,148** |
| **Total assets less current liabilities** | | 478,989 | 394,032 |
| **Creditors: amounts falling due after more than one year** | 15 | (275,000) | (200,000) |
| **Net assets** | | **203,989** | **194,032** |
| **Capital and reserves** | | | |
| Called-up share capital | 17 | 182,913 | 182,913 |
| Profit and loss account | 18 | 21,076 | 11,119 |
| **Total equity shareholders' funds** | 19 | **203,989** | **194,032** |

* Prior period figures have been restated due to a change in the accounting policy regarding litigation costs. See Note 1 for further details.

These financial statements of Lowell Finance Holdings Limited, Company No. 07987062, were approved by the Board of Directors on 20 January 2014.

Signed on behalf of the Board of Directors by:

C G Storrar

Director

20 January 2014

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

# › Lowell Finance Holdings Limited
## Company balance sheet as at 30 September 2013

| | Note | 30 Sept 2013 £000 | 31 Aug 2012 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 11 | 182,963 | 182,963 |
| **Creditors: amounts falling due within one year** | 14 | (50) | (50) |
| **Net assets** | | **182,913** | **182,913** |
| **Capital and reserves** | | | |
| Called-up share capital | 17 | 182,913 | 182,913 |
| Profit and loss account | 18 | - | - |
| **Total equity shareholders' funds** | | **182,913** | **182,913** |

These financial statements of Lowell Finance Holdings Limited, Company No. 07987062, were approved by the Board of Directors on 20 January 2014.

Signed on behalf of the Board of Directors by:

C G Storrar

Director

20 January 2014

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

# › Lowell Finance Holdings Limited
## Consolidated cash flow statement
## Period Ended 30 September 2013

| | Note | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|---|
| **Cash flow from operating activities** | 20 | **(8,976)** | **1,155** |
| Returns on investments and servicing of finance | 21 | (43,604) | (78,262) |
| Taxation | 21 | (3,869) | (261) |
| Capital expenditure and financial investment | 21 | (2,711) | (981) |
| Acquisitions and disposals | 21 | (29,995) | 11,117 |
| **Cash outflow before financing** | | **(89,155)** | **(67,232)** |
| Financing | 21 | 95,036 | 76,171 |
| **Increase in cash in the period** | | **5,881** | **8,939** |

## Reconciliation of net cash flow to movement in net debt
## Period Ended 30 September 2013

| | Note | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|---|
| Increase in cash in the period | 22 | 5,881 | 8,939 |
| Movement in borrowings | 22 | (115,408) | (7,504) |
| Non cash movements | 22 | 39,426 | 102,821 |
| **Movement in net debt in the period** | | **(70,101)** | **104,256** |
| Net debt at start of the period / date of acquisition | 22 | (200,079) | (304,335) |
| **Net debt at end of the period** | 22 | **(270,180)** | **(200,079)** |

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

# › Lowell Finance Holdings Limited
## Notes to the financial statements
## Period Ended 30 September 2013

### 1. Accounting policies

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

#### Basis of accounting

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

#### Going concern

The Group's business activities together with factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report on pages 2 to 5. In addition, Note 3 to these financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk..

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

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

#### Basis of consolidation

The Group financial statements consolidate the financial statements of Lowell Finance Holdings Limited and all its subsidiary undertakings drawn up to 30 September 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.

No Profit and Loss Account is presented for Lowell Finance Holdings Limited itself as permitted by Section 408 of the Companies Act 2006 and, as determined in accordance with this act, the Company has not had any Profit and Loss Account transactions since its incorporation.

#### Financial instruments

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

##### a) Debt portfolios

Non-performing debt portfolios are purchased from 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.

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

##### b) Financial liabilities

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

##### c) Derivatives

The Group enters into interest rate caps and interest rate swaps to commercially hedge 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.

At 30 September 2013, the Group had no outstanding derivative contracts. The last derivative contracts that the group entered either matured or were closed out as at 30 March 2012. No other contracts have been entered into since this date.

### Turnover

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

### Cost of sales

Cost of sales represents the costs of collecting debts; examples include printing and postage, third party commissions, litigation, telephone and SMS text costs.

### Administrative expenses

Administrative expenses represent the servicing costs incurred in running the business; examples include staff costs, premises, travel and marketing costs.

### Fair value movement in debt portfolios

For portfolios purchased during the period, the fair value movement is the difference in net collection projections from 30 September 2013 between the original curves based on the price paid for the portfolios and the current collection projections, plus reflecting any change in discount rates.

For portfolios owned at the start of the period, the fair value movement is the difference in net collection projections from 30 September 2013 as forecast at 31 August 2012 and 30 September 2013 reflecting any change in discount rates.

### Intangible fixed assets – goodwill

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

| | |
|---|---|
| Acquisition of subsidiary 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 | 4 years |
| Computer Equipment | 3 years |
| Fixtures and fittings | 4 years |

### Fixed asset investments

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

### Taxation

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

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

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

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

### Amounts collected on behalf of third parties

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

### Leases

Operating lease rentals are charged to income on a straight line basis over the lease term. Any lease incentives are spread over the life of the lease. During the period the lease was broken on the Interchange building; the cost was expensed in full as incurred.

A dilapidation provision is being accrued for vacating the buildings in June 2014.

### Litigation costs

Up to 31 August 2012 litigation costs were expensed through the Profit and Loss Account ("P&L") due to the materiality of the expenditure and the fact that the majority of these costs were incurred internally.

During 2013, litigation costs have increased as a greater number of accounts have been deemed appropriate to litigate upon. The increase in materiality has led to a consideration of accounting policy and a subsequent change to account for litigation costs on an accruals basis. They are now deferred to the balance sheet on initial recognition and released to the P&L in line with the forecast collections profile over 4 years.

At 30 September 2013 there are £2,887k of litigation costs included within Other debtors as a result of the policy change. Prior to the change the full amount of this would have been expensed to the P&L resulting in an additional debit of £1,706k in the current year.

As a material policy change, prior period figures have also been restated. This has resulted in an increase of £867k to 2012 opening Retained earnings, a £315k credit to the 2012 P&L, and a £1,182k increase in 2012 other debtors. This prior year restatement also impacted the current year figures due to the release of restated deferred costs held on the balance sheet in 2012 for the first time. This increase of £792k is included in the overall P&L charge for the current year

## 2. Critical accounting policies, judgements and estimates

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

### Purchased debt portfolios

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

The calculation of the amount falling due after more than one year depends upon the value and profile of 'setups' where customers enter into payment plans. As at 30 September 2013 the amount falling due after more than one year is £211,767k (2012: £168,262k).

The directors are of the opinion that the discount rates applied in determining the fair value of the debt portfolios represent unobservable market rates. For both the 13 months ended 30 September 2013 and the 5½ months ended 31 August 2012, these rates have been determined by management to be 15% (2012: 15%) for default portfolios and 12% (2012: 12%) for paying portfolios. Changes in these assumptions to possible alternatives of plus or minus 2.5% would lead to the following (decrease) / increase of profit:

| | 13 months ended 30 Sept 2012 | 5 ½ months ended 31 Aug 2012 |
|---|---|---|
| | £000 | £000 |
| Plus 2.5% | (12,383) | (9,127) |
| Minus 2.5% | 13,555 | 9,898 |

## 3. Risk management and control

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

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

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

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

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

### Credit risk

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

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

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

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

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

### Operational risk

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

### Market risk

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

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

On 30 March 2012 the balance outstanding on the old Revolving Credit Facility (RCF) was fully repaid. A new RCF was put in place on 30 March 2012 for £40m. On 21 January 2013 the facility was increased to £55m. On 28 November 2013 the facility was further increased to £66m. Under the terms of the RCF, further growth in ERC will allow the facility to increase to a maximum limit of £83m.

Derivatives are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates. The group's RCF has a variable interest rate and at 30 September 2013 £10m of the facility was utilised.

Interest rate caps and interest rate swaps have been used in the past to mitigate the risk of changing interest rates, however due to the stability in interest rates in recent years the group has taken the decision to not enter into any derivative contracts to hedge this risk. As at 30 September 2013 the group has no outstanding derivative contracts.

### Capital management risk

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

## Liquidity risk

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

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows. At 30 September 2013, the Group had available undrawn committed borrowing facilities of £45m. Subsequent to the year end, on 28 November 2013 the RCF was further increased to £66m, resulting in undrawn committed borrowing facilities increasing to £56m. Under the terms of the RCF, further growth in ERC will allow the facility to increase to a maximum limit of £83m.

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

| **2013** | **Carrying amount** | | **0-6 months** | **6 - 12 months** | **1-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Notes* | 275,000 | 437,593 | 14,781 | 14,781 | 118,250 | 289,781 |
| Other liabilities | 36,984 | 36,984 | 36,984 | - | - | - |
| **Total liabilities** | **311,984** | **474,577** | **51,765** | **14,781** | **118,250** | **289,781** |

| **2012** | **Carrying amount** | | **0-6 months** | **6 - 12 months** | **1-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Notes* | 209,018 | 350,560 | 10,810 | 10,750 | 86,000 | 243,000 |
| Other liabilities | 16,189 | 16,189 | 16,189 | - | - | - |
| **Total liabilities** | **225,207** | **366,749** | **26,999** | **10,750** | **86,000** | **243,000** |

** Includes Loan principal oustanding (Note 15) and accrued interest (Note 14)*

### Fair value estimation risk

Financial assets and liabilities are classified into the following categories:

| Financial assets | Sept 2013 £000 | Aug 2012 (restated) £000 |
|---|---|---|
| Fair value through profit and loss (debt portfolios) | 299,465 | 236,759 |
| Loans and receivables | 37,318 | 25,596 |
| **Total financial assets** | **336,783** | **262,355** |
| **Financial liabilities** | | |
| Fair value through profit and loss | - | - |
| Other financial liabilities measured at amortised cost | (311,984) | (225,207) |
| **Total financial liabilities** | **(311,984)** | **(225,207)** |

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

## 4. Operating profit

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|
| **Operating profit is after charging:** | | |
| Depreciation of tangible fixed assets | 2,496 | 871 |
| Amortisation of intangible fixed assets | 9,242 | 3,424 |
| Rentals under operating leases | 1,098 | 336 |

The auditor's remuneration was borne by the Company's immediate parent. Audit services in respect of these financial statements was £5,200 (5½ months ended 31 August 2012: £5,000) and in respect of the other group companies £77k (5½ months ended 31 August 2012: £42k). No other fees were paid to the auditor by the Company's immediate parent for other assurance services (5½ months ended 31 August 2012: £18k).

Also, during the 5½ months ended 31 August 2012, £186k was charged by the auditor for other assurance services in relation to the issue of the 10.75% Senior Secured Notes (the "Notes"). These costs are charged to the Profit and Loss Account over the 7 year term of the Notes. During the period, £28k has been included in "Fees payable on the Notes" (Note 7) (5½ months ended 31 August 2012: £11k).

In the period ended 31 August 2012, statutory audit and non-audit fees solely relate to those paid to KPMG Audit Plc. In the period ended 30 Sept 2013, all such fees relate to these paid to KPMG LLP.

## 5. Information regarding directors and employees

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|
| **Directors' remuneration:** | | |
| Aggregate emoluments to current directors | 782 | 252 |
| Aggregate emoluments to past directors | 147 | - |
| | **929** | **252** |
| **Emoluments of highest paid director** | **458** | **151** |

The above emoluments do not include any emoluments for T J H Large, which is paid by another parent undertaking.

| | 13 months ended 30 Sept 2013 No. | 5 ½ months ended 31 Aug 2012 No. |
|---|---|---|
| **Employees:** | | |
| Average number of persons employed by the Group: | | |
| Administration | 735 | 578 |

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|
| Staff costs for the Group (including executive directors): | | |
| Wages and salaries | 22,386 | 7,476 |
| Social security costs | 2,367 | 743 |
| Pension Contributions | 111 | - |
| | **24,864** | **8,219** |

## 6. Interest receivable

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|
| Bank interest receivable | 202 | 105 |
| Bond Loan Premium release (Note 15) | 738 | - |
| | **940** | **105** |

## 7. Interest payable and similar charges

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|
| Interest payable on the £200m Notes | 23,292 | 9,018 |
| Interest payable on the £75m Notes | 5,151 | - |
| Fees payable on the £200m Notes | 1,297 | 479 |
| Fees payable on the £75m Notes | 156 | - |
| Fees payable on revolving credit facility | 1,524 | 425 |
| | **31,420** | **9,922** |

## 8. Tax on profit on ordinary activities

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax | 2,815 | 1,261 |
| Group relief paid for (Note 14) | 2,547 | 1,087 |
| Adjustment in respect of previous periods | (146) | (13) |
| **Total current tax charge** | **5,216** | **2,335** |
| **Deferred taxation** | | |
| Origination and reversal of timing differences | (492) | 234 |
| Adjustment in respect of previous periods | (7) | - |
| Effects of change in tax rates | 78 | 35 |
| Changes in estimate of recoverable deferred tax asset | (42) | - |
| **Total deferred tax (credit)/charge** | **(463)** | **269** |
| **Total charge on loss on ordinary activities** | **4,753** | **2,604** |

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

## 8. Tax on profit on ordinary activities (continued)

The tax assessed for the period is lower (5½ months ended 31 August 2012: lower) than the standard effective rate of corporation tax in the UK for the period ended 30 September 2013 of 23.54% (5½ months ended 31 August 2012: 24%). The differences are explained below:

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| **Profit on ordinary activities before tax** | **14,710** | **13,723** |
| Tax charge on profit on ordinary activities at standard UK corporation tax rate of 23.54% (5 ½ months ended 31 August 2012: 24%) | 3,462 | 3,288 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 2,219 | 805 |
| Impact of prior year restatement | 141 | - |
| Movement in short term timing differences | 170 | (298) |
| Book depreciation in excess of capital allowances | 181 | 61 |
| Adjustment in respect of previous periods | (96) | (94) |
| Group relief claimed free of charge | (861) | (1,427) |
| **Current tax charge for period** | **5,216** | **2,335** |

*The prior period figure has been restated due to an accounting policy change regarding litigation costs. (See Note 1).

## 9. Intangible fixed assets

**Group**

| | Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 September 2012 | 156,148 |
| Additions during the period | 31,000 |
| **At 30 September 2013** | **187,148** |
| **Accumulated amortisation** | |
| At 1 September 2012 | (3,424) |
| Charge for the period | (9,242) |
| **At 30 September 2013** | **(12,666)** |
| **Net book value** | |
| At 30 September 2013 | 174,482 |
| At 31 August 2012 | 152,724 |

The additions in the period arose from the acquisition of Interlaken Group Limited as detailed in Note 12.

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

## 10. Tangible fixed assets

### Group

| | Office equipment £000 | Computer equipment £000 | Fixtures, fittings & equipment £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 September 2012 | 11,610 | - | - | 11,610 |
| At acquisition of subsidiary undertaking (Note 12) | - | 718 | 761 | 1,479 |
| Additions during the period | 2,527 | 94 | 90 | 2,711 |
| **At 30 September 2013** | **14,137** | **812** | **851** | **15,800** |
| **Accumulated Depreciation** | | | | |
| At 1 September 2012 | (7,450) | - | - | (7,450) |
| At acquisition of subsidiary undertaking (Note 12) | - | (530) | (616) | (1,146) |
| Charge for the period | (2,410) | (55) | (31) | (2,496) |
| **At 30 September 2013** | **(9,860)** | **(585)** | **(647)** | **(11,092)** |
| **Net book value** | | | | |
| At 30 September 2013 | **4,277** | **277** | **204** | **4,708** |
| At 31 August 2012 | 4,160 | - | - | 4,160 |

## 11. Fixed assets investments

**Company**

### Subsidiary undertakings

| | £000 |
|---|---|
| **Cost** | |
| At 30 September 2013 and 31 August 2012 | **182,963** |

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

| Name | Country of incorporation | Principal activity | Ordinary share holding % |
|---|---|---|---|
| Lowell Group Financing Plc | UK | Financing | 100* |
| Lowell Group Limited | UK | Holding Company | 100* |
| Lowell Funding Limited | UK | Holding Company | 100 |
| Lowell Acquisitions Limited | UK | Holding Company | 100 |
| Lowell Holdings Limited | UK | Holding Company | 100 |
| Lowell Finance Limited | UK | Holding Company | 100 |
| Lowell Financial Limited | UK | Consumer debt collection | 100 |
| Lowell Portfolio I Limited | UK | Consumer debt purchase and collection | 100 |
| Tocatto Limited | UK | Consumer debt collection | 100 |
| Lowell Portfolio III Holdings Limited | UK | Holding Company | 100 |
| Lowell Portfolio III Limited | UK | Dormant | 100 |
| Lowell Portfolio IV Holdings Limited | UK | Holding Company | 100 |
| Lowell Portfolio IV Limited | UK | Dormant | 100 |
| Lowell Portfolio V Limited | UK | Dormant | 100 |
| Interlaken Group Limited | UK | Holding Company | 100 |
| Fredrickson International Limited | UK | Consumer debt collection | 100 |
| SRJ Debt Recoveries Limited | UK | Consumer debt collection | 100 |

**Held directly by the Company*

All subsidiaries are included in the consolidation.

## 12. Acquisition of subsidiary undertakings

On 16 May 2013, Lowell Finance Limited acquired 100% of the issued ordinary shares of Interlaken Group Limited. Interlaken Group Limited consists of three entities, Interlaken Group Limited, Fredrickson International Limited and SRJ Debt Recoveries Limited. The consideration paid was £29.8m cash, with potential contingent consideration of £5.2m payable in cash on achievement of certain revenue stream targets (Note 14: included within other creditors). In addition, the Group incurred professional fees of £1.0m on the acquisition of Interlaken Group Limited.
This resulted in goodwill on acquisition of £31m.

| **Assets and liabilities acquired at fair value:** | **£000** |
|---|---|
| Investment in subsidiary | 10 |
| Tangible fixed assets (Note 10) | 333 |
| Portfolios | 1,289 |
| Debtors | 4,158 |
| Cash | 827 |
| Creditors | (1,427) |
| Creditors: deferred tax liability | (140) |
| Revaluation reserve | (28) |
| | **5,022** |
| **Goodwill** (Note 9) | 31,000 |
| **Consideration** | **36,022** |

The acquisition of Interlaken Group Limited has been accounted for by the acquisition method of accounting.
Included within the above is a fair value adjustment which has been made to the portfolio asset book acquired by aligning the valuation method with that used by Lowell Portfolio I Ltd. This resulted in an increase in the portfolio value of £0.6m.
The tax effect of this adjustment is an additional tax charge of £0.1m (deferred tax liability).
In its last financial year ended 31 March 2013 the Consolidated Profit and Loss Account of Interlaken Group Limited showed a loss after tax of £0.6m.
For the period since 31 March 2013 to the date of acquisition of 15 May 2013, the consolidated management accounts of Interlaken Group Limited show the following:

| | **£000** |
|---|---|
| Turnover | 2,529 |
| Gross profit | 1,248 |
| Loss before taxation | (13) |

## 13. Debtors

| Group | Sept 2013 £000 | Aug 2012 (restated*) £000 |
|---|---|---|
| Trade debtors | 2,961 | 126 |
| Other debtors | 6,574 | 4,699 |
| Deferred tax | 473 | 149 |
| Prepayments and accrued income | 12,392 | 11,683 |
| Amounts owning from Company's immediate parent | 98 | - |
| | **22,498** | **16,657** |

*The 2012 other debtors figure has been restated due to an accounting policy change regarding litigation costs. These were previously recognised through the P&L, but are now being deferred to the balance sheet to more accurately reflect the nature of the costs (See Note 1).

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

| | Sept 2013 £000 | Aug 2012 (restated*) £000 |
|---|---|---|
| **Book depreciation in excess of capital allowances:** | | |
| At 1 September 2012 | 382 | 281 |
| Deferred tax credit in Profit and Loss Account (Note 8) | 144 | 101 |
| **At 30 September 2013 / 31 August 2012** | **526** | **382** |
| **Short term timing differences:** | | |
| At 1 September 2012 | (233) | 137 |
| Acquisition of subsidiary undertakings (Note 12) | (140) | - |
| Deferred tax credit / (charge) in Profit and Loss Account (Note 8) | 320 | (370) |
| **At 30 September 2013 / 31 August 2012** | **(53)** | **(233)** |
| **Total deferred tax assets at 30 September 2013 / 31 August 2012** | **473** | **149** |

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

| Group | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Trade creditors | 2,901 | 1,698 |
| Other taxes and social security | 1,104 | 429 |
| Corporation tax | 484 | 3,026 |
| Other creditors (Note 12) | 7,381 | 434 |
| Accruals and deferred income (Note 15) | 10,341 | 7,165 |
| Interest due on the Notes | - | 9,018 |
| Bank loan (RCF) | 10,000 | - |
| Amounts owing to Company's immediate parent (repayable on demand) | - | 2,350 |
| Amounts owing to a parent for group relief (repayable on demand) | 4,773 | 1,087 |
| | **36,984** | **25,207** |

| Company | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Amounts owing to the Company's immediate parent (repayable on demand) | **50** | **50** |

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

| Group | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| 10.75% Senior Secured Notes due 2019 | **275,000** | **200,000** |

On 30 March 2012, the subsidiary, Lowell Group Financing Plc issued £200.0m 10.75% Senior Secured Notes due 2019, with the interest rate fixed at 10.75% for the entirety of its term. Commencing on 1 October 2012, the interest on the Notes is paid by the subsidiary semi-annually on each 1 April and 1 October. 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.

A further £75.0m Notes were issued on 11 February 2013 under the same terms. The £75.0m Notes were issued at a premium raising cash of £82.1m. The loan premium of £7.1m is recorded within Accruals and deferred income (Note 14) and is being released to the profit and loss account (Note 6) over the remaining term of the Notes. As at 30 September 2013 the outstanding loan premium is £6.4m.

## 16. Operating lease commitments

**Group**

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

| | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Land and buildings which expire: | | |
| Within one year | 621 | - |
| Within two to five years | 494 | 805 |
| Other operating leases which expire: | | |
| Within one year | 23 | - |
| Within two to five years | 44 | - |
| | **1,182** | **805** |

The lease expires on Enterprise House on 16th June 2014.

The lease on Interchange House includes a break clause which allows the Company to terminate the lease on 16th June 2014. The Company has taken up this option and the lease will expire on 16th June 2014.

A new lease was signed post year end for new premises at Leeds Valley Park. The annual commitment on this new lease is £1.1m.

## 17. Called-up share capital

| | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| **Allotted and fully paid** | | |
| 182,913,396 (2012: 182,913,396 ) Ordinary shares of £1.00 each | **182,913** | **182,913** |

## 18. Reserves

| **Group** | **£000** |
|---|---|
| **Profit and loss account** | |
| At 1 September 2012 (restated*) | 11,119 |
| Profit for the financial period | 9,957 |
| **At 30 September 2013** | **21,076** |

*Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

**Company**

As determined in accordance with the Companies Act 2006, the Company has not had any Profit and Loss Account transactions since its incorporation.

## 19. Reconciliation of movement in total shareholders' funds

| Group | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| Opening shareholders' funds | 194,032 | - |
| Issue of share capital (Note 17) | - | 182,913 |
| Profit for the financial period | 9,957 | 11,119 |
| **Closing total equity shareholders' funds** | **203,989** | **194,032** |

*Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

## 20. Reconciliation of operating profit to operating cash flows

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| Operating profit | 54,432 | 26,946 |
| Depreciation | 2,496 | 871 |
| Increase in debt portfolios | (61,417) | (37,734) |
| (Increase)/decrease in debtors | (1,200) | 3,569 |
| (Decrease)/increase in creditors | (3,287) | 7,485 |
| **Net cash (outflow) / inflow from operating activities** | **(8,976)** | **1,155** |

*Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

## 21. Analysis of cash flows

| | 13 months ended 30 Sept 2013 £000 | 5 ½ months ended 31 Aug 2012 £000 |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | 202 | 105 |
| Interest paid | (43,806) | (78,367) |
| | **(43,604)** | **(78,262)** |
| **Taxation** | | |
| UK corporation tax paid | **(3,869)** | **(261)** |
| **Capital expenditure and financial investment** | | |
| Purchase of tangible fixed assets (Note 10) | **(2,711)** | **(981)** |
| **Acquisitions and disposals** | | |
| Purchase of Interlaken Group Limited (Note 12) | (30,822) | - |
| Cash acquired with Interlaken Group Limited (Note 12) | 827 | - |
| Cash acquired with Lowell Group Limited | - | 11,117 |
| | **(29,995)** | **11,117** |
| **Financing** | | |
| Issue of 10.75% Senior Secured Notes 2019 (Note 15) | 85,036 | 200,000 |
| Drawdown of revolving credit facility | 10,000 | - |
| Repayment of bank loan | - | (89,132) |
| Repayment of loan from immediate parent | - | (34,697) |
| | **95,036** | **76,171** |

## 22. Analysis of net debt

| | At 1 September 2012 | Cash flow | Acquisition of subsidiary | Non cash movements | At 30 September 2013 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Debt due within one year | (9,018) | (30,372) | - | 29,390 | (10,000) |
| Debt due after more than one year | (200,000) | (85,036) | - | 10,036 | (275,000) |
| | **(209,018)** | **(115,408)** | **-** | **39,426** | **(285,000)** |
| Cash at bank and in hand | 8,939 | 5,054 | 827 | - | 14,820 |
| Total | **(200,079)** | **(110,354)** | **827** | **39,426** | **(270,180)** |

## 23. Related party transactions

The Company is not required to disclose transactions with Metis Bidco Limited and its subsidiary undertakings, in accordance with FRS 8, as it is itself a wholly owned subsidiary undertaking of Metis Bidco Limited, which prepares consolidated financial statements. The consolidated financial statements of Metis Bidco Limited are available from the company's registered office at Enterprise House, 1 Apex View, Leeds, LS11 9BH.

## 24. Ultimate controlling party

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

The largest group which consolidates these financial statements is that headed by Metis Holdco Limited, incorporated in England and Wales and the smallest group which consolidates them is that headed by Metis Bidco Limited, incorporated in England and Wales. The consolidated financial statements of Metis Holdco Limited and Metis Bidco Limited are each available from their registered offices at One Stanhope Gate, London, W1K 1AF and Enterprise House, 1 Apex View, Leeds, LS11 9BH respectively.

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# Financial statements Metis Bidco Limited

**For the 13 months ended 30 September 2013**

# › Metis Bidco Limited

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## Period ended 30 September 2013

| | Note | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|---|
| Collections on owned portfolios | | 173,684 | 135,903 |
| Amount of purchase cost recovered | | (74,527) | (55,078) |
| Fair value movement in debt portfolios | | 10,997 | 11,858 |
| Turnover from debt portfolios | | 110,154 | 92,683 |
| Other turnover | | 6,849 | 272 |
| **Turnover** | 1 | **117,003** | **92,955** |
| Cost of sales | 1 | (23,591) | (15,845) |
| **Gross profit** | | **93,412** | **77,110** |
| Administrative expenses | 1 | (37,335) | (25,436) |
| Depreciation | 10 | (2,496) | (2,004) |
| **Operating profit** | 4 | **53,581** | **49,670** |
| Interest receivable | 6 | 944 | 11 |
| Interest payable and similar charges | 7 | (61,690) | (51,755) |
| Fair value movements in derivatives | 3 | - | 160 |
| Amortisation of intangible assets | 9 | (9,479) | (7,968) |
| **Loss on ordinary activities before taxation** | | **(16,644)** | **(9,882)** |
| Tax on loss on ordinary activities | 8 | (4,752) | (5,629) |
| **Loss on ordinary activities after taxation for the period** | 18 | **(21,396)** | **(15,511)** |

*Prior period figures have been restated due to a change in accounting policy regarding litigation costs.

See Note 1 for further details.

All amounts relate to continuing operations.

Although the prior period's figures are stated to be for the 15 months from 31 May 2011 (date of incorporation) to 31 August 2012, the Group only traded for 11½ months commencing on 15 September 2011 when it acquired the Lowell group of companies headed by Lowell Group Limited.

There were no recognised gains and losses for the current or prior 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 48 to 68 form part of these financial statements.

# › Metis Bidco Limited
## Consolidated balance sheet
## 30 September 2013

| | Note | 30 Sept 2013 £000 | 31 Aug 2012 (restated*) £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 9 | 174,249 | 152,728 |
| Tangible assets | 10 | 4,708 | 4,160 |
| | | **178,957** | **156,888** |
| **Current assets** | | | |
| Debt Portfolios | 1 & 2 | 299,465 | 236,759 |
| Debtors | 13 | 22,623 | 16,714 |
| Cash at bank and in hand | | 15,303 | 9,020 |
| | | **337,391** | **262,493** |
| **Creditors: amounts falling due within one year** | 14 | (36,258) | (23,246) |
| **Net current assets** | | **301,133** | **239,247** |
| **Total assets less current liabilities** | | 480,090 | 396,135 |
| **Creditors: amounts falling due after more than one year** | 15 | (515,698) | (410,428) |
| **Net liabilities** | | **(35,608)** | **(14,293)** |
| **Capital and reserves** | | | |
| Called-up share capital | 16 | 1,230 | 1,212 |
| Share premium account | 17 | 69 | 6 |
| Profit and loss account | 17 | (36,907) | (15,511) |
| **Total equity shareholders' deficit** | 18 | **(35,608)** | **(14,293)** |

*Prior period figures have been restated due to a change in accounting policy regarding litigation costs.

See Note 1 for further details.

These financial statements of Metis Bidco Limited, Company No. 07652466, were approved by the Board of Directors on 20 January 2014.

Signed on behalf of the Board of Directors by:

J J Cornell

Director

20 January 2014

The notes on pages 48 to 68 form part of these financial statements.

# Metis Bidco Limited
## Company balance sheet
## 30 September 2013

| | Note | 30 Sept 2013 £000 | 31 Aug 2012 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 11 | 188,076 | 188,076 |
| **Current assets** | | | |
| Debtors | 13 | 2,466 | 2,692 |
| Cash at bank and in hand | | 482 | 81 |
| | | **2,948** | **2,773** |
| **Creditors: amounts falling due within one year** | 14 | (1,604) | (675) |
| **Net current assets** | | 1,344 | 2,098 |
| **Total assets less current liabilities** | | **189,420** | **190,174** |
| **Creditors: amounts falling due after more than one year** | 15 | (240,698) | (210,428) |
| **Net liabilities** | | **(51,278)** | **(20,254)** |
| **Capital and reserves** | | | |
| Called-up share capital | 16 | 1,230 | 1,212 |
| Share premium account | 17 | 69 | 6 |
| Profit and loss account | 17 | (52,577) | (21,472) |
| **Total equity shareholders' deficit** | 18 | **(51,278)** | **(20,254)** |

These financial statements of Metis Bidco Limited, Company No. 07652466, were approved by the Board of Directors on 20 January 2014.

Signed on behalf of the Board of Directors by:

J J Cornell

Director

20 January 2014

The notes on pages 48 to 68 form part of these financial statements.

# › Metis Bidco Limited
## Consolidated cash flow statement
## Period ended 30 September 2013

| | Note | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|---|
| **Cash flow from operating activities** | 19 | **(7,580)** | **2,890** |
| Returns on investments and servicing of finance | 20 | (43,598) | (21,757) |
| Taxation | 20 | (4,869) | (6,521) |
| Capital expenditure and financial investment | 20 | (2,711) | (1,932) |
| Acquisitions and disposals | 20 | (29,995) | (232,125) |
| **Cash outflow before financing** | | **(88,753)** | **(259,445)** |
| Financing | 20 | 95,036 | 268,465 |
| **Increase in cash in the period** | | **6,283** | **9,020** |

## Reconcilation of net cash flow to movement in net debt
## Period ended 30 September 2013

| | Note | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|---|
| **Increase in cash in the period** | 21 | **6,283** | **9,020** |
| Movement in borrowings | 21 | (115,408) | (267,248) |
| Non cash movements | 21 | 9,156 | (36,031) |
| **Cash outflow before financing** | | **(99,969)** | **(294,259)** |
| Net debt at the start of the period / date of incorporation | 21 | (410,426) | (116,167) |
| **Net debt at the end of the period** | 21 | **(510,395)** | **(410,426)** |

The notes on pages 48 to 68 form part of these financial statements.

# › Metis Bidco Limited
## Notes to the financial statements
## Period ended 30 September 2013

### 1. ACCOUNTING POLICIES

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

#### Basis of accounting

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

#### Going concern

The Group's business activities together with factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report on pages 2 to 5. In addition, Note 3 to these financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

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

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

#### Basis of consolidation

The Group financial statements consolidate the financial statements of Metis Bidco Limited and all its subsidiary undertakings drawn up to 30 September 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.

No Profit and Loss Account is presented for Metis Bidco Limited itself, as permitted by Section 408 of the Companies Act 2006. The Company's result for the period, determined in accordance with the Act, was a loss after tax of £31,105k (15 months ended 31 August 2012: loss after tax of £21,472k).

#### Financial instruments

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

#### a) Debt portfolios

Non-performing debt portfolios are purchased from 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.

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

#### b) Financial liabilities

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

#### c) Derivatives

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

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

At 30 September 2013, the Group had no outstanding derivative contracts. The last derivative contracts that the group entered either matured or were closed out as at 30 March 2012. No other contracts have been entered into since this date.

### Turnover

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

Other turnover represents commission on collections for third parties.

### Cost of sales

Cost of sales represents the costs of collecting debts; examples include printing and postage, third party commissions, litigation, telephone and SMS text costs.

### Administrative expenses

Administrative expenses represent the servicing costs incurred in running the business; examples include staff costs, premises, travel and marketing costs.

### Fair value movement in debt portfolios

For portfolios purchased during the period, the fair value movement is the difference in net collection projections from 30 September 2013 between the original curves based on the price paid for the portfolios and the current collection projections, plus reflecting any change in discount rates.

For portfolios owned at the start of the period, the fair value movement is the difference in net collection projections from 30 September 2013 as forecast at 31 August 2012 and 30 September 2013 reflecting any change in discount rates.

### Intangible fixed assets – goodwill

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

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

Provision is made for any impairment.

### Tangible fixed assets

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

| | |
|---|---|
| Office equipment | 4 years |
| Computer equipemt | 3 years |
| Fixtures and fittings | 4 years |

### Fixed asset investments

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

### Taxation

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

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

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

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

### Amounts collected on behalf of third parties

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

### Leases

Operating lease rentals are charged to income on a straight line basis over the lease term. Any lease incentives are spread over the life of the lease. During the period the lease was broken on the Interchange building; the cost was expensed in full as incurred.

A dilapidation provision is being accrued for vacating the buildings in June 2014.

### Litigation costs

Up to 31 August 2012 litigation costs were expensed through the Profit and Loss Account ("P&L") due to the materiality of the expenditure and the fact that the majority of these costs were incurred internally.

During 2013, litigation costs have increased as a greater number of accounts have been deemed appropriate to litigate upon. The increase in materiality has led to a consideration of accounting policy and a subsequent change to account for litigation costs on an accruals basis. They are now deferred to the balance sheet on initial recognition and released to the P&L in line with the forecast collections profile over 4 years.

At 30 September 2013 there are £2,887k of litigation costs included within Other debtors as a result of the policy change. Prior to the change the full amount of this would have been expensed to the P&L resulting in an additional debit of £1,706k in the current year.

As a material policy change, prior period figures have also been restated. This has resulted in an increase of £867k to 2012 opening Retained earnings, a £315k credit to the 2012 P&L, and a £1,182k increase in 2012 other debtors. This prior year restatement also impacted the current year figures due to the release of restated deferred costs held on the balance sheet in 2012 for the first time. This increase of £792k is included in the overall P&L charge for the current year.

## 2. Critical accounting policies, judgements and estimates

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

### Purchased debt portfolios

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

The calculation of the amount falling due after more than one year depends upon the value and profile of 'setups' where customers enter into payment plans. As at 30 September 2013 the amount falling due after more than one year is £211,767k (2012: £168,262k).

The directors are of the opinion that the discount rates applied in determining the fair value of the debt portfolios represent unobservable market rates. For both the periods ended 30 September 2013 and 31 August 2012, these rates have been determined by management to be 15% for default portfolios and 12% for paying portfolios. Changes in these assumptions to possible alternatives of plus or minus 2.5% would lead to the following (decrease) / increase of profit:

| | 13 months ended 30 Sept 2013 | 15 months ended 31 Aug 2012 |
|---|---|---|
| | £000 | £000 |
| Plus 2.5% | (12,383) | (9,127) |
| Minus 2.5% | 13,555 | 9,898 |

## 3. Risk management and control

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

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

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

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

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

### Liquidity risk

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

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows. At 30 September 2013, the Group had available undrawn committed borrowing facilities of £45m. Subsequent to the year end, on 28 November 2013 the RCF was further increased to £66m, resulting in undrawn committed borrowing facilities increasing to £56m. Under the terms of the RCF, further growth in ERC will allow the facility to increase to a maximum limit of £83m.

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

| **2013** | **Carrying amount** | **Contractual cash flows** | **0-6 months** | **6-12 months** | **1-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Notes* | 275,000 | 437,593 | 14,781 | 14,781 | 118,250 | 289,781 |
| Preference shares | 217,560 | 418,670 | - | - | - | 418,670 |
| Loan with parent | 23,138 | 54,764 | - | - | - | 54,764 |
| Other liabilities | 36,258 | 36,258 | 36,258 | - | - | - |
| **Total liabilities** | **551,956** | **947,285** | **51,039** | **14,781** | **118,250** | **763,215** |

| **2012** | **Carrying amount** | **Contractual cash flows** | **0-6 months** | **6-12 months** | **1-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Notes* | 209,018 | 350,560 | 10,810 | 10,750 | 86,000 | 243,000 |
| Preference shares | 190,196 | 418,670 | - | - | - | 418,670 |
| Loan with parent | 20,232 | 54,764 | - | - | - | 54,764 |
| Other liabilities | 14,228 | 14,228 | 14,228 | - | - | - |
| **Total liabilities** | **433,674** | **838,222** | **25,038** | **10,750** | **86,000** | **716,434** |

*Includes loan principal outstanding (Note 15) and accrued interest (Note 14).

## Credit risk

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

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

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

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

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

## Operational risk

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

## Market risk

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

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

On 30 March 2012 the balance outstanding on the old Revolving Credit Facility (RCF) was fully repaid. A new RCF was put in place on 30 March 2012 for £40m. On 21 January 2013 the facility was increased to £55m. On 28 November 2013 the facility was further increased to £66m. Under the terms of the RCF, further growth in ERC will allow the facility to increase to a maximum limit of £83m.

Derivatives are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates. The group's RCF has a variable interest rate and at 30 September 2013 £10m of the facility was utilised.

Interest rate caps and interest rate swaps have been used in the past to mitigate the risk of changing interest rates, however due to the stability in interest rates in recent years the group has taken the decision to not enter into any derivative contracts to hedge this risk. As at 30 September 2013 the group has no outstanding derivative contracts.

## Capital management risk

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

### Fair value estimation risk

Financial assets and liabilities are classified into the following categories:

| | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| **Financial assets** | | |
| Fair value through profit and loss (debt portfolios) | 299,465 | 236,759 |
| Loans and receivables | 37,926 | 25,734 |
| **Total financial assets** | **337,391** | **262,493** |
| **Financial liabilities** | | |
| Fair value through profit and loss | - | - |
| Other financial liabilities measured at amortised cost | (551,956) | (433,674) |
| **Total financial liabilities** | **(551,956)** | **(433,674)** |

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

## 4. Operating profit

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| **Operating profit is after charging:** | | |
| Depreciation of tangible fixed assets | 2,496 | 2,004 |
| Amortisation of intangible fixed assets | 9,479 | 7,968 |
| Rentals under operating leases | 1,098 | 805 |
| **Auditor's remuneration:** | | |
| Audit of these financial statements | 4 | 4 |
| Audit of other group companies' financial statements | 87 | 52 |
| Other assurance services | - | 18 |

During the 15 months ended 31 August 2012, £186k was charged by the auditor for other assurance services in relation to the issue of the 10.75% Senior Secured Notes (the "Notes"). These costs are charged to the Profit and Loss Account over the 7 year term of the Notes. During the year, £28k has been included in "Fees payable on the Notes" (Note 7) (15 months ended 31 August 2012: £11k).

In the period ended 31 August 2012, statutory audit and non-audit fees solely relate to those paid to KPMG Audit Plc. In the period ended 30 Sept 2013, all such fees relate to these paid to KPMG LLP.

## 5. Information regarding directors and employees

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| **Directors' remuneration:** | | |
| Aggregate emoluments to current directors | **633** | **502** |
| Emoluments of highest paid director | **458** | **362** |

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

| | 13 months ended 30 Sept 2013 No. | 15 months ended 31 Aug 2012 No. |
|---|---|---|
| **Employees:** | | |
| Average number of persons employed by the Group: | | |
| Administration | **740** | **541** |

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| Staff costs for the Group (including directors): | | |
| Wages and salaries | 22,541 | 15,628 |
| Social security costs | 2,387 | 1,663 |
| Pension contributions | 111 | - |
| | **25,039** | **17,291** |

## 6. Interest receivable

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| Bank interest receivable | 206 | 11 |
| Bond loan premium (Note 15) | 738 | - |
| | **944** | **11** |

## 7. Interest payable and similar charges

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| Interest payable on preference shares to Company's immediate parent | 26,661 | 23,674 |
| Interest payable on preference shares to other parties | 703 | 712 |
| Interest payable on the Notes | 28,443 | 9,018 |
| Interest payable on loan notes to Company's immediate parent | 2,906 | 10,232 |
| Interest payable to banks | - | 7,215 |
| Fees payable on the Notes | 1,453 | 479 |
| Fees payable on revolving credit facility | 1,524 | 425 |
| | **61,690** | **51,755** |

## 8. Tax on loss on ordinary activities

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax | 2,815 | 4,287 |
| Group relief paid for (Note 14) | 2,547 | 1,087 |
| Adjustment in respect of previous periods | (146) | (13) |
| **Total current tax charge** | **5,216** | **5,361** |
| **Deferred taxation** | | |
| Origination and reversal of timing differences | (493) | 233 |
| Adjustments in respect of previous periods | (7) | - |
| Effects of change in tax rates | 78 | 35 |
| Change in estimate of recoverable deferred tax asset | (42) | - |
| **Total deferred tax (credit) / charge** | **(464)** | **268** |
| **Total charge on loss on ordinary activities** | **4,752** | **5,629** |

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

## 8. Tax on loss on ordinary activities (continued)

The tax assessed for the period is higher (15 months ended 31 August 2012: higher) than the standard effective rate of corporation tax in the UK for the 13 months ended 30 September 2013 of 23.54% (15 months ended 31 August 2012: 25%) The differences are explained below:

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| **Loss on ordinary activities before tax** | **(16,644)** | **(9,882)** |
| Tax credit on loss on ordinary activities at standard UK corporation tax rate of 25% | (3,917) | (2,471) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 8,735 | 8,146 |
| Impact of prior year restatement | 141 | - |
| Movement in short term timing differences | 170 | (432) |
| Book depreciation in excess of capital allowances | 181 | 135 |
| Adjustment in respect of previous periods | (97) | (14) |
| Group relief claimed free of charge | 3 | (3) |
| **Current tax charge for period** | **5,216** | **5,361** |

*The prior period figure has been restated due to an accounting policy change regarding litigation costs. (See Note 1).

## 9. Intangible fixed assets

**Group**

| | Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 September 2012 | 160,696 |
| Additions during the period | 31,000 |
| **At 30 September 2013** | **191,696** |
| **Accumulated amortisation** | |
| At 1 September 2012 | (7,968) |
| Charge for the period | (9,479) |
| **At 30 September 2013** | **(17,447)** |
| **Net book value** | |
| At 30 September 2013 | **174,249** |
| At 31 August 2012 | **152,728** |

The additions in the period arose from  the acquisition of Interlaken Group Limited as detailed in Note 12.

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

## 10. Tangible fixed assets

### Group

| | Office equipment £000 | Computer equipment £000 | Fixtures, fittings & equipment £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 September 2012 | 11,610 | - | - | 11,610 |
| At acquisition of subsidiary undertaking (Note 12) | - | 718 | 761 | 1,479 |
| Additions during the period | 2,527 | 94 | 90 | 2,711 |
| **At 30 September 2013** | **14,137** | **812** | **851** | **15,800** |
| **Accumulated depreciation** | | | | |
| At 1 September 2012 | (7,450) | - | - | (7,450) |
| At acquisition of subsidiary undertaking (Note 12) | - | (530) | (616) | (1,146) |
| Charge for the period | (2,410) | (55) | (31) | (2,496) |
| **At 30 September 2013** | **(9,860)** | **(585)** | **(647)** | **(11,092)** |
| **Net book value** | | | | |
| At 30 September 2013 | 4,277 | 227 | 204 | **4,708** |
| At 31 August 2012 | 4,160 | - | - | **4,160** |

## 11. Fixed assets investments

**Company**

**Subsidiary undertakings**

| | £000 |
|---|---:|
| **Cost** | |
| At 30 September 2013 and 31 August 2012 | **188,076** |

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

| Name | Country of | Principal activity | Ordinary share holding % |
|---|---|---|---:|
| Lowell Finance Holdings Limited | UK | Holding Company | 100* |
| Lowell Group Financing Plc | UK | Financing | 100 |
| Lowell Group Limited | UK | Holding Company | 100 |
| Lowell Funding Limited | UK | Holding Company | 100 |
| Lowell Acquisitions Limited | UK | Holding Company | 100 |
| Lowell Holdings Limited | UK | Holding Company | 100 |
| Lowell Finance Limited | UK | Holding Company | 100 |
| Lowell Financial Limited | UK | Consumer debt collection | 100 |
| Lowell Portfolio I Limited | UK | Consumer debt purchase and collection | 100 |
| Tocatto Limited | UK | Consumer debt collection | 100 |
| Lowell Portfolio III Holdings Limited | UK | Holding Company | 100 |
| Lowell Portfolio III Limited | UK | Dormant | 100 |
| Lowell Portfolio IV Holdings Limted | UK | Holding Company | 100 |
| Lowell Portfolio IV Limited | UK | Dormant | 100 |
| Lowell Portfolio V Limited | UK | Dormant | 100 |
| Interlaken Group Limited | UK | Holding Company | 100 |
| Fredrickson International Limited | UK | Consumer debt collection | 100 |
| SRJ Debt Recoveries Limited | UK | Consumer debt collection | 100 |

**Held directly by the Company.*

All subsidiaries are included in the consolidation.

## 12. Acquisition of subsidiary undertakings

On 16 May 2013, Lowell Finance Limited acquired 100% of the issued ordinary shares of Interlaken Group Limited. Interlaken Group Limited consists of three entities, Interlaken Group Limited, Fredrickson International Limited and SRJ Debt Recoveries Limited. The consideration paid was £29.8m cash, with potential contingent consideration of £5.2m payable in cash on achievement of certain revenue stream targets (Note 14: included within other creditors). In addition, the Group incurred professional fees of £1.0m on the acquisition of Interlaken Group Limited.

This resulted in goodwill on acquisition of £31.0m.

| **Assets and liabilities acquired:** | **£000** |
|---|---|
| Investment in subsidiary | 10 |
| Tangible fixed assets (Note 10) | 333 |
| Portfolios | 1,289 |
| Debtors | 4,158 |
| Cash | 827 |
| Creditors | (1,427) |
| Creditors: deferred tax laibility | (140) |
| Revaluation reserve | (28) |
| | **5,022** |
| **Goodwill** (Note 9) | 31,000 |
| **Consideration** | **36,022** |

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

Included within the above is a fair value adjustment which has been made to the portfolio asset book acquired by aligning the valuation method with that used by Lowell Portfolio I Ltd. This resulted in an increase in the portfolio value of £0.6m. The tax effect of this adjustment is an additional tax charge of £0.1m (deferred tax liability).

In its last financial year ended 31 March 2013 the Consolidated Profit and Loss Account of Interlaken Group Limited showed a loss after tax of £0.6m.

For the period since 31 March 2013 to the date of acquisition of 16 May 2013, the consolidated management accounts of Interlaken Group Limited show the following:

| | **£000** |
|---|---|
| Turnover | 2,529 |
| Gross profit | 1,248 |
| Loss before taxation | (13) |

## 13. Debtors

| Group | Sept 2013 £000 | Aug 2012 (restated*) £000 |
|---|---|---|
| Trade debtors | 2,961 | 126 |
| Other debtors | 6,594 | 4,719 |
| Deferred tax | 473 | 149 |
| Prepayments and accrued income | 12,424 | 11,720 |
| Director loans | 171 | - |
| | **22,623** | **16,714** |

*The 2012 other debtors figure has been restated due to an accounting policy change regarding litigation costs. These were previously recognised through the P&L, but are now being deferred to the balance sheet to more accurately reflect the nature of the costs (See Note 1).

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

| | Sept 2013 £000 | Aug 2012 (restated*) £000 |
|---|---|---|
| Book depreciation in excess of capital allowances: | | |
| At 1 September 2012 | 382 | 281 |
| Deferred tax credit in Profit and Loss Account (Note 8) | 144 | 101 |
| **At 30 September 2013 / 31 August 2012** | **526** | **382** |
| | | |
| Short term timing differences: | | |
| At 1 September 2012 | (233) | 137 |
| Acquisition of subsidiary undertaking (Note 12) | (140) | - |
| Deferred tax credit / (charge) in Profit and Loss Account (Note 8) | 320 | (370) |
| **At 30 September 2013 / 31 August 2012** | **(53)** | **(233)** |
| **Total deferred tax assets at 30 September 2013 / 31 August 2012** | **473** | **149** |

| Company | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Amounts owing by group undertakings (repayable on demand) | 2,245 | 2,577 |
| Other debtors | 18 | 18 |
| Other taxes and social security | - | 59 |
| Prepayments and accrued income | 32 | 38 |
| Director loans | 171 | - |
| | **2,466** | **2,692** |

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

| Group | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Trade creditors | 2,886 | 1,769 |
| Other taxes and social security | 1,115 | 377 |
| Corporation tax | 484 | 3,026 |
| Other creditors | 7,378 | 441 |
| Accruals and deferred income | 10,622 | 7,528 |
| Interest due on the Notes | - | 9,018 |
| Amounts owing to Company's immediate parent for group relief (repayable on demand) (Note 8) | 3,773 | 1,087 |
| Bank loan (RCF) | 10,000 | - |
| | **36,258** | **23,246** |

| Company | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Trade creditors | 30 | 71 |
| Other taxes and social security | 14 | 6 |
| Other creditors | - | 8 |
| Accruals and deferred income | 281 | 363 |
| Amounts owing to Company's immediate parent for group relief (repayable on demand) (Note 8) | 1,279 | 227 |
| | **1,604** | **675** |

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

| Group | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| 10.75% Senior Secured Notes due 2019 | 275,000 | 200,000 |
| Unsecured loan notes 2021 and accrued interest, owing to Company's immediate parent (Note 22) | 23,138 | 20,232 |
| Preferences shares and accrued interest | | |
| Amounts owing to Company's immediate parent (Note 22) | 213,114 | 184,647 |
| Amounts owing to other parties | 4,446 | 5,549 |
| | **515,698** | **410,428** |

On 30 March 2012, the subsidiary, Lowell Group Financing Plc, issued £200.0m 10.75% Senior Secured Notes due 2019, with the interest rate fixed at 10.75% for the entirety of its term. Commencing on 1 October 2012, the interest on the Notes is paid by the subsidiary semi-annually on each 1 April and 1 October. 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.

A further £75.0m Notes were issued on 11 February 2013 under the same terms. The £75.0m Notes were issued at a premium raising cash of £82.1m. The loan premium of £7.1m is recorded within Accruals and deferred income (Note 14) and is being released to the profit and loss account (Note 6) over the remaining term of the Notes. As at 30 September 2013 the outstanding loan premium is £6.4m.

## 15. Creditors: amounts falling due after more than one year (continued)

| Company | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Unsecured loan notes 2021 and accrued interest, owing to Company's immediate parent (Note 22) | 23,138 | 20,232 |
| Preferences shares and accrued interest | | |
| Amounts owing to Company's immediate parent (Note 22) | 213,114 | 184,647 |
| Amounts owing to other parties | 4,446 | 5,549 |
| | **240,698** | **210,428** |

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

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

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

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

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

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

### 16. Called-up share capital

| | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| **Called-up, allotted and fully paid** | | |
| 940,478 (2012: 940,478) A ordinary shares of £1.00 each | 940 | 940 |
| 226,190 (2012: 226,190) B ordinary shares of £1.00 each | 226 | 226 |
| 62,836 (2012: 45,515) C ordinary shares of £1.00 each | 63 | 46 |
| 23,810 (2012: 6,250) D ordinary shares of £0.01 each | 1 | - |
| | **1,230** | **1,212** |

The rights attached to the ordinary shares are as follows:

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

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

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

During the period the Company issued 17,231 C ordinary shares and 17,560 D ordinary shares at a subscription price of £1.00 and £3.57 respectively. This gave rise to a share premium on the D ordinary shares of £63k.

## 17. Reserves

| Group | Share premium account £000 | Profit and loss account (restated*) £000 |
|---|---|---|
| At 1 September 2012 (restated*) | 6 | (15,511) |
| Arising on issue of shares (Note 16) | 63 | - |
| Loss for the financial period | - | (21,396) |
| **At 30 September 2013** | **69** | **(36,907)** |

*Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

| Company | Share premium account £000 | Profit and loss account £000 |
|---|---|---|
| At 1 September 2012 | 6 | (21,472) |
| Arising on issue of shares (Note 16) | 63 | - |
| Loss for the financial period | - | (31,105) |
| **At 30 September 2013** | **69** | **(52,577)** |

## 18. Reconciliation of movement in total equity shareholders' deficit

| Group | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 (restated*) £000 |
|---|---|---|
| Opening total shareholders' deficit | (14,293) | - |
| Issue of share capital (Note 16) | 18 | 1,212 |
| Share premium on shares issued (Note 16) | 63 | 6 |
| Loss for the financial period | (21,396) | (15,511) |
| **Closing total shareholders' deficit** | **(35,608)** | **(14,293)** |

*Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

| Company | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| Opening total shareholders' deficit | (20,254) | - |
| Issue of share capital (Note 16) | 18 | 1,212 |
| Share premium on shares issued (Note 16) | 63 | 6 |
| Loss for the financial period | (31,105) | (21,472) |
| **Closing total shareholders' deficit** | **(51,278)** | **(20,254)** |

## 19. Reconciliation of operating profit to operating cash flows

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 (restated) £000 |
|---|---|---|
| Operating profit | 53,581 | 49,670 |
| Depreciation | 2,496 | 2,004 |
| Increase in debt portfolios | (61,417) | (47,464) |
| Increase in debtors | (1,270) | (1,972) |
| (Decrease)/increase in creditors | (970) | 652 |
| **Net cash (outflow)/inflow from operating activities** | **(7,580)** | **2,890** |

## 20. Analysis of cash flows

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | 206 | 11 |
| Interest and set up fees paid | (43,804) | (21,928) |
| Fair value movement in derivatives | - | 160 |
| | **(43,598)** | **(21,757)** |
| **Taxation** | | |
| UK corporation tax paid | (3,869) | (6,521) |
| Group relief paid to immediate parent | (1,000) | - |
| | **(4,869)** | **(6,521)** |
| **Capital expenditure and financial investment** | | |
| Purchase of tangible fixed assets (Note 10) | **(2,711)** | **(1,932)** |
| **Acquisitions and disposals** | | |
| Purchase of Interlaken Group Limited (Note 12) | (30,822) | - |
| Cash acquired with Interlaken group Limited (Note 12) | 827 | - |
| Purchase of Lowell Group Limited | - | (241,887) |
| Cash acquired with Lowell Group Limited | - | 9,762 |
| | **(29,995)** | **(232,125)** |

## 20. Analysis of cash flows (continued)

| | 13 months ended 30 Sept 2013 £000 | 15 months ended 31 Aug 2012 £000 |
|---|---|---|
| **Financing** | | |
| Issue of 10.75% Senior Secured Notes 2019 (Note 15) | 85,036 | 200,000 |
| Drawdown of revolving credit facility | 10,000 | - |
| Issue of ordinary share capital | - | 1,218 |
| Issue of preference shares | - | 165,810 |
| Issue of Unsecured Loan Notes 2021 | - | 110,000 |
| Repayment of Unsecured Loan Notes 2021 | - | (92,395) |
| Repayment of mezzanine loan | - | (35,355) |
| Repayment of bank loan | - | (80,813) |
| | **95,036** | **268,465** |

## 21. Analysis of net debt

| | At 1 Sept 2012 £000 | Cash flow £000 | Acquisition of subsidiary £000 | Non cash Movement £000 | At 30 Sept 2013 £000 |
|---|---|---|---|---|---|
| Debt due within one year | (9,018) | (30,372) | - | 29,390 | (10,000) |
| Debt due after more than one year | (410,428) | (85,036) | - | (20,234) | (515,698) |
| | **(419,446)** | **(115,408)** | **-** | **9,156** | **(525,698)** |
| Cash at bank and in hand | 9,020 | 5,456 | 827 | - | 15,303 |
| **Total** | **(410,426)** | **(109,952)** | **827** | **9,156** | **(510,395)** |

## 22. Related party transactions

The Group had the following related party transactions in relation to loan notes (Note 15) and preference shares (Note 15):

| **13 months ended 30 September 2013** | Company's immediate parent £000 | Other holders £000 | Total £000 |
|---|---|---|---|
| **Unsecured Loan Notes 2021** | | | |
| Principal and accrued interest at 1 September 2012 | 20,232 | - | 20,232 |
| Interest charged (Note 7) | 2,906 | - | 2,906 |
| **As at 30 September 2013** | **23,138** | **-** | **23,138** |
| **Preference Shares** | | | |
| Principal and accrued interest at 1 September 2012 | 184,647 | 5,549 | 190,196 |
| Principal and interest transferred | 1,806 | (1,806) | - |
| Interest charged (Note 7) | 26,661 | 703 | 27,364 |
| **As at 30 September 2013** | **213,114** | **4,446** | **217,560** |

## 22. Related party transactions (continued)

| 15 months ended 31 August 2012 | Company's immediate parent £000 | Other holders £000 | Total £000 |
|---|---|---|---|
| **Unsecured Loan Notes 2021** | | | |
| Principal | 110,000 | - | 110,000 |
| Principal repaid | (92,395) | - | (92,395) |
| Interest charged (Note 7) | 10,232 | - | 10,232 |
| Interest paid | (7,605) | - | (7,605) |
| **As at 31 August 2012** | **20,232** | **-** | **20,232** |
| **Preference Shares** | | | |
| Principal | 160,973 | 2,967 | 165,810 |
| Accrued interest (Note 7) | 23,674 | 437 | 24,386 |
| **As at 31 August 2012** | **184,647** | **3,404** | **190,196** |

## 23. Operating lease commitments

**Group**

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

| | Sept 2013 £000 | Aug 2012 £000 |
|---|---|---|
| Land and buildings, which expire: | | |
| Within one year | 621 | - |
| Within two to five years | 494 | 805 |
| Operating leases which expire: | | |
| Within one year | 23 | - |
| Within two to five years | 44 | - |
| | **1,182** | **805** |

The lease expires on Enterprise House on 16th June 2014.

The lease on Interchange House includes a break clause which allows the Company to terminate the lease on 16th June 2014. The Company has taken up this option and the lease will expire on 16th June 2014.

A new lease was signed post year end for new premises at Leeds Valley Park. The annual commitment on this new lease is £1.1m.

### 24. Ultimate controlling party

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

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

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# Principal risks

# Risks related to our business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The way in which providers of credit and related companies are licensed will change in the United Kingdom from 1st April 2014 when the OFT will be abolished and the Financial Conduct Authority (FCA) will become the main regulator of the debt collection industry. Prior to cut over from the OFT to the FCA, current Consumer Credit Licence holders need to ensure that their existing licences are valid up to 31st March 2014 to enable them to apply for Interim Permission with the FCA. Companies that do not apply for, or, are granted Interim Permission will no longer be able to undertake consumer credit activities, including debt collection until authorisation is granted by the FCA.

Greater clarity exists over what the regulatory framework will look like, with the existing OFT Debt Collection Guidance largely replicated within the Consumer Credit Handbook (CONC). That said, it is clear that the total regulatory requirements and obligations applicable to the debt collection industry will increase due to the FCA's greater powers in comparison to the OFT. In particular, there will be increased focus on how firms treat and evidence their treatment of customers along with those factors that influence behaviour to treat customers in a certain way (more commonly referred to by the FCA as Conduct Risks). Given the increased regulatory requirements it is likely the FCA requirements will continue demand additional investment and resources in our compliance governance framework. There is a risk that we could become subject to additional or new regulatory obligations as the new regulator becomes more familiar with the debt purchase/collection industry resulting from this change, which could impact on our operations.

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

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

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

We purchase non-performing debt portfolios from consumer creditors. Substantially all the debt consists of account balances that the originator has made numerous attempts to collect, subsequently deemed uncollectible, and written off. The debt is purchased at a significant discount—typically a small percentage of face value—and, although we estimate that the recoveries on the debt will be in excess of the amount paid for it, actual recoveries will vary and may be less than the amount expected, and may even be less than the total amount paid for such debt. Our Purchased Assets comprised 58.0% of our assets as of September 30, 2013, and any condition or event that causes them to lose value, such as the inability of our customers to pay their debt, or inflation, will have a material adverse effect on our financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Approximately 32% of the face value of the debt we purchased in our 2013 financial period involved forward flow agreements whereby we purchase non-performing debt based upon contracts that require us to make multiple buys from a vendor at a fixed price. Depending upon the length of the contractual arrangements, forward flow agreements typically contain termination clauses that allow the arrangement to be terminated only for a number of limited specific reasons. We may be required to purchase debt under a forward flow agreement for an amount higher than we would otherwise agree and therefore, these purchases may result in reduced returns. In a more competitive environment, we could be faced with a decision to either decrease our purchasing volume, agree to forward flow agreements at a higher average price or agree to fewer contractual protections concerning the portfolios we purchase, any of which could have a material and adverse effect on our results of operations. We generally allow for some margin for future fluctuations in value of the debt we purchase through forward flow agreements, but future fluctuations in value may exceed that margin. If the quality of debt purchased varies from our pricing assumptions, we may price the contract improperly, which could have a material and adverse effect on our business.

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

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

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

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

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

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

Any temporary or permanent loss of our ability to use our telecommunications or computer equipment and software systems at any of our buildings in Leeds could disrupt our operations and have a material adverse effect on financial condition, financial returns or our results of operations. Over the coming year a project is underway to outsource our IT infrastructure to a company called Rackspace. Part of this arrangement is that the infrastructure will be held on two seperate sites significantly reducing the company's exposure to system and data loss.

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

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

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

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

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

In certain situations, we outsource some of our accounts to third-party DCAs for collection. For example, we may use third-party agencies late in the collections process where we deem it more efficient to benchmark internal performance and where our in-house methods of contact have not succeeded. Collections by third-party agencies have increased from approximately 6% of the total amount of collections in our financial year ended August 31, 2008 to approximately 15% of the total amount of collections in our financial period ended September 30, 2013. Any failure by these third parties to adequately perform collection services for us or to remit such collections to us could materially reduce our cash flow, income and profitability. We rely on these third parties to effectively manage their operations and to meet our servicing needs efficiently, but these third parties may not have the resources, management training and management depth that we have. This may negatively impact their ability to comply with applicable laws or other regulatory requirements. To the extent these third parties violate laws or other regulatory requirements in their collection efforts, it could negatively impact our business and reputation, and we may not be aware of the risk or occurrence of any such violation. See also "—Any failure to comply with applicable legislation or regulation of the collections and the broader consumer credit industry could result in the suspension, termination or impairment of our ability to conduct business."

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

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

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

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

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

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

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

The industry in which we operate is very labour intensive and, similar to other companies in our industry, we typically experience a high rate of employee turnover, especially in the collections department. In financial period 2013, for example, staff turnover was approximately 28%. Our growth requires that we continually hire and train new collectors. A higher turnover rate among our collectors will increase our recruiting and training costs and limit the number of experienced collection personnel available to service our purchased debt. If this were to occur, we would not be able to service our purchased debt effectively and this would reduce our ability to operate profitability.

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

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

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

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

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

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

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

We may seek to grow our business by acquiring other businesses. In 2013, for example, we acquired 100% of the share capital of Interlaken Group Limited, which also included SRJ Debt Recoveries Limited and Fredrickson International Limited. The principal activity of the Interlaken Group Limited is providing debt collection agency services. Successful growth through future acquisitions is dependent upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favourable terms and ultimately complete such transactions and integrate the acquired business into our group.

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

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

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

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

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

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

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

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

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

We face competition from new and existing purchasers of debt portfolios. We compete on the basis of bid prices, the terms we offer, as well as reputation, industry experience and performance. Our current competitors and any new competitors may have substantially greater financial, personnel and other resources. In the future, we may not have the resources or ability to compete successfully. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, or if our competitors are able to make advances in their pricing or collections methods that we are not able to make, we may be unable to purchase debt portfolios at prices we deem appropriate in order to operate profitably.

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

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

- the level of consumer spending;
- the availability of credit to consumers, which is driven by a number of factors, including heightened regulation of the credit card and consumer lending industry, changing credit origination strategies and economic conditions;
- the level of non-performance on consumer receivables and the proportion of such non-performing receivables that are written off by originators, which also in turn may affect the availability of credit to consumers identified above;
- sales of debt portfolios by originators, which could be jeopardized by a change in accounting policies or practices, the consolidation of credit card issuers, increased sophistication in internal collections efforts or increased reliance on DCAs;

- potential concerns that the small value received for non-performing debt portfolios as a percentage of their face value may not outweigh the potential reputational risks or required management attention associated with selling non-performing debt portfolios;
- negative publicity or a loss of trust in our industry, whether due to the failure of one or more of our competitors to meet their legal or regulatory obligations or otherwise; and
- increased government regulation of the circumstances in which originators, especially FSA-regulated entities, have a right to collect on debt.

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

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

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

A significant percentage of our portfolio purchases are concentrated with a few large debt originators. For example, in our 2013 financial period, we purchased 96% of our portfolios (measured by total amount paid) from vendors we had purchased from previously. Our contract with the UK's largest home retail credit company (based on turnover) accounted for the vast majority of our new home retail credit portfolio purchases, and for approximately 39% of our portfolio purchases (measured by total amount paid) for our 2013 financial period. We have had a contract in place with this client since February 2008. This contract has been extended several times since such date, including in August 2012. The current contract expires in August 2014 and may also be terminated by the vendor before such date under certain circumstances. There can be no assurance that we will be successful in extending the contract.

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

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

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

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

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

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

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

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

- print and television media, from time to time, may publish stories about the debt collection or debt purchasing industry that may cite specific examples of real or perceived abusive collection practices. These stories are also published on websites, which can lead to the rapid dissemination of the story and increase the exposure to negative publicity about us or the industry;
- the internet has websites where consumers list their concerns about the activities of debt collectors and seek guidance from other website posters on how to handle the situation. These websites are increasingly providing consumers with legal forms and other strategies to protest collection efforts and to try to avoid their obligations. To the extent that these forms and strategies are based upon erroneous legal information, the cost of collections is increased; and
- consumer blog sites and claims management companies are becoming more common and add to the negative attention given to our industry. Certain of these organizations may also enable consumers to negotiate a larger discount on their payments than we would otherwise agree to.

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

# Risks related to our financial profile

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

On March 30, 2012 and Frebruary 11, 2013 we issued £200 million and £75 million of Senior Secured Notes respectively. We are, and following the issuance of the Notes, continued to be, highly leveraged. As at September 30, 2013 we have had total financial liabilities of £285 million. On November 28, 2013 we also entered into the new Senior Revolving Credit Facilities Agreement for a committed amount of up to £83 million of secured credit borrowings over the coming year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at September 30, 2013 the Group had no outstanding derivative contracts. The last derivative contracts that the group entered either matured or were closed out as at March 30, 2012.

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# Definitions and reconciliations

# › Key Performance Indicator Definitions

### (1) Estimated Remaining Collections

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

### (2) Portfolio purchases

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

### (3) Number of accounts

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

### (4) Number of owned debt portfolios

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

### (5) Net Debt

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

### (6) Collections/income on owned portfolios

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

### (7) Servicing costs

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

### (8) Adjusted EBITDA

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

### (9) Cash flow before debt and tax servicing

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

### (10) Unlevered Net IRR

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

### (11) Annual collections per collector FTE

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

### (12) Payment plans per collector FTE

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

# › Other Definitions

### (1) Collections on owned portfolios

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

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

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

### (3) Turnover

Turnover consists of turnover from loan portfolios and other turnover.

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

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

### (4) Cost of sales

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

### (5) Administrative expenses

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

### (6) Interest payable

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

### (7) Tax on profit on ordinary activities

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

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

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

### (9) Net Cash-on-Cash multiple

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

## › Reconciliation of adjusted EBITDA to operating profit

| | 2012 | 2013 |
|---|---|---|
| Operating profit | 49.7 | 53.6 |
| Portfolio amortisation | 43.2 | 63.5 |
| Depreciation | 2.0 | 2.5 |
| Non-recurring cost (a) | 1.8 | 2.0 |
| **Adjusted EBITDA** | **96.7** | **121.6** |

(a) Non-recurring costs represent expenditure on M&A activity, the bonus paid on completion of the acquisition of Lowell by Metis Bidco Limited payable to certain key employees, and the reorganisation and recruitment of the senior leadership team in 2013, which is reflected within administration expenses in our audited consolidated financial statements for the year ended August 31, 2012 and the financial period ended September 30, 2013.

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