

Company No. B197497

GARFUNKELUX HOLDCO 2 S.A.

**Independent Auditor's Report
and Consolidated Financial Statements
Year ended 31 December 2017**

GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2017

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GARFUNKELUX HOLDCO 2 S.A.

**INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS 2017**

OFFICERS AND PROFESSIONAL ADVISERS

Directors

C Pedoni
E Perrier
A Riva

Registered office

488 route de Longwy
L-1940
Luxembourg

Bankers

BGL BNP Paribas
50 Avenue John F. Kennedy
L-2951
Luxembourg

Solicitors

Clifford Chance Luxembourg
10 Boulevard G.D. Charlotte
L-1011
Luxembourg

Auditor

KPMG Luxembourg, Société coopérative
39 Avenue John F. Kennedy
L-1855
Luxembourg

GARFUNKELUX HOLDCO 2 S.A.

MANAGEMENT REPORT

Year ended 31 December 2017

The Directors present their annual report and the audited consolidated financial statements of Garfunkelux Holdco 2 S.A. (“the Company”) and its subsidiaries (together “the Group”) for the year ended 31 December 2017.

BUSINESS AND GENERAL CONDITIONS

The Company was incorporated on 1 June 2015. The Group acquired GFKL Financial Services AG (now Lowell Financial Services GmbH) and its subsidiaries (“GFKL”) on 30 June 2015 and Metis Bidco Limited and its subsidiaries (“Lowell”) on 13 October 2015.

On 31 May 2016, the Group acquired a 100% share in IS Group Management GmbH and its subsidiaries (“IS Inkasso”) through GFKL Financial Services GmbH (now Lowell Financial Services GmbH), an indirect subsidiary of the Company.

On 30 September 2016, the Group acquired a 100% share in DC Holding GmbH and its subsidiaries (“Tesch”) through GFKL Financial Services GmbH (now Lowell Financial Services GmbH), an indirect subsidiary of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the provision of credit management services: the acquisition and collection of non-performing consumer debt portfolios (“DP”); and the provision of third party contingent collection services (“3PC”).

FINANCIAL PERFORMANCE

The Group’s strategy seeks to build long-term sustainable advantage in markets with scale, growth potential and known return profiles. In keeping with this strategy, the Group has consciously invested during 2017 to build a platform that can and will be leveraged in the future.

Within the UK, the flow of debt to the market continues to be strong, helped by a number of financial services institutions seeking debt sale solutions in response to IFRS 9, with this trend expected to continue. Within the DACH region, there has been a continuing trend from 3PC to DP as the acquisition of non-performing loans develops into a more established facet of the market. 2017 has also been characterised by more sizeable, one-off in nature, warehouse type debt sales, which from a purchaser perspective drives a different risk appetite. Against this backdrop, the level of portfolio acquisitions achieved is a reflection of holding to our pricing and investment discipline in the marketplace. Overall the Group has performed strongly in the year ended 31 December 2017 with portfolio acquisitions of £256.1m. The Group successfully acquired portfolios from 71 vendors during the period and from a variety of originating sectors, including financial services, home retail and telecommunications. Interestingly, the Group also managed the collection of debt on behalf of 83 clients through our 3PC offering. The sheer number of vendors and outsourcers we interact with demonstrates the diversification of our origination platform. The level of portfolio acquisitions achieved is in excess of management’s estimate of replacement rate, defined as the estimated amount of purchases required to maintain our estimated remaining collections. The Group’s average replacement rate was around £160m for the year ended 31 December 2017, with total portfolio acquisitions for the year representing 1.6x this number, the incremental purchases above the replacement rate represent investment capital for on-going growth.

The overall carrying value of portfolio investments at 31 December 2017 was £964.5m, an increase of 16.0% over the balance at 31 December 2016 of £831.7m.

The Group defines estimated remaining collections (“ERC”) as the expected collections on acquired portfolios using both 84 month and 120 month periods of estimation. As at 31 December 2017 84 month ERC was £1,748.5m, an increase of 16.7% over 31 December 2016 (£1,498.2m), and 120 month ERC was £2,057.5m, an increase of 16.6% on 31 December 2016 (£1,765.1m).

Total revenue for the year was £517.1m (2016: £454.2m).

GARFUNKELUX HOLDCO 2 S.A.

MANAGEMENT REPORT (continued)

Year ended 31 December 2017

FINANCIAL PERFORMANCE (continued)

The Group made an operating profit of £112.7m in the year ended 31 December 2017 (£109.8m in the year ended 31 December 2016). The UK recorded pleasing growth in operating profit driven by an increase in revenue reflecting both higher portfolio investments acquired and the performance of existing portfolio investments. The UK operating profit margin improved as a result of continued leveraging of the platform. The decline in DACH operating profit should be seen in the context of the, albeit, modest year-on-year growth in Cash EBITDA. While collection activity costs have improved, helping the operating profit margin, the increase in other expenses is a result of bringing together GFKL, Tesch and IS Inkasso, as well as investment across the DACH platforms that will be leveraged for future growth and margin development.

After finance costs and tax, the Group made a loss for the year of £62.8m (£31.2m in the year ended 31 December 2016). The loss for the year ended 31 December 2017 is stated after exceptional financing costs of £13.9m, net of exceptional financing income of £1.8m, relating to the refinance of the €405m Senior Secured bond, and exceptional acquisition related costs of £10.9m.

The Group is funded by four offerings of Senior and Senior Secured Notes (the “Notes”). €365m 7.5% Senior Secured Notes due 1 August 2022 were issued on 23 July 2015 and £565m 8.5% Senior Secured Notes due 1 November 2022 were issued on 19 October 2015 by Garfunkelux Holdco 3 S.A. £230m 11.0% Senior Notes due 1 November 2023 were issued by the Company on 19 October 2015. During 2017 an issuance of €175m 5.5% + EURIBOR Senior Secured Notes was made by Garfunkelux Holdco 3 S.A. and subsequently redeemed along with the €230m 5.5% + EURIBOR Senior Secured Notes issued in 2016. On 20 September 2017 the Group issued €415m 3.5% + EURIBOR Senior Secured Notes due 1 September 2023 through Garfunkelux Holdco 3 S.A..

In addition an RCF commitment is available up to €200m. As at 31 December 2017 the Group had an unutilised facility of €153.8m (31 December 2016: €112.4m).

ERC and Cash EBITDA are non-IFRS financial measures but are widely used by investors to measure a company’s asset base, ability to generate cash flow and operating performance. Analysts and investors use ERC and Cash EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry. Both measures are used by management to understand business performance and indeed are key required disclosures under the terms of the Group’s Notes.

Cash EBITDA is defined as cash collections on acquired portfolios plus other turnover, less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation and amortisation. Cash EBITDA for the year ended 31 December 2017 was £299.3m, compared to £254.5m for the year ended 31 December 2016.

The Group benefits from excellent cash flow visibility. The Group’s ERC forecast has historically been highly accurate, and forecasts future collections of £2,057.5m for the 120 months from 31 December 2017 (31 December 2016: £1,765.1m) for the combined portfolio of the UK and DACH businesses.

These measurements may not be comparable to those of other companies and may be calculated differently from similar measurements under the indenture governing the Group’s Notes. Reference to these non-IFRS financial measures should be considered in addition to IFRS financial measures, but should not be considered a substitute for results that are presented in accordance with IFRS.

GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT (continued)
Year ended 31 December 2017

FINANCIAL PERFORMANCE (continued)

KEY PERFORMANCE INDICATORS (KPIs)

	31 December 2017	31 December 2016
Portfolio investments acquired	£256.1m	£306.5m ¹
Gross collections (in total)	£905.2m	£679.0m
Gross collections (3PC)	£423.9m	£279.3m
Gross collections (DP)	£481.3m	£399.7m
3PC income	£109.1m	£82.9m
Cash income	£590.4m	£482.6m
Cash EBITDA	£299.3m	£254.5m
UK	£227.6m	£186.2m
DACH	£74.3m	£71.2m
Holding companies	£(2.6)m	£(3.0)m
84 month ERC	£1,748.5m	£1,498.2m
120 month ERC	£2,057.5m	£1,765.1m
180 month ERC	£2,388.5m	£2,045.7m

¹Includes £18.2m of portfolios acquired through acquisition of subsidiaries.

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Group has exposure to a number of risks. The key risks are as follows:

Regulatory risk

The Group is subject to UK, German, Austrian, Luxembourg and EU regulations, and changes to the regulatory environment or an increasing volume of legislation could limit the Group's activities in the future or could significantly increase the cost of regulatory compliance. A failure to comply with applicable laws, regulations and codes of practice could result in investigations and enforcement actions, licences or permissions being revoked, fines, or the suspension of the Group's ability to trade.

Market risk

A number of market risks exist that may negatively impact the performance of the Group, including competition offering higher prices for debt portfolios, a lack of availability of appropriately priced debt, or a requirement to buy unfavourable debt due to forward flow agreements, a loss of any key clients, and a deterioration of economic conditions in the UK or in our European regions, which include Germany, Austria, Switzerland and Croatia ("DACH").

Financial risk

Key financial risks to the Group include a lack of liquidity sufficient to allow for new investment in portfolio opportunities, failing to achieve forecasted recoveries, increasing costs of compliance with complex tax legislation and practice, fluctuations in currency exchange rates, and rising interest rates.

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 the inappropriate actions of employees or management. This could include problems in the collection process, incorrect pricing of assets, and telecommunications or technology downtime.

Capital management risk

The Group's objective in managing capital is to maintain a strong capital base to support current operations and planned growth so as to maintain investor, creditor and market confidence. Risks include making or pursuing business combinations that prove unsuccessful, failing to successfully integrate acquired businesses, and failing to fulfil obligations with respect to the Notes due to high leverage and debt obligations.

GARFUNKELUX HOLDCO 2 S.A.

MANAGEMENT REPORT (continued)

Year ended 31 December 2017

RESEARCH AND DEVELOPMENT

Development costs capitalised during the period total £1.4m, which includes work on internally generated software (31 December 2016: £1.0m).

OUTLOOK

On 2 November 2017, the Group announced the agreement to acquire the Carve-out Business from Intrum, comprising Lindorff's businesses in Denmark, Estonia, Finland and Sweden together with Intrum Justitia's business in Norway. The acquisition was completed on 20 March 2018. The subsequent combined business will benefit from greater scale and diversification in terms of broader geographic reach, a more balanced revenue mix between DP and 3PC, and a complementary and client-focused product offering.

In addition, we believe the new Group benefits from a strong pipeline of opportunities across the UK, DACH and the Nordic region. The Group is well placed to continue to grow as a result of market leading practices rendering competitive advantage with regards to diversification of origination, scale of data assets and use of forward flow arrangements.

The Group intends to continue to develop all of its regions and its 3PC and DP activities.

Continued underlying growth in our markets is expected to be driven by three underlying trends:

- Growth in consumer finance as consumers across Europe continue to use financial products as a means to facilitate consumption. This will contribute to the growth of the overall consumer finance market and hence business volumes for the debt service and debt purchase industry.
- Structural change in the landscape of financial services whereby new offerings for financial products are coming to market from non-traditional financial services providers using digital and innovative distribution channels and who regularly outsource their debt servicing to service providers like our Group. This structural change already serves as a growth driver for our business and will continue to do so as the new entrants win market share in a growing market.
- Regulatory and accounting changes as well as a continued focus on cost efficiency incentivising credit originators to increase their use of debt management and debt purchase services.

In a regional context, the Group expects continued growth in all of its core markets. In the UK, growth will be driven by a continued growth in our non-financial services segments, both in established industries such as retail and mobile telecommunication where the Group holds market leading positions and in new market segments for the Group such as the utilities sector. In addition, management expects further growth in the financial services sector on the back of regulatory and accounting changes.

Brexit increases the potential for uncertainty in the UK economic and political landscape, however, management do not anticipate any material adverse impact on consumer payment behaviours. This view is supported by the Group's testing on macro-economic factors both in terms of general business risk and in preparation for the adoption of IFRS9. The Group's operations in the UK are not reliant on continuing membership within the EU as the operational processes in place have no dependency upon any cross-border activities. Furthermore, the Group's existing and more recent diversification into other geographical markets helps mitigate against any potential specific country level risk.

In the DACH region, the Group perceives a growing propensity to sell non-performing receivables to the market, especially among banks where the Group enjoys a strong market position. At the same time the DACH region is experiencing momentum for our debt service offering across the wide set of industries we serve.

In the Nordic region, the Group endeavours to leverage the strong market positions it enjoys, in particular within the financial services sector across the countries it operates in, to win additional market share and to compete for business in other industries such as retail and mobile telecommunications on the back of best-practice experiences across the Group.

GARFUNKELUX HOLDCO 2 S.A.

MANAGEMENT REPORT (continued)

Year ended 31 December 2017

OUTLOOK (continued)

The debt purchase and debt management industry across Europe is expected to consolidate around a smaller number of trusted partners. Clients continue to reduce their panel sizes as they seek to maintain relationships with those partners who can demonstrate compliance excellence, while economies of scale give competitive advantage in terms of cost of collection and indeed funding.

The Group is widely regarded within the industry as one of Europe's leading players in the space, a reputation that is further enhanced by the Group's strong record in compliance.

In light of these developments and the Group's leading market positions, management believes the Group to be well positioned to further strengthen market position and to grow the overall business.

RISK MANAGEMENT

Risk management in the Group is intended to ensure that:

- The risk situation of the Group is sufficiently transparent at all times and is depicted realistically,
- Activity is performed on strong risk and ethics culture based on customer care and conduct principles,
- Compliance with, or obligations to, regulators, customers, investors and other stakeholders,
- Risks to the Group's ability to continue as a going concern are recognised sufficiently early in order that suitable measures can be taken to prevent a corporate crisis,
- Sufficient risk diversification is ensured, and
- Risks are only entered into across the Group if they offer acceptable returns.

Against the background of these objectives, a risk management program is in operation which harnesses risk identification and assessment methods, appropriate safeguards and controls and reporting to the decision-makers.

The Group has a governance structure which enables the Group to conduct business in accordance with applicable rules, regulations and guidance. Group oversight and strategy is provided by an Investor Board that comprises our Chairman, Executive and Non-Executive Directors and our ultimate equity holders. Beneath this Board sit Group Risk and Audit Committees, Group Remuneration and Nomination Committees, and a Group Executive Committee. The Group Executive Committee is responsible for the operationalisation and delivery of strategy as agreed by the Investor Board. The Group Chief Risk Officer is a member of the Group Executive Committee and has ultimate responsibility for all aspects of regulatory compliance and risk management across the Group.

The Group Executive Committee is provided with monthly reports on the development of earnings, liquidity and the key performance indicators. On the basis of this management information system, the Group Executive Committee monitors the business development of all companies within the Group on an ongoing basis and regularly discusses the current business situation with the general managers of the subsidiaries. Monitored by the Group Risk Committee, both the Investor Board and the Group Executive Committee receive regular updates as to the risk profile of the Group and emerging risks. A constituent part of the risk management process are also reviews of the business operations of the group companies by Internal Audit, monitored by the Group Audit Committee.

Approved by the Board of Directors and signed on behalf of the Board by:

Cédric Pedoni
Director

11 April 2018

GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A.

To the sole shareholder of
Garfunkelux Holdco 2 S.A.
488, route de Longwy
L-1940 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Garfunkelux Holdco 2 S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Law and standards are further described in the "Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report including the consolidated management report but does not include the consolidated financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A. (continued)

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

GARFUNKELUX HOLDCO 2 S.A.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX
HOLDCO 2 S.A. (continued)**

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Jean-Manuel Seris
Luxembourg, 11 April 2018

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	Year ended 31 December 2017 £000	Year ended 31 December 2016* £000
Continuing operations			
Revenue			
Income from portfolio investments	14	245,057	199,327
Portfolio write up	14	106,421	95,414
Portfolio fair value release	14	(2,565)	(3,429)
Service revenue		164,913	160,028
Other revenue		3,316	2,877
Total revenue		517,142	454,217
Other income		4,851	4,131
Operating expenses			
Collection activity costs		(239,906)	(227,291)
Other expenses	5	(169,384)	(121,299)
Total operating expenses		(409,290)	(348,590)
Operating profit		112,703	109,758
Finance income	6	2,394	699
Finance costs	7	(176,074)	(138,692)
Loss before tax		(60,977)	(28,235)
Income tax expense	8	(1,779)	(2,980)
Loss for the period		(62,756)	(31,215)
Loss attributable to:			
Equity holders of the parent	24	(62,756)	(31,096)
Non-controlling interests	25	-	(119)
		(62,756)	(31,215)
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial gains or losses on pension plans	31	95	(1,048)
Deferred tax on actuarial gains and losses on pension plans	8	(29)	338
		66	(710)
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(3,941)	(5,919)
Other comprehensive income, net of tax		(3,875)	(6,629)
Total comprehensive expenditure for the period		(66,631)	(37,844)
Total comprehensive expenditure attributable to:			
Equity holders of the parent		(66,631)	(37,725)
Non-controlling interests	25	-	(119)
		(66,631)	(37,844)

The notes on pages 14 to 65 form part of these consolidated financial statements.

*Prior year figures have been restated to reclassify a balance from other expenses to collection activity costs. See note 1 for further detail.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Note	31 December 2017 £000	31 December 2016 £000
Assets			
Non-current assets			
Goodwill	10	1,022,339	1,005,949
Intangible assets	11	112,751	124,094
Property, plant and equipment	12	10,420	10,086
Portfolio investments	14	568,204	491,446
Other financial assets	16	7,805	2,141
Total non-current assets		1,721,519	1,633,716
Current assets			
Portfolio investments	14	396,303	340,259
Inventories		44	27
Trade and other receivables	15	33,234	28,945
Other financial assets	16	6,760	8,314
Assets for current tax		1,400	1,137
Cash and cash equivalents	17	65,324	98,053
Total current assets		503,065	476,735
Total assets		2,224,584	2,110,451
Equity			
Share capital	22	3,730	3,730
Share premium and similar premiums		400,396	400,396
Reserves	23	(24,337)	(20,462)
Retained deficit		(162,427)	(99,671)
Equity attributable to equity holders of the parent		217,362	283,993
Non-controlling interests	25	-	-
Total equity		217,362	283,993
Liabilities			
Non-current liabilities			
Borrowings	18	1,759,155	1,531,324
Provisions for pensions	31	5,705	5,141
Provisions	20	2,079	1,839
Derivatives	28	-	170
Other financial liabilities	21	189	50
Deferred tax liabilities	9	38,148	47,308
Total non-current liabilities		1,805,276	1,585,832
Current Liabilities			
Trade and other payables	19	79,390	101,710
Provisions	20	17,099	14,522
Borrowings	18	70,534	100,299
Derivatives	28	1,116	259
Other financial liabilities	21	6,943	6,517
Current tax liabilities		26,864	17,319
Total current liabilities		201,946	240,626
Total equity and liabilities		2,224,584	2,110,451

The notes on pages 14 to 65 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Share capital £000	Share premium and similar premiums £000	Reserves			Retained deficit £000	Total £000	Non-controlling interest £000	Total equity £000
				Capital reserve £000	Translation reserve £000	Valuation reserve £000				
Comprehensive income										
Balance at 1 January 2016		3,730	357,233	(8,443)	(6,048)	282	(68,575)	278,179	526	278,705
Loss for the year		-	-	-	-	-	(31,096)	(31,096)	(119)	(31,215)
Actuarial losses on pension		-	-	-	-	(1,048)	-	(1,048)	-	(1,048)
Deferred tax on pensions		-	-	-	-	338	-	338	-	338
Exchange differences		-	-	-	(5,919)	-	-	(5,919)	-	(5,919)
Total comprehensive income/(expenditure) for the year		-	-	-	(5,919)	(710)	(31,096)	(37,725)	(119)	(37,844)
Capital contribution		-	43,163	-	-	-	-	43,163	-	43,163
Purchase of non-controlling interest		-	-	526	(119)	-	-	407	(407)	-
Adjustments in relation to purchase of shares in subsidiary		-	-	20	-	-	-	20	-	20
Other		-	-	(51)	-	-	-	(51)	-	(51)
Balance at 31 December 2016		3,730	400,396	(7,948)	(12,086)	(428)	(99,671)	283,993	-	283,993
Comprehensive income										
Loss for the year		-	-	-	-	-	(62,756)	(62,756)	-	(62,756)
Actuarial gains on pension		-	-	-	-	95	-	95	-	95
Deferred tax on pensions		-	-	-	-	(29)	-	(29)	-	(29)
Exchange differences		-	-	-	(3,941)	-	-	(3,941)	-	(3,941)
Total comprehensive income/(expenditure) for the year		-	-	-	(3,941)	66	(62,756)	(66,631)	-	(66,631)
Balance at 31 December 2017		3,730	400,396	(7,948)	(16,027)	(362)	(162,427)	217,362	-	217,362

The notes on pages 14 to 65 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Net cash used in operating activities	29 (34,472)	(21,479)
Investing activities		
Interest received	401	201
Proceeds from sale of subsidiary	-	229
Purchase of property, plant and equipment	12 (2,772)	(4,818)
Purchase of intangible assets	11 (2,555)	(4,972)
Acquisition of subsidiaries, net of cash acquired	-	(133,839)
Net cash used in investing activities	(4,926)	(143,199)
Financing activities		
Proceeds from issue of Senior Secured Notes	515,819	198,030
Proceeds from loans and borrowings	48,500	65,000
Proceeds from securitisation	13,606	-
Transaction costs related to loans and borrowings	(6,997)	(10,960)
Acquisition of non-controlling interests	-	(9)
Redemption fees	(3,588)	-
Repayment of borrowings	(442,534)	(734)
Interest paid	(120,351)	(102,038)
Net cash from financing activities	4,455	149,289
Net decrease in cash and cash equivalents	(34,943)	(15,389)
Cash and cash equivalents at beginning of period	98,053	106,938
Effect of movements in exchange rates on cash held	2,214	6,504
Cash and cash equivalents at end of period	17 65,324	98,053

The notes on pages 14 to 65 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The consolidated financial statements of Garfunkelux Holdco 2 S.A. and its subsidiaries (together “The Group”) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of Directors on 11 April 2018. Under Luxembourg Law, the consolidated financial statements are approved by the shareholder at the Annual General Meeting. Garfunkelux Holdco 2 S.A. (the Company or the parent) is incorporated as an S.A. (Société Anonyme) and domiciled in Luxembourg. The registered office is located at 488 route de Longwy, in Luxembourg Ville.

The Group is principally engaged in the provision of credit management services. Information regarding the Group structure is presented in note 13. Information on other related party transactions is presented in note 32.

Restatement of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications have no effect on the reported loss for the period. An adjustment has been made to the Consolidated Statement of Comprehensive Income (“SCI”) for the year ended 31 December 2016 to reclassify appropriate staff costs as collection activity costs.

General information and basis of preparation

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

Functional and presentation currency

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its “Functional Currency”). For the purposes of these consolidated financial statements, the results are prepared in Sterling, (the Group’s “Presentational Currency”). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Adoption of new and revised standards

The following accounting standard amendment became effective for periods commencing on or after 1 January 2017 and has been adopted in the current year. This amendment did not have a material impact on the consolidated financial statements.

IAS 7 (amended)	Disclosure initiative – the amendments to IAS 7 Statement of cashflows are part of the IASB’s Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
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The following new and revised Standards and Interpretations are in issue and have been endorsed by the EU but are not yet effective for these consolidated financial statements.

IFRS 9 – Financial Instruments – effective from 1 January 2018. The current application of the Effective Interest Rate with regards to purchased non-performing assets is largely in line with IFRS 9. Business model analysis, contract review and correlation and causation testing have been undertaken. The current assessment is that IFRS 9 will not have a material financial impact on the Group’s financial statements. This outcome is in line with management’s expectations given the nature of the Group’s existing portfolio investments is underpinned by predominantly non-paying accounts. As part of the correlation and causation testing, the following macroeconomic variables were assessed; unemployment, disposable income, household indebtedness, inflation and other factors. Additional disclosure requirements, over and above those from IFRS 7, will be required (around compliance with applicable regulation and the management of risk).

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

IFRS 15 – Revenue from Contracts with Customers – effective from 1 January 2018. IFRS 15 establishes a five step approach to accounting for revenue from contracts with customers. The standard affects revenue from third party contingent collection services (“3PC”) and other service contracts and contract reviews against the five steps of the new standard have been completed by the Group. Revenue is earned by the Group through commission based contracts and fee based contracts. In a commission based contract revenue is based on a % commission of the payments received from clients and in a fee based contract revenue is based on agreed upon fees. The current assessment is that IFRS 15 will not have a material impact on any of the Group’s revenue streams.

IFRS 16 – Leases– effective from 1 January 2019. IFRS 16 introduces a single, on balance sheet approach to lease accounting for lessees with optional exemptions for short-term leases and leases of low value items. Management will assess the potential impact of adopting IFRS 16 during 2018.

The following new and revised Standards and Interpretations are in issue but have not yet been endorsed by the EU and are hence not yet effective for these financial statements.

IFRS 2 – Classifications and Measurement of Share-based Payment Transactions.

Basis of consolidation

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

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

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

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

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

Going concern

The Group’s business activities are set out in the SCI and Consolidated Statement of Financial Position (“SFP”) on pages 10 and 11 respectively. In addition, note 28 to these consolidated 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.

The Cash EBITDA of the Group is an industry accepted measure of a business’s asset base and cashflow generation. The Group has demonstrated strong performance during the year ended 31 December 2017 with Cash EBITDA of £299.3m, an increase of £44.8m on the year ended 31 December 2016.

The business as a whole is cash generative before portfolio acquisitions, receiving £481.3m in gross DP cash collections for the year ended 31 December 2017. The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

The Group has three main sources of funding at 31 December 2017, €365m, £565m and €415m of listed Senior Secured loan notes (“notes”), £230m of listed Senior loan notes, and a €200m RCF. There are covenants on the funding which are detailed in note 18.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Going Concern (continued)

There are long term business plans and short term forecasts in place which are reviewed and updated on a regular basis by management. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They consequently adopt the going concern basis of accounting in preparing these consolidated financial statements.

Foreign currency

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's Presentational Currency (Sterling) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the Foreign Currency Translation Reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of completion) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. At acquisition, non-controlling interest ("NCI") is measured at fair value. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below).

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Business Combinations) are recognised at their fair value at the acquisition date, except that of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements that are recognised and measured in accordance with IAS 12 (Income Taxes) and IAS 19 (Employee Benefits) respectively.

On a business combination the portfolio investments are recalculated to fair value using an appropriate discount rate at the date of acquisition, calculated based on actual performance and forecasts at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date, and is subject to a maximum of one year from the date of acquisition.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Total goodwill is tested for impairment annually. Additionally, if there is evidence of impairment in any CGU, goodwill allocated to that CGU is also tested for impairment.

The Group calculates the recoverable amount of each CGU by determining the higher of its fair value less costs to sell, and value in use. Certain assumptions are made in relation to the value in use calculation including forecast cash flows, growth rates, and an appropriate discount rate.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rated basis in relation to the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the goodwill attributable to that subsidiary is included when calculating the profit or loss on disposal.

Revenue recognition and effective interest rate method

Finance revenue on acquired portfolio investments

Income from portfolio investments represents the yield from acquired portfolio investments, net of VAT where applicable. Acquired portfolio investments are financial instruments that are accounted for using IAS 39 (Financial Instruments), and are measured at amortised cost using the effective interest method.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition, (i.e. the price paid to acquire the asset). These estimated future cash receipts are reflective of the conditions within the markets which the Group operates and range from 84 months to 120 months.

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

Increases in portfolio carrying values can and do occur should forecasted cashflows be deemed greater than previous estimates and because of the rolling nature of the period to derive future cash receipts. The difference in carrying value following an enhanced collection forecast is recognised in the portfolio write up line item within revenue, with subsequent reversals also recorded in this line. If these reversals exceed cumulative revenue recognised to date, an impairment is recognised in the SCI.

As part of the acquisition accounting around the purchase of Metis Bidco Limited by Simon Bidco Limited on 13 October 2015 the portfolio investments were uplifted to their fair value at the date of acquisition. The portfolio fair value release represents the unwinding of this fair value uplift (see note 14). This uplift is being unwound in line with the profile of gross ERC over an 84 month period, in keeping with a standard collection curve profile in the UK.

Service revenue

Service revenue represents amounts receivable for tracing and debt collecting services (commissions and fees) provided to third party clients including collection lawyers, net of VAT where applicable. The revenue is recognised when the service is provided (accruals basis).

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment at the SFP date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio investment. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio investment and is included in revenue. If the forecast portfolio collections are lower than previous forecasts the revenue from previous upward revaluations are reversed and this reversal is recognised in revenue, up to the point that the reversals equal the previously recognised cumulative revenue. If these reversals exceed the previously recognised cumulative revenue then an impairment is recognised in the SCI.

Financial instruments

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

Financial assets and liabilities at fair value through profit or loss

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

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

Loans and receivables

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

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

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

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

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

Impairment of financial assets

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

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

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

Financial liabilities

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

Derivative financial instruments

The Group does not hold derivative instruments for trading purposes.

Derivative financial instruments have been used for hedging. As of the balance sheet date, they relate to hedges taken out to hedge the risk of variability in cash flows.

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

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 (Fair Value Measurement), as described in note 28.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the SFP date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the discounted present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Pensions

Defined benefit pensions

The Group provides defined benefit pension plans through some of its German subsidiaries. Provisions for pensions are calculated pursuant to IAS 19. Actuarial models are used to calculate the provisions for pensions and the related pension expenses. These calculations use various assumptions such as current actuarial probabilities (discount factors, increase in cost of living etc.), assumptions regarding turnover based on age and years of service as well as experience-based assumptions concerning the probability of occurrence of pension payments, annuity payments or endowment payments. The probabilities used in the inputs may deviate from actual developments due to changes in market and economic conditions. Sensitivity analyses are used to determine the financial effects of the deviations in the significant inputs.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions (continued)

Defined contribution pensions

The Group operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the SCI in the period they are payable.

Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each SFP date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the SFP date. Deferred tax is charged or credited in the SCI, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

VAT

Income, expenses and assets are recognised net of VAT, except:

- Where the VAT incurred on purchased goods and services cannot be reclaimed from the tax authorities, in which case the VAT is recognised as part of the cost of the asset or as an expense.
- Receivables and liabilities are stated with the amount of VAT included.

The VAT amount reclaimable from, or payable to, the tax authorities is reported under receivables or liabilities in the balance sheet.

Collection activity costs

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

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits with a term from inception of three months or less, less bank overdrafts where there is a right to offset. Bank overdrafts are presented as current liabilities to the extent that there is no right to offset with cash balances in the same currency.

The Group holds cash on behalf of third parties as part of its collection activities. This restricted cash is shown within cash with a corresponding liability recognised in other payables.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based Payments

Some employees (including senior executives) of the Group receive remuneration in the form of share-based payments settled by the main shareholder of the Group as described in note 27.

IFRS 2 Share-based Payment requires an entity to account for a transaction in which it either:

- receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or
- has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

Equity-settled transactions

To the extent a cost is recognised, the cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the SCI for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In the consolidated financial statements of the Group, the share-based payment arrangements described in note 27 have been classified as equity settled transaction because the Group has no obligation to settle the transaction with the employees for services it receives.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixtures and fittings	5 years
Hardware	5 years
Office equipment	5 to 15 years
Leasehold improvements	Life of lease (0 to 15 years)

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the SCI.

Borrowing costs are added to the costs of an asset provided it is a qualifying asset pursuant to IAS 23.

Intangible assets

Separately acquired or internally generated intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised only if technical feasibility has been demonstrated such that the asset will be available for use or sale, that there is an intention and ability to use or sell the asset, that it will generate future economic benefit, and that the expenditure attributable to the asset during its development can be measured. Where no internally generated intangible asset can be recognised, development expenditure is expensed as incurred.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	3 to 5 years	Straight line
Licences	1 to 15 years	Straight line
Other intangible assets	3 to 10 years	Straight line
Trademarks	15 years	Straight line
Customer relationships	5 to 10 years	Expected life of the underlying contract (Collection profile)

Development costs are not amortised until the project they relate to is complete and goes live. Once the project is live the costs are moved from development costs to the relevant category and amortised over the applicable useful economic life.

Assets are reviewed for signs of impairment at least annually and more frequently if necessary. Impairments are recognised where the carrying value of the asset exceeds the future economic benefit.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the Group's financial statements. IFRS requires the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently, and make judgements and estimates that are reasonable and prudent.

The judgements and estimates used in applying the Group's accounting policies that are considered by the Directors to be the most important to the portrayal of its financial position are detailed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Portfolio investment valuation

Portfolio investments are acquired from institutions at a substantial discount from their face value and are subsequently measured at amortised cost using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts of the acquired portfolio investments to the net carrying amount at initial recognition.

The calculation of the EIR for each portfolio is therefore based on the estimation of future cash flows. The cash flow forecasts, which represent the undiscounted value of the ERC of our portfolio investments at a given point in time, are calculated over an 84 month to 120 month period. These estimates are based upon historical collections data from other portfolios with similar features such as type and quantum of debt, or age. In addition, operational measures which may impact on future estimated cashflows are built into the ERC. These cash flows are estimates and are therefore inherently judgemental.

Actual cashflows are regularly compared to estimates to assess the accuracy of previous forecasts.

An uplift or reduction in expected future cash flows of 1% would increase or decrease the closing carrying value of portfolio investments at 31 December 2017 by £9.6m.

If the forecast portfolio collections exceed initial estimates, an adjustment is recorded as an increase to the carrying value of the portfolio and is included in revenue as a portfolio write up.

The portfolio investments are reviewed for indications of impairment at the SFP date in accordance with IAS 39 (Financial Instruments). Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections are lower than previous forecasts, the cumulative revenue recognised is considered as described in the revenue recognition accounting policy.

The adjustment, in relation to either an uplift or impairment, is calculated by discounting regularly revised cash flow forecasts developed for each individual portfolio investment, at the initially set EIR.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Goodwill

The Group capitalises goodwill on the acquisition of businesses as discussed in the significant accounting policies. Goodwill is the excess of the cost of an acquired business over the fair value of its net assets. The determination of the fair value of acquired net assets requires the exercise of management judgement, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired investment portfolios where valuations reflect estimates of future cash flows. Different valuations would result in changes to the goodwill arising and to the post acquisition performance of the acquisition.

Goodwill is not amortised but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. Calculation of the value in use requires an estimate of future cash flows expected to arise from the CGU after a suitable discount rate has been applied to calculate present value. This inherently involves a number of judgements in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the business is an estimate.

See note 10 for further details regarding goodwill.

Treatment of VAT backpayments

On 27 October 2011, the European Court of Justice ruled that the purchase of non-performing loans ("NPLs") does not constitute a supply of services for consideration by the acquirer to the seller. This judgement was mirrored by the German Federal Finance Court on 26 January 2012 and in this ruling it was stated that the acquirer could not reclaim input VAT on the purchase of NPLs. As a result the Group may have to refund the input VAT claimed for this line of business for the period from 2004 to 2012 to the German tax authorities.

The final letter from the German Federal Ministry of Finance on 2 December 2015 clarified the treatment in respect of the purchase of NPLs and includes the expected grandfathering rules.

As a result of these rulings, the Group has recognised a provision of £4.8m (31 December 2016: £4.6m) and corresponding interest of £2.4m (31 December 2016: £2.3m) for VAT in relation to purchases of NPLs in the years prior to 2012 (see note 20). This provision estimate is determined but will continue to accrue interest until paid. However the tax authorities have not concluded their review of the historical period and as a result the amount may change to the benefit or detriment of the Group.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

3. SEGMENTAL REPORTING

Segmentation

IFRS 8 requires operating segment reporting to be based on information provided to the chief operating decision maker which, in this case, is considered to be the Group Executive Committee. Information is presented to the Group Executive Committee on the basis of the two main regions within which the Group operates – the UK and DACH (Germany, Austria, Switzerland and Croatia). This is in line with the management of the Group. Holding company costs include amounts recognised in relation to holding companies introduced to the Group on the acquisitions of GFKL and Lowell.

Both the UK and DACH operating segments derive revenues from the acquisition and collection of consumer debt portfolios and receivables management.

All revenues are derived from external customers.

Segmental results

Year ended 31 December 2017

	UK	DACH	Holding companies	Total
Revenue from external customers	267,264	250,269	(391) ¹	517,142
Other income	645	4,206	-	4,851
Collection activity costs	(88,246)	(151,660)	-	(239,906)
Other operating expenses	(60,009)	(72,480)	(16,986) ²	(149,475)
Operating profit before depreciation, amortisation and impairment	119,654	30,335	(17,377)	132,612
Depreciation, amortisation and impairment	(3,187)	(11,549)	(5,173) ³	(19,909)
Operating profit	116,467	18,786	(22,550)	112,703
Finance income				2,394
Finance costs				(176,074)
Loss before tax				(60,977)
Income tax				(1,779)
Loss for the period				(62,756)

¹ Revenue in holding companies relates to the fair value step up on acquisition of Metis Bidco by Simon Bidco. This differs to the portfolio fair value release shown in the SCI as a fair value adjustment arising from a previous acquisition is being unwound within the UK results.

² Other operating expenses in holding companies relate to central costs and acquisition costs for the Carve-out Business from Intrum.

³ Depreciation, amortisation and impairment in holding companies relates to customer relationship and tradename assets recognised on acquisition of GFKL and Lowell.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

3. SEGMENTAL REPORTING (continued)
Segmental results (continued)

Year ended 31 December 2016*	UK	DACH	Holding companies	Total
Revenue from external customers	216,415	238,470	(668) ¹	454,217
Other income	-	3,083	1,048 ²	4,131
Collection activity costs	(75,028)	(152,263)	-	(227,291)
Other operating expenses	(48,176)	(46,533)	(6,068) ³	(100,777)
Operating profit before depreciation, amortisation and impairment	93,211	42,757	(5,688)	130,280
Depreciation, amortisation and impairment	(3,361)	(5,976)	(11,185) ⁴	(20,522)
Operating profit	89,850	36,781	(16,873)	109,758
Finance income				699
Finance costs				(138,692)
Loss before tax				(28,235)
Income tax				(2,980)
Loss for the period				(31,215)

¹ Revenue in holding companies relates to the fair value step up on acquisition of Metis Bidco by Simon Bidco. This differs to the portfolio fair value release shown in the SCI as a fair value adjustment arising from a previous acquisition is being unwound within the UK results.

² Other income within holding companies relates to income due from the previous owner of GFKL.

³ Other operating expenses in holding companies relate to central costs.

⁴ Depreciation, amortisation and impairment in holding companies relates to customer relationship and tradename assets recognised on acquisition of GFKL and Lowell. During 2016, £6.2m of tradename assets were impaired.

*Prior year figures have been restated to reclassify a balance from other expenses to collection activity costs. See note 1 for further detail.

	31 December 2017 £000	31 December 2016 £000
Non-current assets		
UK	569,103	570,768
DACH	576,407	569,361
	1,145,510	1,140,129

Non-current assets above exclude portfolio investments and other financial assets.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

3. SEGMENTAL REPORTING (continued)

Secondary segment

In addition to the primary geographical segment on which the chief operating decision maker reviews the performance of the group, data is also reviewed on a business line basis. These principally comprise:

- The acquisition and collection of non-performing consumer debt portfolios (DP); and
- The provision of third party contingent collection services and other services (Service).

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Revenues		
DP	348,913	291,312
Service (including 3PC)	168,229	162,905
	<u><u>517,142</u></u>	<u><u>454,217</u></u>

4. LOSS BEFORE TAX

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Loss for the period is after charging:		
Impairment of assets	-	6,387
Impairment of non-performing loans (note 14)	4,548	8,887
Depreciation of property, plant and equipment (note 12)	2,329	1,968
Amortisation of intangible assets (note 11)	17,580	12,167
Loss on disposal of property, plant and equipment and intangible assets	464	407
Staff costs (note 5c)	123,556	91,019
Rentals under operating leases (note 26)	10,465	6,674
Acquisition costs – Tesch	-	951
Acquisition costs – Lowell	-	253
Acquisition costs – Carve-out Business from Intrum	10,880	-
	<u><u>10,880</u></u>	<u><u>-</u></u>

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

5. STAFF COSTS AND OTHER OPERATING EXPENSES

a) Other operating expenses

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Staff costs (note 5c)	62,855	45,138*
Depreciation of property, plant and equipment (note 12)	2,329	1,968
Amortisation of intangible assets (note 11)	17,580	12,167
Tradenname impairment	-	6,229
Acquisition costs	10,880	1,204
Rental, licences and maintenance for IT equipment	15,229	10,185
Building rental and facility costs	11,979	8,552
Other operating expenses	48,532	35,856
Total other operating expenses	169,384	121,299

*Prior year figures have been restated to reclassify a balance from other expenses to collection activity costs. See note 1 for further detail.

Other operating expenses includes office costs, consultancy and professional fees.

During 2016, tradenames of £6.2m were impaired to nil.

b) Auditor's remuneration

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Audit fees of Parent Company and consolidated financial statements	128	134
Audit related fees of financial statements of subsidiaries	468	251
Tax fees	-	48
Other services	209	131
Total auditor's remuneration	805	564

The Group auditor was changed from Ernst & Young to KPMG on 18 October 2016. Ernst & Young continued to audit the DACH region for the 2016 year end before a full handover was effected in 2017. Auditor's remuneration in 2016 disclosed above relates only to KPMG.

Other services comprise interim review fees and assurance fees in connection with bond issuances provided to the Group.

The extent of non-audit services fees payable are reviewed by the Audit Committee in the context of the fees paid by the Group to its other advisors during the period. The Committee also reviews the nature and extent of the non-audit services to ensure that independence is maintained.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

5. STAFF COSTS AND OTHER OPERATING EXPENSES (continued)

c) Staff costs	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Collection activity costs	60,701	45,881
Other expenses	62,855	45,138
Total staff costs	123,556	91,019

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Wages and salaries	107,129	79,262
Social security costs	15,110	10,689
Pension costs to defined contribution schemes	822	651
Pension costs to defined benefit schemes	495	417
Total staff costs	123,556	91,019

The average number of employees during the period was:

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Operational staff	2,130	1,660
Business support	793	649
Total	2,923	2,309

The period end number of employees was:

	31 December 2017 Number	31 December 2016 Number
Operational staff	2,205	1,984
Business support	875	783
Total	3,080	2,767

d) Directors' remuneration

The Directors are not paid by any Company that forms part of the Group.

Emoluments paid to other key employees who are not Directors of this Company but are Directors of subsidiaries of the Company are detailed in note 32. These thirteen employees are paid by subsidiary undertakings of the Company for their services as Directors to the Group.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

6. FINANCE INCOME

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Bank interest receivable	401	201
Net gain on financial instruments designated as FVTPL	164	498
Premium release on senior secured notes	1,829	-
Total finance income	2,394	699

7. FINANCE COSTS

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Financial liabilities measured at amortised costs – interest expense:		
Interest payable on the Senior Secured Notes	87,897	73,336
Interest payable on the Senior Unsecured Notes	25,300	25,300
Fees payable on the Notes	6,608	5,135
Write off of prepaid costs on the senior notes	10,318	-
Interest and fees payable on Revolving Credit facility	3,407	3,495
Interest payable on shareholder loan	27,112	22,664
Other interest payable	1,982	1,725
Net loss on financial instruments designated as FVTPL	1,243	398
Notional interest on financial liabilities relating to NCI	-	2,386
Redemption fee on the senior secured notes	3,588	-
Net foreign exchange loss	8,619	4,253
Total finance costs	176,074	138,692

8. INCOME TAX

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Current taxation		
Corporation tax	12,332	1,468
Adjustment in respect of previous periods	24	61
Total current tax charge	12,356	1,529
Deferred tax		
Origination and reversal of temporary differences	(22,857)	2,806
Change in estimate of recoverable deferred tax	12,261	(1,398)
Impact of change in tax rate	19	43
Total deferred tax (credit)/charge (see note 9)	(10,577)	1,451
Total tax expense	1,779	2,980

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

8. INCOME TAX (continued)

b) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Pension Provisions	29	(338)

c) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 27.08%. However, as the Group is located in different countries, the standard average effective rate of corporation tax for the group is 25%. The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Loss on ordinary activities before tax	(60,977)	(28,235)
Tax credit on loss on ordinary activities at a combined countries rate of 25%	(15,244)	(7,059)
Effects of:		
Permanent differences	662	1,469
Income not taxable for tax purposes	4,980	6,452
Value adjustments	12,260	(1,398)
Impact of tax losses carried forward	193	2,461
Adjustment to tax charge in respect of previous periods	24	61
Tax rate differences	(1,160)	958
Other	64	36
Total tax expense	1,779	2,980

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

9. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following as at 31 December 2017 and 31 December 2016.

	31 December 2017 £000	31 December 2016 £000
Recognised in profit or loss		
Intangible assets	(30,580)	(35,660)
Portfolio investments	(20,327)	(27,556)
Tax losses carried forward	10,384	13,756
Other	2,375	2,152
	<hr/>	<hr/>
Net tax liabilities	(38,148)	(47,308)
	<hr/> <hr/>	<hr/> <hr/>

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

The movement in deferred tax balances throughout the period are as follows:

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
SCI effect	(10,577)	1,451
Equity effect	29	(338)
Acquisition of subsidiaries	-	15,529
Disposal of subsidiaries	-	(59)
Exchange rate differences	1,388	4,136
	<hr/>	<hr/>
Movement in the period	(9,160)	20,719
	<hr/> <hr/>	<hr/> <hr/>

	31 December 2017 £000	31 December 2016 £000
Deferred tax asset	-	-
Deferred tax liability	(38,148)	(47,308)
	<hr/>	<hr/>
	(38,148)	(47,308)
	<hr/> <hr/>	<hr/> <hr/>

Deferred tax assets of £6.5m (2016: £3.4m) have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the losses can be utilised.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

10. GOODWILL

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Cost		
Opening Balance	1,005,949	861,382
Addition on acquisition of IS Inkasso	-	12,656
Addition on acquisition of Tesch	-	81,028
Effect of currency translation	16,390	50,883
	1,022,339	1,005,949
Net book value		
At period end	1,022,339	1,005,949

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to two aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes. The two CGUs identified are the UK, comprising of all subsidiary companies operated in the UK owned by Simon Bidco Limited, and DACH, consisting of all subsidiary companies operated in DACH owned by Lowell Holding GmbH.

Euro denominated goodwill is retranslated at each balance sheet date and give rise to the Euro translation effect shown above.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to collections and direct costs during the forecast period.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The rate used to discount the forecast cash flows for the CGU's are based upon the subsidiary group's weighted average cost of capital ("WACC") and are as follows:

	31 December 2017 £000	31 December 2016 £000
UK CGU	6.36%	7.35%
DACH CGU	4.80%	5.81%

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

10. GOODWILL (continued)

The Group prepares cash flow forecasts derived from the most recent detailed financial budgets approved by management for the next four years. The forecasts assume growth rates in acquisitions which in turn drive the forecast collections and cost figures.

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value.

UK CGU

Based on the value in use a fall in the forecast cashflows of 14.1% would result in an impairment at 31 December 2017. An increase in WACC of 4.3 percentage points to 10.7% would result in an impairment at 31 December 2017.

DACH CGU

Based on the value in use a fall in the forecast cashflows of 53.6% would result in an impairment at 31 December 2017. An increase in WACC of 3.5 percentage points to 8.3% would result in an impairment at 31 December 2017.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

11. INTANGIBLE ASSETS

	Software and licences £000	Development costs £000	Customer relationships £000	Trademarks £000	Total £000
Cost					
At 1 January 2017	18,341	1,171	110,468	16,327	146,307
Additions	1,203	1,352	-	-	2,555
Reclassification	747	(747)	-	-	-
Disposals	(2,274)	-	-	-	(2,274)
Currency exchange differences	547	28	4,001	254	4,830
At 31 December 2017	18,564	1,804	114,469	16,581	151,418
Accumulated amortisation					
At 1 January 2017	(3,540)	(18)	(10,904)	(7,751)	(22,213)
Charge for the year	(4,681)	-	(12,277)	(622)	(17,580)
Amortisation on disposals	2,059	-	-	-	2,059
Currency exchange differences	(131)	(1)	(554)	(247)	(933)
At 31 December 2017	(6,293)	(19)	(23,735)	(8,620)	(38,667)
Net book value					
At 31 December 2017	12,271	1,785	90,734	7,961	112,751
At 31 December 2016	14,801	1,153	99,564	8,576	124,094

Reclassifications: Development costs can be a combination of “Software and licences” and “Property, plant and equipment”. When projects go live and development costs are reclassified they are transferred to “Software and licences” or “Property, plant and equipment” (note 12).

Intangible assets acquired through the acquisition of subsidiaries are included in cost at their net book value at the time of the acquisition.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

12. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £000	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost					
At 1 January 2017	505	4,144	1,766	5,447	11,862
Additions	21	312	561	1,878	2,772
Disposals	-	-	(1)	(2,440)	(2,441)
Currency exchange differences	-	-	-	195	195
At 31 December 2017	526	4,456	2,326	5,080	12,388
Accumulated depreciation					
At 1 January 2017	(74)	(372)	(394)	(936)	(1,776)
Charge for the year	(107)	(393)	(509)	(1,320)	(2,329)
Disposals	-	-	-	2,192	2,192
Currency exchange differences	-	-	-	(55)	(55)
At 31 December 2017	(181)	(765)	(903)	(119)	(1,968)
Net book value					
At 31 December 2017	345	3,691	1,423	4,961	10,420
At 31 December 2016	431	3,772	1,372	4,511	10,086

Property, plant and equipment acquired through the acquisition of subsidiaries are included in cost at their net book value at the time of the acquisition.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

13. GROUP STRUCTURE

The Group includes the following subsidiary undertakings. All subsidiaries are included in the consolidation:

Name	Country of incorporation	Ordinary share holding % as at 31 December 2017	Ordinary share holding % as at 31 December 2016
Garfunkelux Holdco 3 S.A.	Luxembourg	100	100
Lowell Holding GmbH ¹	Germany	100	100
Lowell Financial Services GmbH ^{1,2}	Germany	100	100
Zyklop Inkasso Deutschland GmbH	Germany	100	100
GFKL PayProtect GmbH	Germany	100	100
GFKL Collections GmbH	Germany	100	100
Deutsche Multiauskunftei GmbH	Germany	100	100
Lowell Service Center GmbH ¹	Germany	100	100
Proceed Collection Services GmbH	Germany	100	100
Sirius Inkasso GmbH	Germany	100	100
INKASSO BECKER WUPPERTAL GmbH & Co. KG	Germany	100	100
IBW Verwaltungsund Beteiligungs GmbH	Germany	100	100
Intratech GmbH	Germany	100	100
debifact Factoring GmbH & Co. KG	Germany	100	100
debifact Verwaltungs GmbH	Germany	100	100
Simon Holdco Limited	Jersey	100	100
Simon Midco Limited	UK	100	100
Simon Bidco Limited	UK	100	100
Hansa Holdco Limited ³	UK	100	100
Pofidax Oy ⁴	Finland	100	100
Metis Bidco Limited	UK	100	100
Lowell Finance Holdings Limited	UK	100	100
Lowell Group Financing Plc	UK	100	100
Lowell Group Limited	UK	100	100
Lowell Funding Limited	UK	100	100
Lowell Acquisitions Limited	UK	100	100
Lowell Holdings Ltd	UK	100	100
Lowell Finance Ltd	UK	100	100
Lowell Financial Ltd	UK	100	100
Lowell Portfolio I Ltd	UK	100	100
Tocatto Ltd	UK	100	100
Lowell Portfolio III Holdings Limited	UK	100	100
Lowell Portfolio III Limited	UK	100	100
Lowell Portfolio IV Holdings Limited	UK	100	100
Lowell Portfolio IV Limited	UK	100	100
Lowell Solicitors Limited	UK	100	100
Interlaken Group Limited	UK	100	100
Fredrickson International Limited	UK	100	100
SRJ Debt Recoveries Limited	UK	100	100
IS Group Management GmbH	Austria	100	100
IS Forderungsmanagement GmbH	Austria	100	100
IS-Inkasso Service GmbH	Austria	100	100
EDV-Hofer GmbH	Austria	100	100
Lowell Portfoliomanagement GmbH ³	Austria	100	-
IS Inkasso Service GmbH	Switzerland	100	100
IS Inkasso Servis d.o.o	Croatia	100	100
DC Holding GmbH ²	Germany	-	100
Tesch Inkasso GmbH ²	Germany	-	100
DC Forderungsmanagement GmbH ²	Germany	-	100
Tesch Inkasso Forderungsmanagement GmbH	Germany	100	100
Tesch Service GmbH	Germany	100	100
DC Portfolien GmbH	Germany	100	100
Tesch Mediafinanz GmbH	Germany	100	100

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

13. GROUP STRUCTURE (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2017	Ordinary share holding % as at 31 December 2016
Tesch Inkasso Finance GmbH	Germany	100	100
mediafinanz collection services GmbH ²	Germany	-	100
Apontas GmbH & Co KG	Germany	100	100
Apontas Verwaltungs GmbH	Germany	100	100
Apontas Inkasso GmbH	Germany	100	100
Apontas Invest GmbH	Germany	100	100
Lowell Investment GmbH ³	Germany	100	-

¹The following entities were renamed in the period; Lowell Financial Services GmbH (formerly GFKL Financial Services GmbH), Lowell Holding GmbH (formerly Garfunkel Holding GmbH) and Lowell Service Center GmbH (formerly GFKL Service Center GmbH).

²DC Holding GmbH, Tesch Inkasso GmbH and DC Forderungsmanagement GmbH merged with Lowell Financial Services GmbH and mediafinanz collection services GmbH merged with Tesch Mediafinanz GmbH during 2017.

³During 2017, the following entities were incorporated, Lowell Investment GmbH, Lowell Portfoliomanagement GmbH and Hansa Holdco Limited.

⁴On 1 November 2017 Pofidax Oy was acquired.

14. PORTFOLIO INVESTMENTS

	31 December 2017 £000	31 December 2016 £000
Non-current		
Portfolio investments	568,204	491,446
Current		
Portfolio investments	396,303	340,259
Total	964,507	831,705

The movements in acquired portfolio investments were as follows:

	31 December 2017 £000	31 December 2016 £000
At start of period	831,705	616,461
On acquisition of subsidiaries	-	18,164
Portfolios acquired during the period	256,122	288,324
Collections in the period	(481,283)	(399,722)
Income from portfolio investments	245,057	199,327
Portfolio fair value release	(2,565)	(3,429)
Portfolio write-up	106,421	95,414
Impairment of non-performing loans	(4,548)	(8,887)
Other	13,598	26,053
At end of period	964,507	831,705

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NOTES TO THE FINANCIAL STATEMENTS
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15. TRADE AND OTHER RECEIVABLES

	31 December 2017 £000	31 December 2016 £000
Trade receivables	10,140	8,430
Prepayments and accrued income	8,740	6,592
Other receivables	13,097	12,633
Tax receivable	1,257	1,290
	33,234	28,945

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £11.0m (2016: £9.1m), and an allowance for bad debt of £0.9m (2016: £0.7m).

16. OTHER FINANCIAL ASSETS

	31 December 2017 £000	31 December 2016 £000
Non-current		
Receivables from affiliated companies	7,655	2,020
Other financial assets	150	121
	7,805	2,141
Current		
Securitisation receivables	1,571	1,592
Other financial assets	5,189	6,722
	6,760	8,314
	14,565	10,455

Receivables from affiliated companies relate to loans made to Garfunkelux Nominee S.à r.l. and Garfunkelux Holdco 1 S.à r.l. together with accrued interest.

17. CASH AND CASH EQUIVALENTS

	31 December 2017 £000	31 December 2016 £000
Cash and bank balances	33,927	76,719
Restricted cash balances	31,397	21,334
	65,324	98,053

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

The Group holds cash on behalf of third parties as part of its collection activities. These restricted cash balances are shown within cash.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

18. BORROWINGS

	31 December 2017 £000	31 December 2016 £000
Non-current		
Unsecured borrowings at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on Senior Notes	(7,494)	(8,289)
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	311,736	274,376
Total unsecured	534,242	496,087
Secured borrowings at amortised cost		
Senior Secured Notes	1,256,860	1,074,320
Prepaid costs on Senior Secured Notes	(38,890)	(39,083)
Securitisation loan	6,943	-
Total secured	1,224,913	1,035,237
Total borrowings due for settlement after 12 months	1,759,155	1,531,324
Current		
Unsecured borrowings at amortised cost		
Interest on Senior Notes	4,218	4,218
Other interest payable	537	454
Total unsecured	4,755	4,672
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	19,231	20,627
Revolving credit facility	41,000	75,000
Securitisation loan	5,548	-
Total secured	65,779	95,627
Total borrowings due for settlement before 12 months	70,534	100,299

During the period financing transaction costs of £15.6m were incurred in respect of Senior Secured Notes.

All borrowings are measured at amortised cost using the effective interest rate method. The other principal features of the Group's borrowings are as follows:

Senior Secured Notes ("Notes")

On 23 July 2015 the Group issued €365m 7.5% Senior Secured Notes due 2022, through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the Notes is payable semi-annually on 1 February and 1 August, commencing 1 February 2016. The Notes will mature on 1 August 2022, though the Group may redeem the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 20 July 2015.

On 19 October 2015 the Group issued £565m 8.5% Senior Secured Notes due 2022, through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the Notes is payable semi-annually on 1 May and 1 November, commencing 1 May 2016. The Notes will mature on 1 November 2022, though the Group may redeem the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 14 October 2015.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

18. BORROWINGS (continued)

On 28 September 2016 the Group issued €230m 5.5% plus EURIBOR (subject to a 0% floor) Senior Secured Notes due 2021 through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the Notes was payable quarterly on 1 October, 1 January, 1 April and 1 July, commencing on 1 January 2017.

On 21 April 2017 the Group tapped €175m 5.5% plus EURIBOR (subject a 0% floor) Senior Secured Notes due 2021 through its subsidiary Garfunkelux Holdco 3 S.A. under the indenture dated 28 September 2016 at a price of 101.25%.

On 20 September 2017 the Group redeemed both the €230m loan notes issued in September 2016 and the €175m loan notes issued in April 2017, in full at a redemption price of 101% plus any accrued and unpaid interest.

On 20 September 2017 the Group issued €415m 3.5% plus EURIBOR (subject to a 0% floor) Senior Secured Notes due 2023 through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the loan notes is payable quarterly on 1 December, 1 March, 1 June and 1 September, commencing on 1 December 2017. The notes will mature on 1 September 2023, though the Group may redeem some or all of the notes at an earlier date as per the details set out in the Offering Memorandum issued on 6 September 2017.

There are two covenant measures under the terms of the Senior Secured Notes; Fixed Charge Coverage Ratio, which must be at least 2:1 and Consolidated Senior Secured Leverage Ratio, which cannot exceed 4.5:1. Both covenants are incurrence covenants.

The Senior Secured Notes are secured on the assets, share pledges and intra-group receivables of the Group and are listed on the Official List of the Luxembourg Stock Exchange (EUROMTF).

Senior Unsecured Notes (“Notes”)

On 19 October 2015 the Company issued £230m 11.0% Senior Notes due 2023. The interest on the Notes is payable semi-annually on 1 May and 1 November, commencing 1 May 2016. The Notes will mature on 1 November 2023, though the Group may redeem the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 14 October 2015. The Notes are listed on the Official List of the Luxembourg Stock Exchange.

There is one covenant measure under the terms of the Notes, the Fixed Charge Coverage Ratio, which must be at least 2:1. Again, this is an incurrence covenant only.

Revolving Credit Facility (“RCF”)

The Group has an RCF commitment of €200m. The RCF has a variable interest rate linked to LIBOR/EURIBOR and a quarterly commitment fee calculated on the undrawn facility.

Any material company or other member of the Group, which becomes a guarantor of the RCF is required (subject to agreed security principles) to grant security over certain of its material assets and (if wholly owned by another member or members of the Group) to have its shares (or equivalent ownership interests) secured in favour of the Security Agent.

There is one covenant measure under the terms of the RCF additional to the covenant measures under the Senior Secured Notes as follows: if the aggregate amount of all loan utilisations exceed an amount equal to 30% of the total commitments, the Group is required to confirm whether or not the Leverage Ratio exceeds 7:1.

No incurrence or maintenance covenants in the Notes and RCF instruments have been breached during the year to 31 December 2017 or the year to 31 December 2016.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

18. BORROWINGS (continued)

Shareholder Loan

The Group entered into a loan facility in October 2015 for €260.4m with its holding company Garfunkelux Holdco 1 S.à r.l. The Group increased this facility in May 2016 to €287.4m. The loan has an interest rate of 9.66% (2016: 9.72%).

The shareholder loan has a maturity date that falls six months following the maturity of the Senior Notes or the date of the latest maturing of any outstanding Senior debt of the company.

The weighted average interest rates during the period were as follows:

	31 December 2017 £000	31 December 2016 £000
Notes	7.86%	8.25%
RCF	3.81%	3.63%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.72%

19. TRADE AND OTHER PAYABLES

	31 December 2017 £000	31 December 2016 £000
Trade payables	8,811	7,199
Other taxes and social security	2,566	2,831
Accruals and deferred income	37,049	17,515
Other payables	30,964	74,165
	79,390	101,710

Other payables includes amounts due of £2.8m in respect of portfolios purchased but not yet paid for at 31 December 2017 (31 December 2016: £49.0m).

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

20. PROVISIONS

	Tax provisions £000	Onerous contract provision £000	Employee related provision £000	Other £000	Total £000
At 1 January 2017	11,635	1,854	1,521	1,351	16,361
Provisions made during the year	1,320	967	237	2,037	4,561
Amounts utilised during the year	-	(652)	(76)	(488)	(1,216)
Provisions reversed during the year	-	(875)	(1)	(288)	(1,164)
Discount unwind	-	-	63	(29)	34
Exchange differences	438	60	58	46	602
At 31 December 2017	13,393	1,354	1,802	2,629	19,178
Current	13,393	1,354	195	2,157	17,099
Non-current	-	-	1,607	472	2,079
Total	13,393	1,354	1,802	2,629	19,178

Tax related provisions largely comprise amounts owed due to VAT backpayments (£7.2m, note 2) as well as other tax related provisions of £6.2m.

In 2016, a former service provider to the GFKL Group asserted a claim against GFKL totalling c€0.7m. Based on the views of our external legal advisors the claim is not valid and hence no provision has been created.

21. OTHER FINANCIAL LIABILITIES

	31 December 2017 £000	31 December 2016 £000
Non-current		
Other financial liabilities	189	50
	189	50
Current		
Liability from potential treasury shares	6,943	6,517
	6,943	6,517

The liability in respect of treasury shares relate to the merger of ABIT AG (“ABIT”) and GFKL Financial Services AG in 2006. The liability arises from ABIT shareholders outstanding claims which will be fulfilled by a cash settlement. This liability relates to the unsettled amounts together with accrued interest.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

22. SHARE CAPITAL

	€000
Called up, allotted and fully paid:	
Share capital on incorporation (6,200,000 ordinary shares of €0.01 each)	45
Increase in share capital (493,800,005 ordinary shares of €0.01 each)	3,685
	3,730
At 31 December 2017 and 31 December 2016	3,730

The rights attached to the ordinary shares are as follows:

Voting

Each shareholder shall have one vote for every Share held. Each Shareholder and Beneficiary Unit (“BU”) holder (note 23), where applicable, may vote through voting forms in the manner set out in the convening notice in relation to a Shareholders’ Meeting. The Shareholders and the BU holders may only use voting forms provided by the Company and which contain at least the place, date and time of the meeting, the agenda of the meeting, the proposal submitted to the decision of the meeting, as well as for each proposal three boxes allowing the Shareholder and the BU holder to vote in favour, against, or abstain from voting on each proposed resolution by ticking the appropriate box.

Return of Capital

In the event of a dissolution and liquidation of the Company, any liquidation surplus shall be distributed in the following order:

- The holders of the BUs shall receive an amount corresponding to a) the Issue Price of the BUs held by them plus b) the amount of any accrued but unpaid BU Entitlement.
- Subject to the terms of any Arrangement, any remaining liquidation surplus shall be distributed to Shareholders pro-rata to the number of Shares held by them.

Distributions

From net profits of the Company determined in accordance with Luxembourg Law, five per cent shall be deducted and allocated to a legal reserve fund. That deduction will cease to be mandatory when the amount of the legal reserve fund reaches one tenth of the Company’s nominal capital.

Subject to the provisions of Luxembourg Law, the Company Articles and any Arrangement, the Company may by Shareholders’ Resolution declare distributions to Shareholders pro rata to the number of Shares held by them.

Subject to the provisions of Luxembourg Law, the Company Articles and any Arrangement, the Board of Directors may pay interim dividends to Shareholders pro rata to the number of Shares held by them.

The Shareholders and the BU holders, where applicable, are entitled to participate in a Shareholders’ Meeting by videoconference or by telecommunications means allowing their identification, and are deemed to be present for the calculation of quorum and majority conditions and voting.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

23. RESERVES

Capital reserve

The changes in capital reserves can be seen in the consolidated statement of changes in equity.

	31 December 2017 £000	31 December 2016 £000
At start of period	(7,948)	(8,443)
Repurchase of NCI shares	-	526
Other	-	(31)
At end of period	(7,948)	(7,948)

Beneficiary Units

The issue price of any Beneficiary Unit shall be allocated to a special reserve (the “BU reserve”) within the capital reserve. The BU and the BU reserve shall not form part of the share capital of the Company and shall carry those rights set out below.

The BU reserve shall be distributable only upon repurchase or redemption of the BUs or upon liquidation of the Company.

At 31 December 2017 and 31 December 2016, there were 333m beneficiary units in issue and the BU reserve totalled £18,650.

Rights

The BUs shall not carry voting rights except that each BU carries one vote at any shareholders’ meeting called upon to resolve upon the appointment or removal of Director(s) of the Company.

Each holder of BUs shall be entitled to receive an annual distribution corresponding to 0.1% of the Issue Price of the BUs held (the “BU Entitlement”) payable annually upon decision of the Shareholders’ Meeting, at repurchase or redemption of the BUs or upon liquidation of the Company. Any BU Entitlement not paid in a year, shall continue to accrue until it is paid.

Subject to the terms of any Arrangement, the Company, through its Board of Directors, shall have the right to redeem the BUs by providing written notice to the holder(s) of the BUs that within one business day (or such time as the notice may specify, including, without limitation, immediately), all of the BUs shall be fully redeemed by the Company for a price equal to the Issue Price of the BUs plus any accrued but unpaid BU Entitlement.

Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Valuation reserve

The valuation reserve comprises the actuarial gains/losses and deferred tax movements on the Group’s defined benefit pension scheme.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

24. RETAINED DEFICIT

	31 December 2017 £000	31 December 2016 £000
Loss for the period	(62,756)	(31,215)
Non-controlling interest	-	119
	<hr/>	<hr/>
Loss attributable to equity holders of the parent	(62,756)	(31,096)
	<hr/> <hr/>	<hr/> <hr/>

25. NON-CONTROLLING INTEREST

	£000
Opening balance 1 January 2016	526
Loss for the period	(119)
Purchase of non-controlling interest	(407)
	<hr/>
Closing balance 31 December 2016	-
	<hr/> <hr/>
Closing balance 31 December 2017	-
	<hr/> <hr/>

During 2016, the Group purchased the non-controlling interest of 49% in Intratech GmbH.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

26. COMMITMENTS

Operating Lease arrangements

The Group as lessee

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Lease payments under operating leases recognised as an expense in the period	<u>10,465</u>	<u>6,674</u>

Non-cancellable operating lease rentals are payable as follows:

	31 December 2017 £000	31 December 2016 £000
Less than one year	10,182	8,604
More than one year and less than five years	21,876	20,421
More than five years	6,076	10,376
	<u>38,134</u>	<u>39,401</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and car leases.

There are two main property leases in the UK. One which has been negotiated for a lease term of 15 years, commenced on 9 December 2013, with the option to break, free of charge, after 10 years, and the other which has been negotiated for a lease term of 12 years, commenced on 1 July 2016, with the option to break, free of charge, after 7 years,

The main property lease in Germany has been negotiated for a lease term of 10 years, commenced on 3 February 2014.

The other property leases are for periods of one to three years with various options for breaks. Car leases run for three years with the option to extend.

Other than the information noted above for operating leases, the Group has no other outstanding commitments at 31 December 2017 (31 December 2016: none).

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

27. SHARE BASED PAYMENTS

On 13 October 2015, the main shareholder of the Company – Garfunkelux Holdco 1 S.à r.l. entered into a share-based payment arrangement with certain managers of the Group (the “Garfunkelux Group managers”).

Under this agreement, the Garfunkelux Group managers entered into a nominee agreement with Garfunkelux Nominee S.à r.l. (“Nominee”), pursuant to which the Nominee is the registered shareholder of the shareholder instruments as nominee for the Garfunkelux Group managers and these managers are the beneficial owners of the shareholder instruments held by Nominee. The Garfunkelux Group managers subscribed for shares in Garfunkelux Holdco 1 S.à r.l. at a price that approximates the market price of the underlying shares at the date of grant.

The Garfunkelux Group managers further agreed, in the same agreement, to sell back to Garfunkelux Invest S.à r.l., the main shareholder of Garfunkelux Holdco 1 S.à r.l., the shares owned in Garfunkelux Holdco 1 S.à r.l. in the event they cease to be an employee and/or a corporate officer of the Group. The selling price of the shares is determined on the basis of a number of conditions including the service period and whether the Garfunkelux Group manager qualifies as good leaver or bad leaver. The sale price of the shares in Garfunkelux Holdco 1 S.à r.l. owned by the Garfunkelux Group managers will be settled in cash.

In the consolidated financial statements of the Group, this arrangement has been classified as equity settled transaction because the Group has no obligation to settle the transaction with the Garfunkelux Group managers. However since amounts paid by the Garfunkelux Group managers for the subscription of the shares in Garfunkelux Holdco 1 S.à r.l. are at fair value, the awards have no material fair value at grant date and therefore there is no expense recognised in the SCI for the year or previous year.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 1.

Categories of financial instruments

	31 December 2017 £000	31 December 2016 £000
Financial assets		
Cash and cash equivalents	65,324	98,053
Loans and receivables (portfolio investments)	964,507	831,705
Other financial assets	49,199	40,537
Financial liabilities		
Borrowings - Notes	1,510,309	1,329,165
Borrowings – RCF	41,000	75,000
Borrowings – Shareholder loan	311,736	274,376
Borrowings – Securitisation loan	12,491	-
Borrowings – other	537	454
Trade and other payables	79,390	101,710
Other financial liabilities	7,132	6,567
Tax liability	26,864	17,319
Provisions	19,178	16,361
Derivatives (FVTPL)	1,116	429

Financial risk management objectives

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

- Credit risk
- Liquidity risk
- Operational risk
- Market risk
- Conduct risk
- Interest rate risk
- Foreign currency risk
- Capital management risk
- Fair value estimation risk

This note presents information about the exposure of the Group 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 Group Executive Committee.

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

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Credit risk management

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 from the concentration of debtor credit risk is limited due to the high number of individual customer balances and the relatively low value of each of the individual's debts.

The Group's principal activity is the acquisition and management of underperforming consumer debt portfolios. All portfolios by their nature are impaired on acquisition and the Group continually monitors cash collections. Carrying values are impaired when and if the underlying performance does not meet initial expectations. The on-going risk is managed through utilising a comprehensive portfolio valuation model and building current expectations of recoverability from historical information on debt types and customers into pricing assumptions and models. An investment committee is in place which is attended by members of the Executive Committee as well as other key members from across areas of the business.

This committee is in place to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.

The carrying amount of financial assets recorded in the consolidated financial statements, which are net of impairment losses, represents the Groups maximum exposure to credit risk.

Liquidity risk management

Liquidity risk is the risk of the Group being unable to meet its financial obligations as they fall due, due to insufficient cash, cash equivalents and available drawings. The 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 and by continuously monitoring forecast and actual cash flows. At 31 December 2017, the Group had available undrawn committed borrowing facilities of €153.8m (31 December 2016: €112.4m). See note 18 for further details on banking facilities.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

The following tables show the Group's gross undiscounted contractual cash flows of financial liabilities including interest payments at the SFP date:

As at 31 December 2017

	Weighted average interest rate %	Carrying amount £000	Contractual cash flows £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Notes*	7.86	1,510,309	2,074,828	55,291	55,291	1,331,086	633,160
RCF	3.81	41,000	41,000	41,000	-	-	-
Shareholder loan	9.66	311,736	311,736	-	-	-	311,736
Securitisation loan	-	12,491	12,491	2,840	2,708	6,943	-
Other liabilities	-	134,217	134,217	131,949	-	2,268	-
Total liabilities		2,009,753	2,574,272	231,080	57,999	1,340,297	944,896

As at 31 December 2016

	Weighted average interest rate %	Carrying amount £000	Contractual cash flows £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Notes*	8.25	1,329,165	1,964,310	53,793	53,793	627,226	1,229,498
RCF	3.63	75,000	75,000	75,000	-	-	-
Shareholder loan	9.72	274,376	274,376	-	-	-	274,376
Other liabilities	-	142,840	142,840	140,781	-	2,059	-
Total liabilities		1,821,381	2,456,526	269,574	53,793	629,285	1,503,874

* Includes Loan principal outstanding and accrued interest (note 18).

Other liabilities includes "Trade and other payables", "Provisions", "Derivatives", "Current tax liabilities", "Other financial liabilities" and "Other accrued interest" (note 18).

Ultimate responsibility for liquidity risk management rests with the Group Executive Committee, which has established an appropriate liquidity risk management approach for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by monitoring the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are set out below.

Undrawn Group financing facilities

	31 December 2017 £000	31 December 2016 £000
RCF		
Amount used	41,000	75,000
Amount unused	136,400	96,200
	177,400	171,200

The total RCF available of €200m has been translated at the year end at a rate of 0.887 at 31 December 2017 and 0.856 at 31 December 2016.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

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, while 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 prices, type and timing of debt coming to the market, i.e. the cost of consumer debt portfolios.

In bidding for consumer debt portfolios, the Group seeks to achieve a sufficient yield to cover both the cost of collection and overhead costs, thereby minimising the risk of not recovering the cost of these portfolios. The Group uses sophisticated pricing models along with extensive customer and market data to establish the profitability of portfolios coming to market. The Group monitors its pricing assumptions through Investment Committees (subsets of the Executive Committee).

The Group manages the unpredictability of the market through a number of financing structures. The Group has in place €365m, £565m and €415m of Senior Secured loan Notes, £230m of Senior loan Notes, and a €200m RCF facility. At 31 December 2017 the RCF facility was £41m drawn down (31 December 2016: £75m). This facility allows the Group the flexibility to bid on portfolios as and when they come to market and are not restricted by cash flow constraints.

Conduct risk

Conduct risk is the risk to customers that the controls and operations of the Group fail. In the UK, a number of entities are regulated by the Financial Conduct Authority ("FCA"). If the FCA deemed the Group's conduct and customer interaction to be poor or non-compliant it can impose a financial penalty and/or financial redress for customers. The ultimate penalty would be the withdrawal of that company's authorisation to provide financial services. The Directors are not aware of any indication that this is a possibility and seek to minimise the risk through initiatives such as the Lowell FAIR programme which enshrines the FCA's six Treating Customers Fairly principles around fair customer treatment in the Group's day-to-day activity. Specifically, the FAIR programme helps shape processes to achieve fair outcomes for customers, assessment of affordability and monitoring and oversight to minimise conduct risk.

Interest rate risk

Interest rate risk is the risk of changing interest rates. The Group has minimised its risk against changes in interest rates by being predominantly funded by fixed rate Notes and share capital.

The Group's RCF has a variable interest rate and at 31 December 2017 this was £41m drawn down (31 December 2016: £75m). Interest is payable on the RCF at a maximum of 3.5% + LIBOR/EURIBOR. The Group also had one floating rate note issuance in place at 31 December 2017 with a principal of €415m and an interest rate of 3.5% + EURIBOR (with a floor of 0%).

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the SFP date. A 2.5% per cent increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 2.5% per cent higher and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would be c£8.8m lower (2016: c£2.2m lower). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Foreign exchange swap contracts

The derivatives recognised at 31 December 2017 relate to OTC (“Over the Counter”) foreign exchange derivatives that the Group concludes with its banking partners. In order to recognise the fair value of these derivatives, the fair value calculation performed by the Group as of the balance sheet date is used, which is based on the customary market method and is regularly compared with fair value calculation provided by the counter parties. The fair value of foreign exchange swaps is determined by discounting expected future cash flows over the residual term of the contract based on current market rates and the term structure of interest rates.

Foreign currency risk

The Group has exposure to foreign currency risk through its investments in overseas operations which have functional currencies other than Sterling and foreign currency denominated assets/liabilities and transactions. The Group minimises its foreign currency risk by having both assets and liabilities in functional currencies other than Sterling. As the assets and liabilities are matched where practical, the Group monitors and manages its exposure. The carrying values of the Groups principle foreign currency denominated assets and liabilities are as follows:

	31 December 2017 £000	31 December 2016 £000
Assets	851,281	848,601
Liabilities	1,151,419	938,076

Foreign Currency Sensitivity

The following table details the Group’s sensitivity to a 10% decrease in Euro against Sterling exchange rates. This represents the Directors’ assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the year end only for a change in foreign currency rates, holding all other variables constant.

	2017 £000	2016 £000
Loss before tax	7,977	2,647
Shareholders’ equity	32,540	8,342

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.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 18 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity (“SoCE”).

The risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2017 £000	31 December 2016 £000
Financial assets		
Investments and receivables	1,013,706	872,242
Cash and cash equivalents	65,324	98,053
Total financial assets	1,079,030	970,295
Financial liabilities		
Fair value through SCI	1,116	429
Financial liabilities measured at amortised cost	2,008,637	1,820,952
Total financial liabilities	2,009,753	1,821,381

Derivatives with positive and negative fair values

As of 31 December 2017, foreign exchange forwards with a total negative fair value of £1.1m were held (31 December 2016: £0.4m). There were no derivatives with positive fair values. They were not designated as hedges for hedge accounting purposes (IAS 39). The residual maturity was determined on the basis of the residual maturities of the derivatives.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, the Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values, with portfolio investments and Notes being the only exceptions.

	Carrying amount		Fair Value	
	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000
Financial assets				
Cash and cash equivalents	65,324	98,053	65,324	98,053
Investments and receivables:				
Portfolio investments	964,507	831,705	975,355	835,841
Other financial assets	49,199	40,537	49,199	40,537
Total financial assets	1,079,030	970,295	1,089,878	974,431
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes*	1,276,091	1,094,947	1,297,329	1,119,869
Senior Notes*	234,218	234,218	248,492	236,997
RCF	41,000	75,000	41,000	75,000
Shareholder loan	311,736	274,376	311,736	274,376
Securitisation loan	12,491	-	12,491	-
Other financial liabilities	133,101	142,411	133,101	142,411
Total financial liabilities	2,008,637	1,820,952	2,044,149	1,848,653

*Includes loan principal outstanding and accrued interest (note 18).

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments carried at amortised cost (continued)

For the Group, the fair value of the acquired portfolios is determined using a discounted cashflow model with unobservable inputs and are classified as level 3 measurements. The Senior and the Senior Secured Notes are publicly traded instruments whose value can be obtained from public sources; as a result these are classified as level 1. The remaining financial assets and liabilities carried have a fair value equal to their carrying value.

The fair value of non-financial instruments have been considered and it was determined that the fair value is materially equal to their carrying value therefore no additional disclosure has been made.

The fair value of the portfolios is calculated by discounting the net forecast cashflows. The unobservable inputs in determining the fair value are the discount rate and service cost percentage which differ for portfolios that are not deemed as “paying” at the point of acquisition and those that are deemed as “paying”. A “paying” portfolio is determined at the point of acquisition based on the proportion of accounts within that portfolio that are set up on a payment plan. The discount rates have been determined from market information and benchmarking. The service cost percentage is the percentage used to discount the gross cashflows to net and is based on historical information on costs to collect.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. The acquired portfolio investments fair value is calculated using discounted net 84 month to 120 month forecast cashflows.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Foreign exchange swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2017		
	Level 1	Level 2	Level 3
	£000	£000	£000
Financial liabilities at fair value			
Derivatives	-	1,116	-
	<u> </u>	<u> </u>	<u> </u>
	31 December 2016		
	Level 1	Level 2	Level 3
	£000	£000	£000
Financial liabilities at fair value			
Derivatives	-	429	-
	<u> </u>	<u> </u>	<u> </u>

The following table shows the fair values of derivative financial instruments. A distinction is made between the derivatives depending on whether they form part of an effective hedge in accordance with IAS 39.

	31 December	31 December
	2017	2016
	£000	£000
Derivative financial instruments with negative fair values		
Not designated as part of a hedge relationship	1,116	429
	<u> </u>	<u> </u>

There were no derivative financial instruments to hedge fair value risks in accordance with IAS 39 as of the balance sheet date. It was not possible to apply the rules of hedge accounting to the derivatives as of 31 December 2017 and 31 December 2016.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

29. NOTE TO THE STATEMENT OF CASHFLOWS

		Year ended December 2017 £000	Year ended December 2016 £000
	Notes		
Loss for the period before tax		(60,977)	(28,235)
Adjustments for:			
Income on portfolio investments	14	(245,057)	(199,327)
Portfolio write up	14	(106,421)	(95,414)
Portfolio fair value release	14	2,565	3,429
Impairment of non-performing loans	14	4,548	8,887
Collections on owned portfolios	14	481,283	399,722
Depreciation and amortisation	4	19,909	14,135
Impairment of intangible assets		-	6,387
Gain on disposal of a subsidiary		-	(50)
Interest receivable	6	(2,394)	(699)
Loss on disposal of property, plant and equipment and intangible assets	4	464	407
Finance income	7	176,074	138,692
Unrealised losses from foreign exchange		(362)	(14,581)
(Increase)/decrease in trade and other receivables		(10,513)	13,819
Increase/(decrease) in trade and other payables		14,949	(7,140)
Movement in other net assets		(4,670)	(4,921)
Cash generated from operating activities before portfolio acquisitions		269,398	235,111
Portfolios acquired ¹		(300,150)	(254,055)
Income taxes paid		(3,720)	(2,535)
Net cash used in operating activities		(34,472)	(21,479)

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

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

30. RECONCILIATION OF MOVEMENTS IN BORROWINGS TO FINANCING CASH FLOWS

	Senior Notes	Shareholder loan	Prepaid costs on Senior notes	RCF	Securitisation Loan	Other	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2017	1,329,165	274,376	(47,372)	75,000	-	454	1,631,623
Changes from financing cash flows							
Proceeds from loans and borrowings	515,819	-	-	48,500	13,606	-	577,925
Repayment of borrowings	(358,830)	-	-	(82,500)	(1,204)	-	(442,534)
Interest paid	(115,652)	(31)	-	-	-	(4,668)	(120,351)
Transaction costs on borrowings	-	-	(6,997)	-	-	-	(6,997)
Total changes from financing cash flows	41,337	(31)	(6,997)	(34,000)	12,402	(4,668)	8,043
The effect of changes in foreign exchange rates	27,045	10,279	(460)	-	89	(79)	36,874
Changes from liabilities							
Interest expense	113,197	27,112	-	-	-	4,830	145,139
Premium release	(1,829)	-	-	-	-	-	(1,829)
Interest accrued	1,394	-	-	-	-	-	1,394
Accrued costs	-	-	(8,481)	-	-	-	(8,481)
Write off of prepaid costs on the senior notes	-	-	10,318	-	-	-	10,318
Prepaid cost release	-	-	6,608	-	-	-	6,608
Total liability related changes	112,762	27,112	8,445	-	-	4,830	153,149
Balance at 31 December 2017	1,510,309	311,736	(46,384)	41,000	12,491	537	1,829,689

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

31. EMPLOYEE BENEFITS

a) Defined benefit schemes

The Group has defined benefit pension obligations through its German subsidiary Lowell Financial Services GmbH. Pension obligations were calculated in accordance with the requirements set out in IAS 19. An interest rate of between 1.5% and 2.0% (2016: 1.5% and 1.9%), depending on the group of beneficiaries, was used for this purpose. The defined benefit obligation arising from the defined benefit plans was determined in accordance with IAS 19. The calculations took into account estimated increases in pensions and salaries as well as an employee turnover rate. Pension increases were estimated at 1.0% to 1.5% (2016: 1.0 - 1.5%), salary increases at 2.0% (2016: 0.0% to 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2016: 0.0% to 2.0%). The employee turnover rate, in particular, depends on the age of the pension beneficiaries. Mortality and invalidity rates were measured for the German companies using the 2005 G Heubeck mortality tables.

The pension plan for one of the former members of the Executive Board of Lowell Financial Services GmbH includes a retirement pension entitlement when the beneficiary reaches the age of 60. This retirement pension is equivalent to up to 75% of the average fixed salary over the five years immediately prior to retirement. The pension entitlement for two former employees of GFKL PayProtect GmbH comprises a retirement pension to be paid when the beneficiary reaches the age of 65. Following the transfer of employees from the ERGO Group, Sirius Inkasso GmbH recognised provisions for pensions for the first time in 2006. The pension entitlement comprises a lifelong retirement pension paid when the beneficiary retires from the service of the entity upon reaching the age of 65. A total of 13 employees at Sirius Inkasso GmbH have the benefit of this pension entitlement. Pension entitlements have also been granted to employees of Proceed Collection Services GmbH as a result of the transfer of 19 employees from Bayerische Hypo- und Vereinsbank AG (now UniCredit Bank AG).

The net liability is calculated as follows:

	31 December 2017 £000	31 December 2016 £000
Present value of unfunded defined benefit obligation	8,419	8,168
Plan assets	(2,714)	(3,027)
Net liability	5,705	5,141

The following table shows the changes in the defined benefit obligation:

	31 December 2017 £000	31 December 2016 £000
Opening balance of defined benefit obligation	8,168	6,002
Interest expense	144	164
Pension payments	(196)	(96)
Current service cost	95	75
Actuarial (gains)/losses	(89)	1,053
Currency translation adjustments	297	970
Closing balance of defined benefit obligation	8,419	8,168

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

31. EMPLOYEE BENEFITS (continued)

a) Defined benefit schemes (continued)

The plan assets offset against the defined benefit obligation are measured at fair value. The change in plan assets were as follows:

	31 December	31 December
	2017	2016
	£000	£000
Opening balance of plan assets	3,027	2,480
Net interest income	50	69
Actuarial gains	6	5
Contributions	81	78
Payments	(554)	(6)
Currency translation adjustments	104	401
	<hr/>	<hr/>
Closing balance of plan assets	2,714	3,027
	<hr/> <hr/>	<hr/> <hr/>

Since the plan assets have been pledged as collateral, they are netted against the present value of the unfunded defined benefit obligation. The plan assets are insurance policies entered into by the Group. These assets have been pledged to the beneficiaries, resulting in a netting requirement under IAS 19. Contributions to the plan assets over the next year are expected to amount to €91k (€91k at 31 December 2016).

Movements in the period on provision for pensions were as follows:

	Year ended 31	Year ended 31
	December	December
	2017	2016
	£000	£000
Opening balance	5,141	3,522
Payments arising from pension obligations	358	(90)
Allocation to defined benefit obligation	190	170
Allocation to plan assets	(81)	(78)
Actuarial (gains)/losses	(95)	1,048
Currency translation adjustments	192	569
	<hr/>	<hr/>
Closing balance	5,705	5,141
	<hr/> <hr/>	<hr/> <hr/>

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

31. EMPLOYEE BENEFITS (continued)

a) Defined benefit schemes (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2017 is as shown below:

	31 December 2017 £000
Interest rate	
Increase 0.5%	(757)
Decrease 0.5%	874
Salary trend	
Increase 0.5%	162
Decrease 0.5%	(149)
Benefits trend	
Increase 0.5%	648
Decrease 0.5%	(579)

The sensitivity analyses above were determined based on a method that extrapolates the impact on the defined benefit obligation as a result of realised changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses change key assumptions in isolation. As it is unlikely that changes in assumptions will occur individually, the results above may not be representative of the actual change in defined benefit obligation.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	31 December 2017 £000	31 December 2016 £000
Within the next 12 months	201	202
Between 2 and 5 years	892	853
Between 5 and 10 years	1,315	1,217
More than 10 years	11,523	12,047
Total expected payments	13,931	14,319

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2016: 20 years).

b) Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees of its operations in the UK. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £822k (2016: £651k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2017, contributions of £159k (31 December 2016: £115k) due in respect of the current reporting period had not been paid over to the schemes.

GARFUNKELUX HOLDCO 2 S.A.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

32. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Company is a wholly owned subsidiary undertaking of Garfunkelux Holdco 1 S.à r.l., the registered office of which is at 488, route de Longwy, L-1940, Luxembourg.

The ultimate parent company is Garfunkelux S.à r.l., incorporated in Luxembourg, which is itself held by funds advised by Permira, an international private equity fund.

The Company is the largest group in which results are consolidated.

Period end balances with related parties

	31 December 2017 £000	31 December 2016 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note 18)	(311,736)	(274,376)
Loan owed from Garfunkelux Holdco 1 S.à r.l.	3,079	-
Balances owed to other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	4,576	2,020
Permira Beteiligungsberatung GmbH (trading)	5	5
Teamviewer GmbH (trading)	-	29
	<u> </u>	<u> </u>

Transactions with related parties

	31 December 2017 £000	31 December 2016 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(27,112)	(22,664)
Loan interest owed from Garfunkelux Holdco 1 S.à r.l.	63	-
Loan to Garfunkelux Holdco 1 S.à r.l.	(3,016)	-
Transactions with other related parties		
Loan interest owed from Garfunkelux Nominee S.à r.l.	270	254
Loan to Garfunkelux Nominee S.à r.l.	(2,286)	(3,137)
Permira Beteiligungsberatung GmbH (trading)	112	114
Teamviewer GmbH (trading)	7	29
	<u> </u>	<u> </u>

GARFUNKELUX HOLDCO 2 S.A.

CASH EBITDA WALKS (UNAUDITED)

32. RELATED PARTY TRANSACTIONS (continued)

Remuneration of key management personnel

The remuneration of key management personnel of the Group, who are not Directors of the Company, is set out below in aggregate for each of the categories specified in IAS 24 (Related Party Disclosures):

	Year ended 31 December 2017	Year ended 31 December 2016
	£000	£000
Short-term employee benefits	<u>5,198</u>	<u>4,351</u>

The above details relate to thirteen key management personnel (2016: twelve) who are Directors and/or senior executives of subsidiary undertakings of the Company. They are paid emoluments by subsidiary companies (Simon Bidco Limited, Lowell Financial Limited, Lowell Holding GmbH and Lowell Financial Services GmbH) for their services to the Group. The Directors of the Company are not paid by any company that forms part of the Group, see note 5d.

During the year two loans totalling €3.9m have been made to key management personnel. One loan has been made direct from Lowell Holding GmbH, the other loan has been made from Lowell Holding GmbH to Garfunkelux Holdco 1 S.à r.l., a related party, and subsequently lent to a member of the key management personnel. Both loans were made on an arm's length basis.

33. SUBSEQUENT EVENTS

On 2 February 2018, Garfunkelux Holdco 3 S.A., a direct subsidiary of Garfunkelux Holdco 2 S.A., issued €530m floating rate senior secured notes at a rate of 4.5% + EURIBOR and SEK1,280m floating rate senior secured notes at a rate of 4.75% + STIBOR both due on 1 September 2023. This issuance forms part of the financing for the acquisition of the Carve-out Business from Intrum in the Nordic region.

On 20 March 2018, the Group acquired 100% share in Fair Play Please AS and Lindorff Sverige AB, which represent the Carve-out Business of Intrum, for €749 million. The acquisition was made through Pofidax Oy, an indirect subsidiary of the Company.

The Carve-out comprises Lindorff's entire business in Denmark, Estonia, Finland and Sweden as well as Intrum Justitia's entire business in Norway and was specified by the European Commission as a condition of the combination of the two companies in 2017.

Given the short elapsed period between the issue of these financial statements and the date of the acquisition of the Intrum Carve-out there are no current values for purchase price allocation, this will be undertaken in due course.

GARFUNKELUX HOLDCO 2 S.A.
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

	Year ended 31 December 2017 £000
Operating profit to Cash EBITDA	
Loss for the period	(62,756)
Net finance costs	173,680
Taxation charge	1,779
Operating profit	112,703
Portfolio amortisation	236,226
Portfolio write up	(106,421)
Portfolio fair value adjustment	2,565
Impairment of non-performing loans	4,548
Non-recurring costs/exceptional costs	29,740
Depreciation, amortisation and impairment	19,909
	<hr/>
Cash EBITDA	299,270
	<hr/> <hr/>

	Year ended 31 December 2017 £000
Cash collections to Cash EBITDA	
Cash collections (DP)	481,283
Other income	173,080
Operating expenses	(409,290)
Non-recurring costs/exceptional costs	29,740
Impairment of non-performing loans	4,548
Depreciation, amortisation and impairment	19,909
	<hr/>
Cash EBITDA	299,270
	<hr/> <hr/>

	Year ended 31 December 2017 £000
Net cashflow to Cash EBITDA	
Decrease in cash in the period	(34,943)
Movement in debt	(135,391)
Purchases of loan portfolios	300,150
Interest paid net of interest received	119,950
Income taxes paid	3,720
Transaction costs relating to loans and borrowings	6,997
Redemption fees	3,588
Capital expenditure	5,327
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	269,398
Working capital adjustments	132
Non-recurring costs/exceptional costs	29,740
	<hr/>
Cash EBITDA	299,270
	<hr/> <hr/>