Company No. B197497

GARFUNKELUX HOLDCO 2 S.A.

Independent Auditor's Report

and Consolidated Financial Statements

Year ended 31 December 2018

GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2018

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GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2018

OFFICERS AND PROFESSIONAL ADVISERS

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E Perrier
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GARFUNKELUX HOLDCO 2 S.A.

MANAGEMENT REPORT
Year ended 31 December 2018

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 2018.

BUSINESS AND GENERAL CONDITIONS

The Company was incorporated on 1 June 2015. The Group acquired Lowell Financial Services GmbH (formerly GFKL Financial Services AG) and its subsidiaries ("DACH") on 30 June 2015 and Metis Bidco Limited and its subsidiaries ("UK") 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 Lowell Financial Services GmbH (formerly GFKL 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 Lowell Financial Services GmbH (formerly GFKL Financial Services GmbH), an indirect subsidiary of the Company.

On 20 March 2018, the Group acquired a 100% share in Lindorff Sverige AB, Fair Pay Please AS and subsidiaries through Lowell Nordics Oy (formerly Hansa Bidco Oy, formerly Pofidax Oy), 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 pursued both organic and inorganic growth during 2018. From an organic perspective, the Group has consciously invested in additional portfolio purchases at accretive return levels to drive further long-term growth benefits, whilst also building on our transformational change agenda to develop regionally focused best-in-class platforms to support the long-term future aspirations of the business. From an inorganic perspective, the Group successfully completed the acquisition of the Nordic Carve-out Business from Intrum in March 2018. This acquisition cements the Group's position as one of the largest Credit Management Service providers in Europe and gives the Group a market leading position across the Nordic region, alongside its existing leading positions in the UK and across the DACH region. The Group now operates across the three largest consumer credit markets in Europe, and benefits from greater scale and diversification.

Within the UK, the flow of debt to the market remains strong, helped by ongoing underlying growth in unsecured consumer credit, together with providers of this credit continuing to seek debt sale solutions in response to the need to effectively manage their balance sheets, asset risk-weightings and regulatory pressures. We expect such trends to continue, with clients expressing greater desire to work with trusted partners such as Lowell who can ensure the on-going fair treatment of consumers. The UK business is well positioned to take advantage of these conditions and, whilst the market remains competitive, we were able to grow our portfolio acquisitions by a meaningful amount year-on-year.

Within the DACH region, the flow of debt to the market continues to be strong, reflecting a continuation of the trend from 3PC to DP as the acquisition of non-performing loans develops into an ever-more established facet of the market. Similar to the UK, the market remains competitive, however we saw pleasing growth in our year on year portfolio acquisitions as we continue to apply pricing and investment discipline when it comes to deploying capital across the Group.

Within the Nordic region, the debt purchase market whilst competitive, also remains favourable with regards to the scale and quantum of portfolio opportunities, with the level of capital deployed remaining ahead of our original investment case underwriting. In December 2018, the Group divested its payment services business, acquired as part of the Carve-out Business from Intrum, allowing focus on its core credit management services.

FINANCIAL PERFORMANCE (continued)

Overall the Group has performed strongly in the year ended 31 December 2018 with portfolio acquisitions of £383.6m. The Group successfully acquired portfolios from 139 vendors during the year and from a variety of originating sectors, including financial services, home retail, telecommunications and utilities. Our diversified service offering also facilitates the further embedding of strategic client relationships through the management of collection of debt on behalf of over 100 large 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 Group estimated remaining collections as at the reporting date. The Group’s average replacement rate was around £258m for the year ended 31 December 2018, with total portfolio acquisitions for the year representing 1.5x this number, the incremental purchases above the replacement rate representing investment capital for on-going growth.

The overall carrying value of portfolio investments at 31 December 2018 was £1,561.0m, an increase of 61.8% over the balance at 31 December 2017 of £964.5m, including £387.5m acquired through the acquisition of the Carve-out Business from Intrum.

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 2018 84 month ERC was £2,619.2m, an increase of 49.8% over 31 December 2017 (£1,748.5m), and 120 month ERC was £3,118.2m, an increase of 51.6% on 31 December 2017 (£2,057.5m).

Total income for the year was £679.4m (2017: £517.4m).

The Group made an operating profit of £143.7m in the year ended 31 December 2018 (£112.7m in the year ended 31 December 2017).

The UK recorded a slight reduction in operating profit driven by higher collection activity costs reflecting increased portfolio acquisitions in the period, alongside increases in other operating expenses as the business continued to invest in its operational and platform capabilities, in addition to carrying out exceptional actions to rationalise and relocate its 3PC activities from Tolworth to Leeds.

Pleasingly, the UK saw an increase in total income year-on-year reflecting both higher portfolio investments acquired and the performance of existing portfolio investments.

The DACH region saw continuing investment to bring together three distinct businesses, being GFKL, Tesch and IS Inkasso, whilst continuing to invest in the DACH platforms to rationalise multiple receivables management systems, operating legal entities and operating locations. We expect 2019 to reflect a further period of change; change which will leave our DACH operations in a stronger, more flexible position to enable future growth and margin development.

The acquisition of the Carve-out Business from Intrum saw our Nordic region contribute £37.1m of operating profit for the year from 1 April 2018 to 31 December 2018.

After finance costs and tax, the Group made a loss for the year of £48.1m (£62.8m in the year ended 31 December 2017).

The Group is funded by six offerings of Senior and Senior Secured Notes (the “Notes”).

Issuer	Issue date	Maturity date	Principal	Rate	Senior/Senior Secured
Garfunkelux Holdco 2 S.A.	19/10/15	01/11/23	£230m	11.0%	Senior
Garfunkelux Holdco 3 S.A.	23/07/15	01/08/22	€365m	7.5%	Senior Secured
Garfunkelux Holdco 3 S.A.	19/10/15	01/11/22	£565m	8.5%	Senior Secured
Garfunkelux Holdco 3 S.A.	20/09/17	01/09/23	€415m	3.5% +EURIBOR	Senior Secured
Garfunkelux Holdco 3 S.A.	02/02/18	01/09/23	€530m	4.5% + EURIBOR	Senior Secured
Garfunkelux Holdco 3 S.A.	02/02/18	01/09/23	SEK 1,280m	4.75% + STIBOR	Senior Secured

FINANCIAL PERFORMANCE (continued)

The Group took steps to further improve its liquidity profile, and diversify its capital structure and funding sources through signing and drawing-down a £255m asset backed senior facility, through its 100% indirectly owned subsidiary, Lowell Receivables Financing 1 Limited in November 2018. The funds were used to repay certain outstanding indebtedness under Lowell's revolving credit facility ("RCF").

In addition an RCF commitment is available and during 2018 this was increased from €200m to €455m. As at 31 December 2018 the Group had an unutilised facility of €415.7m (31 December 2017: €153.8m).

The Group benefits from its ability to generate strong cash flows from operating activities before portfolio acquisitions. In the year to 31 December 2018, the Group generated £349.5m of cash from operating activities before portfolio acquisitions, with these cash flows available to use to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses.

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 2018 was £413.5m, compared to £299.3m for the year ended 31 December 2017.

The Group benefits from excellent cash flow visibility. The Group's ERC forecast has historically been highly accurate, and forecasts future collections of £3,118.2m for the 120 months from 31 December 2018 (31 December 2017: £2,057.5m) for the combined portfolio of the UK, DACH and Nordic 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.

KEY PERFORMANCE INDICATORS (KPIs)

	31 December 2018	31 December 2017
Portfolio investments acquired*	£383.6m	£256.1m
Gross collections (in total)*	£1,628.7m	£905.2m
Gross collections (DP)*	£660.5m	£481.3m
Gross collections (3PC)*	£968.2m	£423.9m
3PC income*	£154.4m	£109.1m
Cash income*	£820.2m	£590.4m
Cash EBITDA*	£413.5m	£299.3m
UK	£258.3m	£227.6m
DACH	£72.7m	£74.3m
Nordics*	£86.3m	-
Holding companies	£(3.8)m	£(2.6)m
84 month ERC	£2,619.2m	£1,748.5m
120 month ERC	£3,118.2m	£2,057.5m

***The effective date of the Carve-out Business acquisition was 31 March 2018 and as such these measures for the year ended 31 December 2018 exclude the results of the Carve-out Business from 1 January to 31 March 2018. 2017 comparatives do not include the Carve-out Business.

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Group has exposure to a number of principal risks which are outlined below. For further detail on these risks, as well as mitigation and controls please refer to note 28.

Strategic risk
The risk to earnings resulting from poor or lack of clear strategy and execution, adverse business decisions, and inadequate anticipation of emerging changes in the broader business, economic and political environment (e.g. a lack of availability of appropriately priced debt, or a requirement to buy unfavourable debt due to forward flow agreements, or a loss of key clients), including changing competitive threats (e.g. competition offering higher prices for debt portfolios) and disruptive innovations, internal or external.

Financial risk
The risk to earnings arising from the inability to meet contractual or contingent financial obligations, refinance at reasonable cost, from decisions made based on incorrect models, and economic loss from changes in market risk factors such as interest rates, foreign currency exchange rates, credit ratings, counter-parties, market liquidity dynamics (including a lack of liquidity sufficient to allow for new investment in portfolio opportunities) and other potential impacts to solvency.

Compliance risk
The risk of legal or regulatory sanctions (including permissions being revoked or the suspension of the Group's ability to trade), financial loss or reputation damages resulting from failure to comply with laws, regulations, ethical standards, prescribed practices, internal policies and procedures and from fraud, corruption or bribery.

Operational risk
The risk arising from inadequate or failed internal systems, processes, controls, people or resulting from internal/external events affecting the operation of our business.

Information and data risk
The risk of financial loss, litigation, reputation damage or regulatory sanctions resulting from poor data management, inappropriate data privacy, inadequate management of records and information lifecycle, inability to protect data, systems and information from unauthorized access management, threats, cyber-attacks and security vulnerabilities.

RESEARCH AND DEVELOPMENT

Development costs capitalised during the year total £3.7m, which includes work on internally generated software (31 December 2017: £1.4m).

OUTLOOK

Following the completion of the acquisition of the Carve-out Business from Intrum, our enlarged Group benefits from a strong pipeline of opportunities across the UK, DACH and Nordic regions. 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 leveraging our market leading positions in both established industries such as retail and mobile telecommunications 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.

We remain mindful of the economic and political environment, noting that 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 our annual testing for IFRS 9. 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.

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 leveraging of data insight to reduce underwriting uncertainty and price both debt purchase opportunities and 3PC contracts with minimised downside risk.

The Group is widely regarded within the industry as one of Europe's leading players in the space, a reputation that is further supported by the Group's key strategic themes of strong customer focus and risk management.

In light of these developments and the Group's leading market positions, management believes the Group to be well positioned to further strengthen its market position and to continue to grow the overall business for the long-term and in the best interests of all its stakeholders.

RISK MANAGEMENT

The Group has an active risk management program in place which is overseen by the Investor Board and Group Risk Committee and driven forward by the Group Chief Risk Officer, Group Chief Executive Officer and the Group Executive team.

Risk management in the Group is intended to:

- Support senior management in achieving strategic objectives and priorities;
- Enable board members to carry out risk oversight responsibilities and governance duties;
- Promote a strong risk and ethics culture based on customer care and conduct principles; and
- Ensure compliance with, or obligations to, regulators, customers, investors and other stakeholders.

This is achieved throughout the Group via the following, all underpinned by an effective "three lines of defence" model:

- A strong risk culture, values and ethics;
- A clear risk strategy and objectives;
- A defined and embedded Risk Appetite Statement;
- A comprehensive risk governance structure; and
- An effective risk framework.

Governance & Oversight

Investor Board: 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 Investor Board has overall accountability for risk management.

Group Risk Committee: The Group Risk Committee provides oversight and advice to the Investor Board in relation to: (i) current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance; and (ii) the effectiveness of the risk management framework and, in conjunction with the Group Audit Committee, internal controls required to manage risk. Furthermore the Group Risk Committee assists on such other matters as may be referred to it by the Investor Board and promotes a risk awareness culture across the Group. The Group Risk Committee meets quarterly.

Group Audit Committee: The Group Audit Committee provides oversight to the Investor Board regarding the completeness and accuracy of financial statements and effectiveness of internal control systems. The Group Audit Committee also ensures an independent, objective and effective Internal Audit function is in place.

Group Executive Committee: The Group Executive Committee is responsible for the operationalisation and delivery of strategy as agreed by the Investor Board. 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, 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.

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

Cédric Pedoni
Director

10 April 2019

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 2018, 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 2018 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 the Law of 23 July 2016 and ISAs 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 matter - The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the consolidated financial statements. All audits assess and challenge the reasonableness of estimates made by the Board of Directors, such as recoverability of intangible assets, goodwill, receivables and deferred taxes, and related disclosures and the appropriateness of the going concern basis of preparation of the consolidated financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in 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.

Responsibilities of the Board of Directors 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.

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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.
- 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

Ruslan Tumanshin
Luxembourg, 10 April 2019

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017* £000
Continuing operations			
Income			
Income from portfolio investments	15	339,294	245,057
Net portfolio write up*	15	126,067	101,873
Portfolio fair value release	15	(1,986)	(2,565)
Service revenue		204,075	164,913
Other revenue		10,673	3,316
Other income		1,290	4,851
Total income		**679,413**	**517,445**
Operating expenses			
Collection activity costs*		(299,918)	(238,598)
Other expenses*	5	(235,835)	(166,144)
Total operating expenses		**(535,753)**	**(404,742)**
Operating profit		**143,660**	**112,703**
Finance income	6	1,800	2,394
Finance costs	7	(195,909)	(176,074)
Loss for the year, before tax		**(50,449)**	**(60,977)**
Tax credit/(expense)	8	2,348	(1,779)
Loss for the year		**(48,101)**	**(62,756)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial gains on pension plans	31	457	95
Deferred tax on actuarial gains on pension plans	8	(149)	(29)
		308	**66**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		**(4,927)**	**(3,941)**
Other comprehensive expenditure, net of tax		**(4,619)**	**(3,875)**
Total comprehensive expenditure for the year		**(52,720)**	**(66,631)**

The notes on pages 15 to 69 form part of these consolidated financial statements.

*Prior year figures have been restated to reclassify net portfolio write up to income. See note 1 for further detail.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Note	31 December 2018 £000	31 December 2017 £000
Assets			
Non-current assets			
Goodwill	11	1,215,042	1,022,339
Intangible assets	12	163,158	112,751
Property, plant and equipment	13	12,607	10,420
Portfolio investments	15	1,002,600	568,204
Other financial assets	17	9,071	7,805
Deferred tax assets	9	10,712	-
Total non-current assets		**2,413,190**	**1,721,519**
Current assets			
Portfolio investments	15	558,413	396,303
Inventories		72	44
Trade and other receivables	16	48,821	33,234
Other financial assets	17	7,396	6,760
Derivatives	28	540	-
Assets for current tax		4,262	1,400
Cash and cash equivalents	18	129,171	65,324
Total current assets		**748,675**	**503,065**
Total assets		**3,161,865**	**2,224,584**
Equity			
Share capital	23	4,385	3,730
Share premium and similar premiums		516,721	400,396
Reserves	24	(97,614)	(24,337)
Retained deficit		(210,528)	(162,427)
Total equity		**212,964**	**217,362**
Liabilities			
Non-current liabilities			
Borrowings	19	2,584,552	1,759,155
Provisions for pensions	31	7,636	5,705
Provisions	21	2,529	2,079
Other financial liabilities	22	86	189
Deferred tax liabilities	9	48,100	38,148
Total non-current liabilities		**2,642,903**	**1,805,276**
Current Liabilities			
Trade and other payables	20	132,850	79,390
Provisions	21	15,965	17,099
Borrowings	19	117,353	70,534
Derivatives	28	1,435	1,116
Other financial liabilities	22	7,189	6,943
Current tax liabilities		31,206	26,864
Total current liabilities		**305,998**	**201,946**
Total equity and liabilities		**3,161,865**	**2,224,584**

The notes on pages 15 to 69 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

		Share premium and similar premiums	Reserves				
	Share capital £000	**premiums £000**	**Capital reserve £000**	**Translation reserve £000**	**Valuation reserve £000**	**Retained deficit £000**	**Total equity £000**
Comprehensive income							
Balance at 1 January 2017	**3,730**	**400,396**	**(7,948)**	**(12,086)**	**(428)**	**(99,671)**	**283,993**
Loss for the year	-	-	-	-	-	(62,756)	(62,756)
Actuarial gains on pension	-	-	-	-	95	-	95
Deferred tax on pensions	-	-	-	-	(29)	-	(29)
Exchange differences	-	-	-	(3,941)	-	-	(3,941)
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**(3,941)**	**66**	**(62,756)**	**(66,631)**
Balance at 31 December 2017	**3,730**	**400,396**	**(7,948)**	**(16,027)**	**(362)**	**(162,427)**	**217,362**
Comprehensive income							
Loss for the year	-	-	-	-	-	(48,101)	(48,101)
Actuarial gains on pension	-	-	-	-	457	-	457
Deferred tax on pensions	-	-	-	-	(149)	-	(149)
Exchange differences	-	-	-	(4,927)	-	-	(4,927)
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**(4,927)**	**308**	**(48,101)**	**(52,720)**
Capital contribution	-	48,322	-	-	-	-	48,322
Functional currency adjustment[1]	655	68,003	2	(68,660)	-	-	-
Balance at 31 December 2018	**4,385**	**516,721**	**(7,946)**	**(89,614)**	**(54)**	**(210,528)**	**212,964**

The notes on pages 15 to 69 form part of these consolidated financial statements.

[1] During the year the functional currency of Garfunkelux Holdco 2 S.A. and Garfunkelux Holdco 3 S.A. were changed from Sterling to Euro. This change has a presentational impact on the consolidated financial statements only and relates to the retranslation of Euro equity as at the date of the change in functional currency. See note 1 for further details.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2018

	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Net cash used in operating activities	29	**(27,917)**	**(34,472)**
Investing activities			
Interest received		-	401
Proceeds from sale of subsidiary, net of cash disposed		16,117	-
Purchase of property, plant and equipment	13	(4,207)	(2,772)
Purchase of intangible assets	12	(15,655)	(2,555)
Acquisition of subsidiaries, net of cash acquired	10	(594,958)	-
Net cash used in investing activities		**(598,703)**	**(4,926)**
Financing activities			
Proceeds from issue of Senior Secured Notes		567,336	515,819
Proceeds from loans and borrowings		25,519	48,500
Proceeds from securitisation		261,950	13,606
Proceeds from capital contribution		48,322	-
Transaction costs related to loans and borrowings		(6,908)	(6,997)
Redemption fees		-	(3,588)
Repayment of securitisation		(33,047)	-
Repayment of borrowings		(26,954)	(442,534)
Interest paid		(146,354)	(120,351)
Net cash from financing activities		**689,864**	**4,455**
Net increase/(decrease) in cash and cash equivalents		**63,244**	**(34,943)**
Cash and cash equivalents at beginning of period		65,324	98,053
Effect of movements in exchange rates on cash held		603	2,214
Cash and cash equivalents at end of period	18	**129,171**	**65,324**

The notes on pages 15 to 69 form part of these consolidated financial statements.

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 2018 were authorised for issue in accordance with a resolution of Directors on 10 April 2019. 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 14. Information on other related party transactions is presented in note 32.

Reclassification 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. As a result of the adoption of IFRS 9 on 1 January 2018, an adjustment has been made to the Consolidated Statement of Comprehensive Income ("SCI") for the year ended 31 December 2017 to reclassify net portfolio write up to income. Previously net portfolio write up was presented within revenue and operating expenses. This adjustment moved £4.5m from operating expenses to net portfolio write up and had no impact on either the balance sheet or any KPIs disclosed in these financial statements.

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.

Change in entity functional currency

As a result of the acquisition of the Carve-out Business from Intrum in the year, together with associated funds raised, the functional currency of two of the Group's holding entities, Garfunkelux Holdco 2 S.A. and Garfunkelux Holdco 3 S.A., has changed from Sterling to Euro. Consequently, the equity balance of Garfunkelux Holdco 2 S.A. has been re-translated using the foreign exchange rate ruling on the date of the change (20 March 2018). This has a presentational impact only in the Garfunkelux Holdco 2 S.A. consolidated financial statements, with re-translated equity being higher and the difference going to the translation reserve.

Adoption of new and revised standards

The following new accounting standards became effective for years commencing on or after 1 January 2018 and have been adopted in the current year. These amendments did not have a material impact on the consolidated financial statements.

IFRS 9 – Financial Instruments – effective 1 January 2018. Business model analysis, contract review and segmented, detailed correlation and causation testing were undertaken at a regional level, in conjunction with a third party specialist. As a result of this analysis, no correlation between the macro economic factors and future collections performance was identified. 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 extensive correlation and causation testing, the following macroeconomic variables were assessed; unemployment, disposable income, household indebtedness, inflation and other factors. The introduction of IFRS 9 did not have a material impact on the Group.

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 established a five step approach to accounting for revenue from contracts with customers. Contracts relating to third party contingent collection services ("3PC") and other service contracts were reviewed by the Group against the five steps of IFRS 15. 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 introduction of IFRS 15 did not have a material impact on the Group.

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

The following new Standard is in issue and has been endorsed by the EU but is not yet effective for these consolidated financial statements.

IFRS 16 – Leases – effective 1 January 2019. IFRS 16 introduces a single, on balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The only exemptions to this are short-term leases and leases of low value items.

The Group has completed a comprehensive project across all regions to review its leasing arrangements in light of IFRS 16. On application from 1 January 2019, IFRS 16 is expected to have the following key impacts on the Group's financial statements:

- The Group will recognise new right-of-use assets of c£49m and lease liabilities of c£54m for its operating leases as at 1 January 2019. These are primarily building, car and IT related leases.
- Previously, the Group recognised operating lease expense on a straight line basis over the term of the lease. Under IFRS 16, this operating lease expense will be replaced by depreciation of the right-of-use asset and interest expense on the lease liabilities. As a result, profit before tax is expected to reduce by c£1.0m in 2019.

The Group will apply IFRS 16 from 1 January 2019 and intends to apply the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised as an adjustment to opening retained earnings at 1 January 2019. There will be no restatement of comparative information. It should be noted that figures stated above are preliminary and subject to change during the course of 2019.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern

The Group's business activities are set out in the SCI and Consolidated Statement of Financial Position ("SFP") on pages 11 and 12 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 cash flow generation. The Group has demonstrated strong performance during the year ended 31 December 2018 with Cash EBITDA of £413.5m, an increase of £114.2m on the year ended 31 December 2017, including £86.3m contribution from the Nordic region. The Group is in a net asset position of £213.0m at 31 December 2018.

The business as a whole is cash generative before portfolio acquisitions, generating cash of £349.5m in the year ended 31 December 2018, with operating cash flow after portfolio acquisitions being negative by £27.9m as a result of investment for growth. The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments. No additional funding requirements over and above currently available facilities are forecast in the medium term.

The Group has four main sources of funding at 31 December 2018, €365m, £565m, €415m, €530m and SEK1,280m of listed Senior Secured loan notes ("notes"), £230m of listed Senior loan notes, a €455m RCF and £262.0m securitisation funding. There are covenants on the funding which are detailed in note 19. No maintenance covenants have been breached in 2018.

The Group has completed a comprehensive review of the potential impact of Brexit, including assessing the potential impact on customers, clients and funding. This review did not identify any material issues which would affect the going concern of either the UK business or the Group.

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. 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 held to collect contractual cash flows of payments of solely principal and interest, recognising them at amortised cost and in line with IFRS 9.

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 estimated remaining life of the portfolios and range from 84 months to 120 months. An initial EIR is determined at the acquisition of the portfolio investment, following this there is a short period that is required to adjust the EIR due to the complexity of the portfolios acquired. Reassessing and changing the EIR in this way does not have a material impact on the financial statements.

Acquired portfolio investments are acquired at a deep discount and classified as purchased or credit impaired ("POCI") in line with IFRS 9. As a result the estimated future cash flows, and hence EIR, reflect the likely credit losses within each portfolio.

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

As part of the acquisition accounting around the purchase of Metis Bidco Limited by Simon Bidco Limited on 13 October 2015 the portfolio investments were uplifted to their fair value at the date of acquisition. The portfolio fair value release represents the unwinding of this fair value uplift (see note 15). This uplift is being unwound in line with the standard profile of a gross ERC curve of these portfolios.

Service revenue

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

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment in accordance with the IFRS 9 forward looking expected credit loss ("ECL") model. As the Group's portfolio investments are classified as POCI assets, lifetime ECL is included in the calculation of EIR. The estimation of expected credit losses includes an assessment of forward-looking economic assumptions. Impairment represents changes to carrying values, discounted at the EIR, of the portfolio investments as a result of reassessments of the estimated future cash flows. These are recognised in net portfolio write up in the SCI.

The impairment adjustment is calculated by discounting regularly revised cash flow forecasts developed for each individual portfolio investment, at the initially set EIR. 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 the portfolio expected useful life, based on previous month's collections and portfolio performance information collated within our proprietary valuation model.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets and liabilities at fair value through profit or loss

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

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 IFRS 9.

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.

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.

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 collateralised borrowings 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 and Nordic 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 analysis is used to determine the financial effects of the deviations in the significant inputs.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Collection activity costs
Collection activity costs represent 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 costs. Costs are recognised as incurred.

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, and in relation to its securitisation facilities. This restricted cash is shown within cash with a corresponding liability recognised in other payables.

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.

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:

Hardware	3 to 5 years
Office equipment	3 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 5 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.

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 associated 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 calculation of the EIR for each portfolio is based on the estimation of future cash flows. These cash flows are estimates and are therefore inherently judgemental. These Estimated Remaining Collections ("ERCs") are based upon historical collections data from other portfolios with similar features such as type and quantum of debt, or age. The calculation of the ERC for each portfolio investment is inherently judgemental as it involves the estimation of future cash flows based upon collections data from the individual debt owed.

Actual cash flows 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 2018 by £15.4m (31 December 2017: £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 income as a portfolio write up.

Goodwill and valuation of intangible assets

The Group recognises 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 CGUs 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 notes 10 and 11 for further details.

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 three main regions within which the Group operates – the UK, DACH (Germany, Austria, Switzerland and Croatia) and Nordic (Sweden, Norway, Denmark, Finland and Estonia) regions. 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 the UK, DACH and Nordic regions.

The UK, DACH and Nordic 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 2018	**UK**	**DACH**	**Nordics**	**Holding companies**	**Total**
Total income	293,684	243,437	142,917	(625)[1]	679,413
Collection activity costs	(100,977)	(149,588)	(49,353)	-	(299,918)
Other operating expenses	(75,994)	(73,781)	(49,126)	(9,249)[2]	(208,150)
Operating profit before depreciation, amortisation and impairment	**116,713**	**20,068**	**44,438**	**(9,874)**	**171,345**
Depreciation, amortisation and impairment	(2,991)	(11,588)	(7,295)	(5,811)[3]	(27,685)
Operating profit	**113,722**	**8,480**	**37,143**	**(15,685)**	**143,660**
Finance income					1,800
Finance costs					(195,909)
Loss before tax					**(50,449)**
Income tax					2,348
Loss for the period					**(48,101)**

[1] Total income 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 the UK and DACH regions.

3. SEGMENTAL REPORTING (continued)

Segmental results (continued)

Year ended 31 December 2017*	**UK**	**DACH**	**Holding companies**	**Total**
Total income	265,630	252,206	(391)[1]	517,445
Collection activity costs	(88,246)	(150,352)	-	(238,598)
Other operating expenses	(57,730)	(71,519)	(16,986)[2]	(146,235)
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] Total income 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 the UK and DACH regions.

*Prior year figures have been restated to reclassify net portfolio write up to income. See note 1 for further detail.

	31 December 2018 £000	**31 December 2017 £000**
Non-current assets		
UK	569,333	569,103
DACH	573,570	576,407
Nordics	247,904	-
	1,390,807	**1,145,510**

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

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 (3PC).

	Year ended 31 December 2018 £000	Year ended 31 December 2017* £000
Income		
DP	463,375	344,365
3PC income	154,368	109,117
Lawyer service revenue	49,707	55,796
Other	11,963	8,167
	679,413	**517,445**

*Prior year figures have been restated to reclassify net portfolio write up to income.

4. LOSS BEFORE TAX

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Loss for the period is after charging:		
Impairment of assets	136	-
Depreciation of property, plant and equipment (note 13)	3,588	2,329
Amortisation of intangible assets (note 12)	23,961	17,580
Loss on disposal of property, plant and equipment and intangible assets	69	464
Loss on disposal of subsidiary	4,327	-
Staff costs (note 5c)	189,359	123,556
Rentals under operating leases (note 26)	14,176	10,465
Acquisition costs – Carve-out Business from Intrum	1,576	10,880

5. STAFF COSTS AND OTHER OPERATING EXPENSES

a) Other operating expenses

	Year ended 31 December 2018 £000	Year ended 31 December 2017* £000
Staff costs (note 5c)	91,933	62,855
Depreciation of property, plant and equipment (note 13)	3,588	2,329
Amortisation of intangible assets (note 12)	23,961	17,580
Loss on disposal of property, plant and equipment and intangible assets	69	464
Loss on disposal of subsidiary	4,327	-
Acquisition costs	1,576	10,880
Rental, licences and maintenance for IT equipment	29,407	15,229
Building rental and facility costs	15,930	11,979
Other operating expenses	65,044	44,828
Total other operating expenses	**235,835**	**166,144**

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

* Prior year figures have been restated to reclassify net portfolio write up to income. See note 1 for further detail.

b) Auditor's remuneration

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Audit fees of Parent Company and consolidated financial statements	159	128
Audit related fees of financial statements of subsidiaries	947	468
Tax fees	36	-
Other services	138	209
Total auditor's remuneration	**1,280**	**805**

Other services comprise interim review fees and assurance fees in connection with financing.

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.

5. STAFF COSTS AND OTHER OPERATING EXPENSES (continued)

c) Staff costs

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Collection activity costs	97,426	60,701
Other expenses	91,933	62,855
Total staff costs	**189,359**	**123,556**

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Wages and salaries	162,341	107,129
Social security costs	21,217	15,110
Pension costs to defined contribution schemes	5,209	822
Pension costs to defined benefit schemes	592	495
Total staff costs	**189,359**	**123,556**

The average number of employees during the period was:

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
Operational staff	2,840	2,130
Business support	1,323	793
Total	**4,163**	**2,923**

The period end number of employees was:

	31 December 2018 Number	31 December 2017 Number
Operational staff	2,898	2,205
Business support	1,321	875
Total	**4,219**	**3,080**

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 fourteen employees are paid by subsidiary undertakings of the Company for their services as Directors to the Group.

6. FINANCE INCOME

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Bank interest receivable	426	55
Interest receivable on loans to affiliated companies	683	346
Net gain on financial instruments designated as FVTPL	691	164
Premium release on senior secured notes	-	1,829
Total finance income	**1,800**	**2,394**

7. FINANCE COSTS

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Financial liabilities measured at amortised costs – interest expense:		
Interest payable on the Senior Secured Notes	109,480	87,897
Interest payable on the Senior Unsecured Notes	25,300	25,300
Fees payable on the Notes	8,418	6,608
Write off of prepaid costs on the senior notes	-	10,318
Interest and fees payable on Revolving Credit Facility	8,460	3,407
Interest payable on shareholder loan	31,979	27,112
Other interest payable	6,412	1,982
Net loss on financial instruments designated as FVTPL	4,544	1,243
Redemption fees	-	3,588
Net foreign exchange loss	1,316	8,619
Total finance costs	**195,909**	**176,074**

8. INCOME TAX

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Current taxation		
Corporation tax	1,461	12,332
Adjustment in respect of previous periods	524	24
Total current tax charge	**1,985**	**12,356**
Deferred tax		
Origination and reversal of temporary differences	(10,599)	(22,857)
Change in estimate of recoverable deferred tax	6,008	12,261
Impact of change in tax rate	258	19
Total deferred tax credit (note 9)	**(4,333)**	**(10,577)**
Total tax (credit)/expense	**(2,348)**	**1,779**

8. INCOME TAX (continued)

b) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Pension Provisions	**149**	**29**

c) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 26.01%. 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 2018 £000	Year ended 31 December 2017 £000
Loss on ordinary activities before tax	**(50,449)**	**(60,977)**
Tax credit on loss on ordinary activities at a combined countries rate of 25% (2017: 25%)	(12,612)	(15,244)
Effects of:		
Permanent differences	2,891	662
Income not taxable for tax purposes	1,696	4,980
Value adjustments	(10,595)	12,260
Impact of tax losses carried forward	16,603	193
Adjustment to tax charge in respect of previous periods	524	24
Tax rate differences	(1,113)	(1,160)
Other	258	64
Total tax (credit)/expense	**(2,348)**	**1,779**

9. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following as at 31 December 2018 and 31 December 2017.

	31 December 2018 £000	31 December 2017 £000
Recognised in profit or loss		
Intangible assets	(36,417)	(30,580)
Portfolio investments	(35,354)	(20,327)
Tax losses carried forward	34,879	10,384
Other	(496)	2,375
Net tax liabilities	**(37,388)**	**(38,148)**

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 2018 £000	Year ended 31 December 2017 £000
SCI effect	4,333	(10,577)
Equity effect	149	29
Acquisition of subsidiaries	(3,341)	-
Exchange rate differences	(381)	1,388
Movement in the period	**760**	**(9,160)**

	31 December 2018 £000	31 December 2017 £000
Deferred tax asset	10,712	-
Deferred tax liability	(48,100)	(38,148)
	(37,388)	**(38,148)**

Deferred tax assets of £7.8m (2017: £6.5m) 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.

10. SIGNIFICANT ACQUISITIONS OF SUBSIDIARIES

Acquisition of Carve-out Business from Intrum
On 20 March 2018, the Group acquired 100% share in Fair Pay Please AS and Lindorff Sverige AB, which represent the Carve-out Business from Intrum for €741 million (£647 million). The acquisition was made through Lowell Nordics Oy (formerly Hansa Bidco Oy, formerly 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.

The combined business will benefit from greater scale and diversification in terms of broader geographic reach and a more balanced revenue mix together with a complementary and client-focused product offering.

In the nine months to 31 December 2018 the Carve-out Business contributed £9.7m profit to the consolidated net loss for the period and £142.9m to consolidated income. If the acquisition had occurred on 1 January 2018, management estimates that Group income would have been £42.2m higher and Group net loss would have been £3.2m lower. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Provisional identifiable assets acquired and liabilities assumed
The following table summarises the provisional recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

Recognised values on acquisition	**£000**
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	1,537
Intangible assets	57,696
Portfolio investments	387,474
Other financial assets	814
Trade and other receivables	44,453
Deferred tax assets	7,675
Income tax receivables	220
Cash and cash equivalents	51,860
Trade and other payables	(47,976)
Provisions for pensions	(2,415)
Provisions	(443)
Borrowings	(19,140)
Income tax liabilities	(6,203)
Deferred tax liabilities	(11,016)
Total identifiable net assets acquired	**464,536**

Fair values have been measured on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of the acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition then the accounting for the acquisition will be revisited.

No increase or impairment of value was recognised for trade receivables at the acquisition date.

10. SIGNIFICANT ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisition of Carve-out Business from Intrum (continued)

Consideration transferred
The following table summarises the acquisition date fair value of each major class of consideration transferred.

Recognised values on acquisition	£000
Cash payment	380,365
Settlement of existing financial arrangements	266,453
Total consideration transferred in cash	**646,818**

Measurement of fair value
The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Customer relationships	Income approach
Non-performing loans	Income approach
Software	Market comparison and cost technique

No contingent consideration or contingent liabilities remain in respect of the acquisition as at 31 December 2018.

Goodwill
Provisional goodwill arising from the acquisition has been recognised as follows:

Recognised values on acquisition	£000
Consideration transferred	646,818
Fair value of identifiable net assets	(464,536)
Goodwill (note 11)	**182,282**

Goodwill value comprises the skills and technical talent of the Carve-out Business's workforce and expected synergies arising from the acquisition which is not separately recognised.

The Group incurred acquisition related costs of £12.5m on legal fees and due diligence costs. These costs have been included in other operating expenses in FY18 and FY17, see note 4.

For accounting purposes, the effective date of the acquisition was 31 March 2018 as there was an immaterial difference between the acquisition date and the month end date.

None of the goodwill recognised is expected to be deductible for income tax purposes.

11. GOODWILL

	Year ended 31 December 2018	Year ended 31 December 2017
	£000	£000
Cost		
Opening Balance	1,022,339	1,005,949
Addition on acquisition of subsidiary (note 10)	182,282	-
Effect of currency translation	10,421	16,390
At period end	**1,215,042**	**1,022,339**
Net book value		
At period end	**1,215,042**	**1,022,339**

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

Foreign currency denominated goodwill is retranslated at each balance sheet date and gives rise to the currency 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. The Group uses cash flow forecasts from the latest budgets, prepared for the next four years and extrapolates these forecasts into perpetuity, using growth rates in line with management's expectations of future growth. Given the proximity of the acquisition of the Nordic CGU, purchase price is still considered to be an accurate assessment of fair value less costs to sell and hence recoverable amount.

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 2018	31 December 2017
	£000	£000
UK CGU	7.84%	6.36%
DACH CGU	5.54%	4.80%

11. 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. Each sensitivity has been performed independently.

UK CGU
Based on the value in use a fall in the forecast cash flows of 30% would result in an impairment at 31 December 2018. An increase in WACC of 2.25 percentage points to 10.09% would result in an impairment at 31 December 2018.

DACH CGU
Based on the value in use a fall in the forecast cash flows of 36% would result in an impairment at 31 December 2018. An increase in WACC of 1.62 percentage points to 7.16% would result in an impairment at 31 December 2018.

12. INTANGIBLE ASSETS

	Software and licences	Development costs	Customer relationships	Trademarks	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2018	18,564	1,804	114,469	16,581	151,418
Acquisition of subsidiary	9,049	946	46,774	927	57,696
Additions	11,999	3,656	-	-	15,655
Reclassification	1,784	(1,784)	-	-	-
Disposals	(38)	(10)	-	-	(48)
Currency exchange differences	168	79	1,071	57	1,375
At 31 December 2018	**41,526**	**4,691**	**162,314**	**17,565**	**226,096**
Accumulated amortisation					
At 1 January 2018	(6,293)	(19)	(23,735)	(8,620)	(38,667)
Charge for the year	(8,553)	-	(14,786)	(622)	(23,961)
Amortisation on disposals	-	-	-	-	-
Asset impairment	(17)	(119)	-	-	(136)
Currency exchange differences	178	-	(295)	(57)	(174)
At 31 December 2018	**(14,685)**	**(138)**	**(38,816)**	**(9,299)**	**(62,938)**
Net book value					
At 31 December 2018	**26,841**	**4,553**	**123,498**	**8,266**	**163,158**
At 31 December 2017	**12,271**	**1,785**	**90,734**	**7,961**	**112,751**

Reclassifications: Development costs are generally “Software and licences”. When projects go live and development costs are reclassified they are transferred to “Software and licences”.

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

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost				
At 1 January 2018	4,456	2,326	5,606	12,388
Acquisition of subsidiary	-	-	1,537	1,537
Additions	318	1,067	2,822	4,207
Disposals	-	-	(243)	(243)
Currency exchange differences	-	-	53	53
At 31 December 2018	**4,774**	**3,393**	**9,775**	**17,942**
Accumulated depreciation				
At 1 January 2018	(765)	(903)	(300)	(1,968)
Charge for the year	(400)	(615)	(2,573)	(3,588)
Disposals	-	-	222	222
Currency exchange differences	-	-	(1)	(1)
At 31 December 2018	**(1,165)**	**(1,518)**	**(2,652)**	**(5,335)**
Net book value				
At 31 December 2018	**3,609**	**1,875**	**7,123**	**12,607**
At 31 December 2017	**3,691**	**1,423**	**5,306**	**10,420**

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

14. 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 2018	Ordinary share holding % as at 31 December 2017
Garfunkelux Holdco 3 S.A.	Luxembourg	100	100
Lowell Holding GmbH	Germany	100	100
Lowell Financial Services GmbH	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	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	UK	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 Limited	UK	100	100
Lowell Finance Limited	UK	100	100
Lowell Financial Limited	UK	100	100
Lowell Portfolio I Limited	UK	100	100
Tocatto Limited	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
Lowell Receivables Financing 1 Limited	UK	100	-
Lowell Group Management GmbH (formerly IS Group Management GmbH)	Austria	100	100
IS Forderungsmanagement GmbH[1]	Austria	-	100
Lowell Inkasso Service GmbH[1] (formerly IS-Inkasso Service GmbH)	Austria	100	100
EDV-Hofer GmbH[1]	Austria	-	100
Lowell Portfoliomanagement GmbH	Austria	100	100
Lowell Inkasso Service GmbH (formerly IS Inkasso Service GmbH)	Switzerland	100	100
Lowell Inkasso Servis d.o.o (formerly IS Inkasso Servis d.o.o)	Croatia	100	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

14. GROUP STRUCTURE (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2018	Ordinary share holding % as at 31 December 2017
Tesch Inkasso Finance GmbH	Germany	100	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	Germany	100	100
Lowell Service GmbH	Germany	100	-
Lowell Nordics Oy (formerly Hansa Bidco Oy, formerly Pofidax Oy)	Finland	100	-
Lowell Sverige AB (formerly Lindorff Sverige AB)	Sweden	100	-
Mentpaylind AB (formerly Goldup 15689 AB)	Sweden	100	-
Lowell AS (formerly Fair Pay Please AS)	Norway	100	-
Lindorff Payment Services AS	Norway	100	-
Lowell Norge AS (formerly Intrum Justitia AS)	Norway	100	-
Lowell Finans AS (formerly Intrum Justitia Finans AS)	Norway	100	-
Remco Management Services AS[2]	Norway	-	-
Lindorff Payment Services Holding AB	Sweden	100	-
Lindorff Payment Services AB[3]	Sweden	-	-
Lowell Danmark A/S (formerly Lindorff Danmark A/S)	Denmark	100	-
Lowell Finans A/S (formerly Lindorff A/S)	Denmark	100	-
Aktieselskabet af 18. Maj 2018 A/S	Denmark	100	-
Lowell Rahoitus Oy (formerly Lindorff Invest Oy)	Finland	100	-
Lowell Suomi Oy (formerly Lindorff Oy)	Finland	100	-
Lowell Eesti AS (formerly Lindorff Eesti AS)	Estonia	100	-

[1]During 2018, IS Forderungsmanagement GmbH and EDV-Hofer GmbH merged with Lowell Inkasso Service GmbH (formerly IS-Inkasso Service GmbH).

[2]Remco Management Services AS was acquired as part of the acquisition of the Carve-out Business from Intrum but was subsequently liquidated in December 2018.

[3]Lindorff Payment Services AB was acquired as part of the acquisition of the Carve-out Business from Intrum but was subsequently sold in December 2018.

15. PORTFOLIO INVESTMENTS

	31 December 2018 £000	31 December 2017 £000
Non-current		
Portfolio investments	1,002,600	568,204
Current		
Portfolio investments	558,413	396,303
Total	**1,561,013**	**964,507**

The movements in acquired portfolio investments were as follows:

	31 December 2018 £000	31 December 2017 £000
At start of year	**964,507**	**831,705**
On acquisition of subsidiaries	387,474	-
Portfolios acquired during the year	383,614	256,122
Collections in the year	(660,531)	(481,283)
Income from portfolio investments	339,294	245,057
Net portfolio write up	126,067	101,873
Portfolio fair value release	(1,986)	(2,565)
Other	22,574	13,598
At end of year	**1,561,013**	**964,507**

16. TRADE AND OTHER RECEIVABLES

	31 December 2018 £000	31 December 2017 £000
Trade receivables	16,804	10,140
Prepayments and accrued income	13,386	8,740
Other receivables	16,891	13,097
Tax receivable	1,740	1,257
	48,821	**33,234**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £17.8m (2017: £11.0.m), and an allowance for bad debt of £1.0m (2017: £0.9m).

17. OTHER FINANCIAL ASSETS

	31 December 2018 £000	31 December 2017 £000
Non-current		
Receivables from affiliated companies	8,569	7,655
Other financial assets	502	150
	9,071	**7,805**
Current		
Securitisation receivables	1,935	1,571
Other financial assets	5,461	5,189
	7,396	**6,760**
	16,467	**14,565**

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.

18. CASH AND CASH EQUIVALENTS

	31 December 2018 £000	31 December 2017 £000
Cash and bank balances	70,827	33,927
Restricted cash balances	58,344	31,397
	129,171	**65,324**

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, and in relation to its securitisation facilities. These restricted cash balances are shown within cash.

19. BORROWINGS

	31 December 2018 £000	31 December 2017 £000
Non-current		
Unsecured borrowings at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on Senior Notes	(6,172)	(7,494)
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	372,302	311,736
Total unsecured	**596,130**	**534,242**
Secured borrowings at amortised cost		
Senior Secured Notes	1,843,575	1,256,860
Prepaid costs on Senior Secured borrowings	(40,491)	(38,890)
Securitisation loans	185,338	6,943
Total secured	**1,988,422**	**1,224,913**
Total borrowings due for settlement after 12 months	**2,584,552**	**1,759,155**
Current		
Unsecured borrowings at amortised cost		
Interest on Senior Notes	4,218	4,218
Other interest payable	1,091	537
Total unsecured	**5,309**	**4,755**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	21,333	19,231
Revolving credit facility	14,046	41,000
Securitisation loans	76,665	5,548
Total secured	**112,044**	**65,779**
Total borrowings due for settlement before 12 months	**117,353**	**70,534**

During the year financing transaction costs of £6.4m were incurred in respect of Senior Secured borrowings.

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.

19. 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.

On 2 February 2018, the Group issued €530m floating rate senior secured notes at a rate of 4.5% + EURIBOR and SEK 1,280m floating rate senior secured notes at a rate of 4.75% + STIBOR both due on 1 September 2023 through its subsidiary Garfunkelux Holdco 3 S.A.. The interest on the Notes is payable quarterly on 1 March, 1 June, 1 September, 1 December, commencing on 1 March 2018. 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 19 January 2018.

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”)

On 2 May 2018 the Group RCF commitment was increased to €455m (2017: €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.

19. BORROWINGS (continued)

Securitisation Loan

On 22 November 2018 the Group entered into a £255m securitisation facility through its subsidiary Lowell Receivables Financing 1 Limited. This facility has a four year legal maturity and a margin of 2.75% + 1M LIBOR.

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. A further loan was issued in March 2018 of €28.9m as part of the acquisition of the Carve-out Business from Intrum. The loan has an interest rate of 9.66% (2017: 9.66%).

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 year were as follows:

	31 December 2018 £000	31 December 2017 £000
Notes	6.66%	7.86%
RCF	3.67%	3.81%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.66%
Securitisation loans	3.48%	-

20. TRADE AND OTHER PAYABLES

	31 December 2018 £000	31 December 2017 £000
Trade payables	17,808	8,811
Other taxes and social security	6,609	2,566
Accruals and deferred income	38,537	37,049
Other payables	69,896	30,964
	132,850	**79,390**

Other payables includes amounts due of £22.6m in respect of portfolios purchased but not yet paid for at 31 December 2018 (31 December 2017: £2.8m).

21. PROVISIONS

	Tax provisions £000	Onerous contract provision £000	Employee related provision £000	Other £000	Total £000
At 1 January 2018	**13,393**	**828**	**1,802**	**3,155**	**19,178**
Acquisition of subsidiaries	-	-	-	443	443
Provisions made during the year	1,445	1,227	292	2,414	5,378
Amounts utilised during the year	(3,600)	(778)	(186)	(807)	(5,371)
Provisions reversed during the year	-	(607)	(6)	(499)	(1,112)
Discount unwind	-	-	(116)	(44)	(160)
Exchange differences	82	278	14	(236)	138
At 31 December 2018	**11,320**	**948**	**1,800**	**4,426**	**18,494**
Current	11,320	948	30	3,667	15,965
Non-current	-	-	1,770	759	2,529
Total	**11,320**	**948**	**1,800**	**4,426**	**18,494**

Tax related provisions largely comprise amounts owed due to VAT backpayments (£4.4m) as well as other tax related provisions of £6.9m.

22. OTHER FINANCIAL LIABILTIES

	31 December 2018 £000	31 December 2017 £000
Non-current		
Other financial liabilities	86	189
	86	**189**
Current		
Liability from potential treasury shares	7,189	6,943
	7,189	**6,943**

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.

23. SHARE CAPITAL

	£000
In issue at 1 January 2018	**3,730**
Foreign exchange difference arising on change in functional currency (note 1)	655
In issue at 31 December 2018	**4,385**

	Number
Called up, allotted and fully paid – par value €0.01 each	500,000,005

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 24), 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; and
- 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.

24. RESERVES

Capital reserve

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

	31 December 2018 £000	31 December 2017 £000
At start of year	**(7,948)**	**(7,948)**
Functional currency adjustment	2	-
At end of year	**(7,946)**	**(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 2018 and 31 December 2017, there were 333m beneficiary units in issue and the BU reserve totalled €25,000 (£21,925).

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.

25. RETAINED DEFICIT

	31 December 2018 £000	31 December 2017 £000
Loss attributable to equity holders of the parent	**(48,101)**	**(62,756)**

26. COMMITMENTS

Operating Lease arrangements

The Group as lessee

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Lease payments under operating leases recognised as an expense in the year	**14,176**	**10,465**

Non-cancellable operating lease rentals are payable as follows:

	31 December 2018 £000	31 December 2017 £000
Less than one year	13,940	10,182
More than one year and less than five years	37,623	21,876
More than five years	10,051	6,076
	61,614	**38,134**

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.

There are two main property leases in Germany. One which has been negotiated for a lease term of 10 years, commenced on 3 February 2014 the other which has been negotiated for a lease term of 6 years, commenced on 31 October 2018.

There are nine property leases in the Nordic region which are negotiated for lease terms of between three and eight years.

The other property leases are for periods of one to three years with various options for breaks. Car leases run for three to four 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 2018 (31 December 2017: none).

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 a good leaver or a 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.

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 2018 £000	31 December 2017 £000
Financial assets		
Cash and cash equivalents	129,171	65,324
Loans and receivables (portfolio investments)	1,561,013	964,507
Other financial assets	69,550	49,199
Derivatives (FVTPL)	540	-
Financial liabilities		
Borrowings - Notes	2,099,126	1,510,309
Borrowings – RCF	14,046	41,000
Borrowings – Shareholder loan	372,302	311,736
Borrowings – Securitisation loan	262,003	12,491
Borrowings – other	1,091	537
Trade and other payables	132,850	79,390
Other financial liabilities	7,275	7,132
Tax liability	31,206	26,864
Provisions	18,494	19,178
Derivatives (FVTPL)	1,435	1,116

Financial risk management objectives

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

- **Strategic risk** (including Investor Relations risk, Market Dynamics risk, Mergers & Acquisitions risk, Major Initiatives risk, Strategic Planning risk and Pricing risk);

- **Financial risk** (including Credit & Counterparty risk, Liquidity & Capital risk, Market risk (including Interest Rate risk and Foreign Exchange risk), Insurance risk, Tax risk and Reporting & Forecasting risk);

- **Operational risk** (including IT risk, People risk, Conduct risk, Third Party risk, Business Operations & Processes risk, Business Continuity risk and Physical security risk);

- **Compliance risk** (including Regulatory risk, Financial Crime risk, Legal risk and CSR & Ethics risk); and

- **Information & Data risk** (including Information Security & Cyber Crime risk, Data & Modelling risk and Data Privacy 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, Group Risk Committee and Investor Board.

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

28. FINANCIAL INSTRUMENTS (continued)

Strategic risk management

Strategic risk is the risk to earnings resulting from poor or lack of clear strategy and execution, adverse business decisions, and inadequate anticipation of emerging changes in the broader business, economic and political environment, including changing competitive threats and disruptive innovations, internal or external. This includes 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, €415m, €530m and SEK 1,280m of Senior Secured loan Notes, £230m of Senior loan Notes, and a €455m RCF facility. At 31 December 2018 the RCF facility was £14.0m drawn down (31 December 2017: £41m). 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.

Financial risk management

Credit and Counterparty risk management

Credit and counterparty risk is the risk to earnings, financial loss arising from a counterparty default on contractual obligations or risk to earnings, financial loss or capital impact from a customer failure to meet a contractual repayment schedule.

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 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 the business.

This committee is in place to scrutinise all aspects of a portfolio acquisition from reputational and compliance 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.

The Group's most significant exposure to credit risk is to portfolio investments. At 31 December 2018 the carrying value by geography is shown below:

	31 December 2018 £000	**31 December 2017 £000**
UK	894,013	777,047
DACH	213,017	187,460
Nordics	453,983	-
	1,561,013	**964,507**

28. FINANCIAL INSTRUMENTS (continued)

Liquidity and Capital risk management

Liquidity risk refers to the potential inability (or at excessive funding costs) to meet contractual or contingent financial obligations (whether on- or off-balance sheet) as they arise, and could potentially impact an institution's financial condition or overall safety and soundness. Capital risk relates to the risk of holding insufficient capital to absorb unexpected loss. 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 2018, the Group had available undrawn committed borrowing facilities of €415.7m (31 December 2017: €153.8m). See note 19 for further details on banking facilities.

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 2018

	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*	6.66	2,099,126	2,699,049	69,064	69,064	2,560,921	-
RCF	3.67	14,046	14,046	14,046	-	-	-
Shareholder loan	9.66	372,302	372,302	-	-	-	372,302
Securitisation loan	3.48	262,003	274,875	42,014	40,668	192,193	-
Other liabilities	-	192,351	192,351	189,737	-	2,614	-
Total liabilities		**2,939,828**	**3,552,623**	**314,861**	**109,732**	**2,755,728**	**372,302**

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**

* Includes Loan principal outstanding and accrued interest (note 19).

Other liabilities includes "Trade and other payables", "Provisions", "Derivatives", "Current tax liabilities", "Other financial liabilities" and "Other interest payable" (note 19).

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 on the next page.

28. FINANCIAL INSTRUMENTS (continued)

Liquidity and Capital risk management (continued)

Undrawn Group financing facilities

	31 December 2018 £000	31 December 2017 £000
RCF		
Amount used	14,046	41,000
Amount unused	371,672	136,400
	385,718	**177,400**

The total RCF available of €431.5m has been translated at the year end at a rate of 0.894 at 31 December 2018.

Capital risk management
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 19 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 Group Risk 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.

Interest rate risk management
Interest rate risk is the risk to earnings, income, valuation arising from changes in 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 2018 this was £14m drawn down (31 December 2017: £41m). Interest is payable on the RCF at a maximum of 3.5% + LIBOR/EURIBOR. The Group also had three floating rate note issuances in place at 31 December 2018 with principals of €415m, €530m and SEK 1,280m and interest rates of 3.5% + EURIBOR, 4.5% + EURIBOR and 4.75% + STIBOR respectively, all with floors 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 percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 2.5 percentage points higher and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would be c£29.5m higher (2017: c£8.8m higher). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange swap contracts
The derivatives recognised at 31 December 2018 and 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 calculations 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.

28. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk management

The Group has exposure to foreign exchange risk through its investments in overseas operations which have functional currencies other than Sterling and foreign currency denominated assets/liabilities and transactions. The Group is principally exposed to Euro (EUR), Swedish krona (SEK), Norwegian krone (NOK) and Danish krone (DKK) and 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 net assets are as follows:

	31 December 2018 £000	31 December 2017 £000
Net assets		
EUR	(706,577)	(300,138)
SEK	137,292	-
NOK	104,336	-
DKK	146,267	-
	(318,682)	**(300,138)**

Foreign Currency Sensitivity Analysis

The following table details the Group's sensitivity to a 10% increase against Sterling exchange rates. This represents management's 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.

	2018 £000	2017 £000
Loss before tax		
EUR	9,939	(7,977)
SEK	1,095	-
NOK	(774)	-
DKK	627	-
Shareholders' equity		
EUR	(47,736)	(32,540)
SEK	13,729	-
NOK	10,434	-
DKK	14,627	-

28. FINANCIAL INSTRUMENTS (continued)

Insurance risk management
The Group has a full program of insurance coverage in place, this includes polices for Directors and Officers, Professional Indemnity and Cyber. Coverage is assessed and updated as required on an annual basis.

Compliance risk

Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss or reputation damages resulting from failure to comply with laws, regulations, ethical standards, prescribed practices, internal policies and procedures and from fraud, corruption or bribery. The Group faces a number of regulations which are subject to ongoing change. The Group has an active compliance programme in place with dedicated compliance teams in each region. Compliance risk is overseen by the Executive Committee, Group Risk Committee and the Investor Board.

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.

Operational risk

Operational risk is defined as the risk arising from inadequate or failed internal systems, processes, controls, people or resulting from internal/external events affecting the operation of our business. The Group has an active programme in place to identify, assess and manage operational risks in line with the defined risk management framework. Day to day operational risk management resides with management whilst risk teams in each region oversee risk management activities. Operational risk is overseen by management, Executive Committee, Group Risk Committee and the Investor Board.

Information and data risk

Information and data risk is defined as the risk of financial loss, litigation, reputation damage or regulatory sanctions resulting from poor data management, inappropriate data privacy, inadequate management of records and information lifecycle and inability to protect data, system and information from unauthorized access management, threats, cyber-attacks and security vulnerabilities.

The introduction of General Data Protection Regulation ("GDPR") across the EU in May 2018 has led to significant changes in compliance requirements for all firms that process data. The Group has enhanced its data privacy controls to achieve compliance via a Group wide GDPR programme. Information and data risk is overseen by the Executive Committee, Group Risk Committee and Investor Board.

28. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2018 £000	31 December 2017 £000
Financial assets		
Investments and receivables	1,630,563	1,013,706
Cash and cash equivalents	129,171	65,324
Derivatives	540	-
Total financial assets	**1,760,274**	**1,079,030**
Financial liabilities		
Fair value through SCI	1,435	1,116
Financial liabilities measured at amortised cost	2,938,393	2,008,637
Total financial liabilities	**2,939,828**	**2,009,753**

Derivatives with positive and negative fair values

As of 31 December 2018, foreign exchange forwards with a total negative fair value of £1.4m were held (31 December 2017: £1.1m). As of 31 December 2018, foreign exchange forwards with a total positive fair value of £0.5m were held (31 December 2017: nil). They were not designated as hedges for hedge accounting purposes (IFRS 9). The residual maturity was determined on the basis of the residual maturities of the derivatives.

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 2018 £000	**31 December 2017 £000**	**31 December 2018 £000**	**31 December 2017 £000**
Financial assets				
Cash and cash equivalents	129,171	65,324	129,171	65,324
Investments and receivables:				
Portfolio investments	1,561,013	964,507	1,566,567	975,355
Other financial assets	69,550	49,199	69,550	49,199
Total financial assets	**1,759,734**	**1,079,030**	**1,765,288**	**1,089,878**
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes*	1,864,908	1,276,091	1,564,939	1,297,329
Senior Notes*	234,218	234,218	173,526	248,492
RCF	14,046	41,000	14,046	41,000
Shareholder loan	372,302	311,736	372,302	311,736
Securitisation loan	262,003	12,491	262,003	12,491
Other financial liabilities	190,916	133,101	190,916	133,101
Total financial liabilities	**2,938,393**	**2,008,637**	**2,577,732**	**2,044,149**

*Includes loan principal outstanding and accrued interest (note 19).

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 cash flow 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 cash flows. 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 benchmarking. The service cost percentage is the percentage used to discount the gross cash flows 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 cash flows.
- 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.

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 2018		
	Level 1	**Level 2**	**Level 3**
	£000	**£000**	**£000**
Financial assets at fair value			
Derivatives	-	540	-

	31 December 2018		
	Level 1	**Level 2**	**Level 3**
	£000	**£000**	**£000**
Financial liabilities at fair value			
Derivatives	-	1,435	-

	31 December 2017		
	Level 1	**Level 2**	**Level 3**
	£000	**£000**	**£000**
Financial liabilities at fair value			
Derivatives	-	1,116	-

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 IFRS 9.

	31 December 2018	**31 December 2017**
	£000	**£000**
Derivative financial instruments with positive fair values		
Not designated as part of a hedge relationship	**540**	**-**
Derivative financial instruments with negative fair values		
Not designated as part of a hedge relationship	**1,435**	**1,116**

There were no derivative financial instruments to hedge fair value risks in accordance with IFRS 9 as of the balance sheet date. It was not possible to apply the rules of hedge accounting to the derivatives as of 31 December 2018 and 31 December 2017.

29. NOTE TO THE STATEMENT OF CASH FLOWS

	Notes	Year ended December 2018 £000	Year ended December 2017 £000
Loss for the year before tax		**(50,449)**	**(60,977)**
Adjustments for:			
Income on portfolio investments	15	(339,294)	(245,057)
Net portfolio write up	15	(126,067)	(101,873)
Portfolio fair value release	15	1,986	2,565
Collections on owned portfolios	15	660,531	481,283
Depreciation and amortisation	4	27,549	19,909
Impairment of intangible assets	4	136	-
Loss on disposal of a subsidiary	4	4,327	-
Loss on disposal of property, plant and equipment and intangible assets	4	69	464
Finance income	6	(1,800)	(2,394)
Finance costs	7	195,909	176,074
Unrealised losses from foreign exchange		(5,686)	(362)
Decrease/(increase) in trade and other receivables		2,389	(10,513)
(Decrease)/increase in trade and other payables		(5,656)	14,949
Movement in other net assets		(14,455)	(4,670)
Cash generated from operating activities before portfolio acquisitions		**349,489**	**269,398**
Portfolios acquired[1]		(371,423)	(300,150)
Income taxes paid		(5,983)	(3,720)
Net cash used in operating activities		**(27,917)**	**(34,472)**

[1] Portfolios acquired represents the amount paid for portfolio purchases in the year, taking into account timing differences.

30. RECONCILIATION OF MOVEMENTS IN BORROWINGS TO FINANCING CASH FLOWS

	Senior Notes	Shareholder loan	Prepaid costs on Senior notes	RCF	Securitisation loans	Other	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2018	**1,510,309**	**311,736**	**(46,384)**	**41,000**	**12,491**	**537**	**1,829,689**
Changes from financing cash flows							
Proceeds from loans and borrowings	567,336	25,519	-	-	261,950	-	854,805
On acquisition of subsidiaries	-	-	-	-	20,136	-	20,136
Repayment of borrowings	-	-	-	(26,954)	-	-	(26,954)
Repayment of securitisation	-	-	-	-	(33,047)	-	(33,047)
Interest paid	(133,075)	(63)	-	-	(1,360)	(11,856)	(146,354)
Transaction costs on borrowings	-	-	(6,908)	-	-	-	(6,908)
Total changes from financing cash flows	**434,261**	**25,456**	**(6,908)**	**(26,954)**	**247,679**	**(11,856)**	**661,678**
The effect of changes in foreign exchange rates	19,201	3,131	(306)	-	136	208	22,370
Changes from liabilities							
Interest expense	134,780	31,979	-	-	1,697	12,202	180,658
Accrued costs	-	-	(374)	-	-	-	(374)
Discount release	575	-	-	-	-	-	575
Prepaid cost release	-	-	7,309	-	-	-	7,309
Total liability related changes	**135,355**	**31,979**	**6,935**	**-**	**1,697**	**12,202**	**188,168**
Balance at 31 December 2018	**2,099,126**	**372,302**	**(46,663)**	**14,046**	**262,003**	**1,091**	**2,701,905**

31. EMPLOYEE BENEFITS

a) Defined benefit schemes

The Group has defined benefit pension obligations through its DACH and Nordic businesses.

	31 December 2018 £000	31 December 2017 £000
Defined benefit pension net liabilities		
DACH	5,262	5,705
Nordics	2,374	-
	7,636	**5,705**

DACH

The German defined benefit pension obligations in relation to the DACH business are provided through the Groups 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 1.7% and 2.2% (2017: 1.5% and 2.0%), 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% (2017: 1.0 to 1.5%), salary increases at 0.0% to 2.0% (2017: 0.0% to 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2017: 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 2018 £000	31 December 2017 £000
Present value of unfunded defined benefit obligation	8,050	8,419
Plan assets	(2,788)	(2,714)
Net liability	**5,262**	**5,705**

31. EMPLOYEE BENEFITS (continued)

a) Defined benefit schemes (continued)

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

	31 December 2018 £000	31 December 2017 £000
Opening balance of defined benefit obligation	**8,419**	**8,168**
Interest expense	144	144
Pension payments	(215)	(196)
Current service cost	90	95
Actuarial gains	(446)	(89)
Currency translation adjustments	58	297
Closing balance of defined benefit obligation	**8,050**	**8,419**

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

	31 December 2018 £000	31 December 2017 £000
Opening balance of plan assets	**2,714**	**3,027**
Net interest income	46	50
Actuarial gains	11	6
Contributions	72	81
Payments	(76)	(554)
Currency translation adjustments	21	104
Closing balance of plan assets	**2,788**	**2,714**

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 £81k (£81k at 31 December 2017).

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Opening balance	**5,705**	**5,141**
Payments arising from pension obligations	(215)	358
Allocation to defined benefit obligation	188	190
Allocation to plan assets	4	(81)
Actuarial gains	(457)	(95)
Currency translation adjustments	37	192
Closing balance	**5,262**	**5,705**

31. EMPLOYEE BENEFITS (continued)

a) Defined benefit schemes (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2018 is as shown below:

	31 December 2018 £000
Interest rate	
Increase 0.5%	(686)
Decrease 0.5%	785
Salary trend	
Increase 0.5%	142
Decrease 0.5%	(131)
Benefits trend	
Increase 0.5%	580
Decrease 0.5%	(521)

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 2018 £000	**31 December 2017 £000**
Within the next 12 months	220	201
Between 1 and 5 years	931	892
Between 5 and 10 years	1,416	1,315
More than 10 years	12,500	11,523
Total expected payments	**15,067**	**13,931**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2017: 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 £5.2m (2017: £0.8m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2018, contributions of £549k (31 December 2017: £159k) due in respect of the current reporting period had not been paid over to the schemes.

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.

Year end balances with related parties

	31 December 2018 £000	31 December 2017 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note 19)	(372,302)	(311,736)
Loan owed from Garfunkelux Holdco 1 S.à r.l.	3,520	3,079
Balances with other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	5,049	4,576
Permira Beteiligungsberatung GmbH (trading)	(15)	(5)

Transactions with related parties

	31 December 2018 £000	31 December 2017 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(31,979)	(27,112)
Loan interest owed from Garfunkelux Holdco 1 S.à r.l.	245	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.	367	270
Loan to Garfunkelux Nominee S.à r.l.	(106)	(2,286)
Permira Beteiligungsberatung GmbH (trading)	(250)	112
Teamviewer GmbH (trading)	3	7
Duff and Phelps (trading)	(68)	-

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 2018 £000	**Year ended 31 December 2017 £000**
Short-term employee benefits	**4,962**	**5,198**

The above details relate to fourteen key management personnel (2017: thirteen) 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, Lowell Financial Services GmbH and Lowell AS) 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.

At 31 December 2018, loans totalling €4.0m were outstanding with two key management personnel.

33. SUBSEQUENT EVENTS

On 8 February 2019, the Group, through its indirect subsidiary Lowell Financial Limited, confirmed the agreement to acquire Lucas Credit Services Limited. Given that the acquisition remains subject to regulatory approval, there are no current values for purchase price allocation, this will be undertaken in due course.

GARFUNKELUX HOLDCO 2 S.A.

CASH EBITDA WALKS (UNAUDITED)

Operating profit to Cash EBITDA	**Year ended 31 December 2018 £000**
Loss for the year	(48,101)
Net finance costs	194,109
Taxation credit	(2,348)
Operating profit	**143,660**
Portfolio amortisation	321,237
Net portfolio write up	(126,067)
Portfolio fair value release	1,986
Non-recurring costs/exceptional items, net of exceptional income	45,043
Depreciation, amortisation and impairment	27,685
Cash EBITDA	**413,544**

Cash collections to Cash EBITDA	**Year ended 31 December 2018 £000**
Cash collections (DP)	660,531
Other income	216,038
Operating expenses	(535,753)
Non-recurring costs/exceptional items, net of exceptional income	45,043
Depreciation, amortisation and impairment	27,685
Cash EBITDA	**413,544**

Net cash flow to Cash EBITDA	**Year ended 31 December 2018 £000**
Decrease in cash in the year	63,244
Movement in debt	(794,804)
Purchases of loan portfolios	371,423
Interest paid net of interest received	146,354
Income taxes paid	5,983
Transaction costs relating to loans and borrowings	6,908
Capital expenditure and financial investment	614,820
Proceeds from sale of subsidiary	(16,117)
Proceeds from capital contribution	(48,322)
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**349,489**
Working capital adjustments	19,012
Non-recurring costs/exceptional items, net of exceptional income	45,043
Cash EBITDA	**413,544**