Garfunkelux Holdco 2 S.A.

QE 31 March 2018 Results

1. Highlights

- On 20 March 2018 the Group acquired the Carve-out Business.
- On 2 February 2018 raised €530m Senior Secured Notes at a rate of 4.5% plus EURIBOR and SEK 1,280m floating rate senior secured notes at a rate of 4.75% plus STIBOR to fund the acquisition of the Carve-out Business.
- **120 Month Estimated Remaining Collections** (“ERC”) at £2,819.0m as of 31 March 2018, including £716.0m on acquisition of the Carve-out Business.
- **Portfolio investments acquired**(1) for the three months ending 31 March 2018 total £72.8m, with LTM portfolio purchases of £293.0m, up 7.8% compared to the LTM portfolio purchases to 31 March 2017 of £271.9m.
- **Debt Purchase gross cash collections**(1) of £128.6m in the three months ending 31 March 2018, up 7.5% compared to the three month period ending 31 March 2017.
- **Cash income**(1) of £153.4m in the three months ending 31 March 2018, up 3.9% compared to the three month period ending 31 March 2017.
- **Cash EBITDA**(1)(2) for the three months ended 31 March 2018 of £77.9m, with LTM Cash EBITDA to March 2018 of £298.8m.
- **Net debt to LTM Pro forma Cash EBITDA**(3) is at 5.2x cover as at 31 March 2018.
- **Net secured debt to LTM Pro forma Cash EBITDA**(3) is at 4.6x cover as at 31 March 2018.

(1) For accounting purposes, the effective date of the acquitision was 31 March 2018 (see note 8), these measures do not include the Carve-out business.

(2) Cash EBITDA is defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation.

(3) Pro forma LTM Cash EBITDA as quoted is defined as Group Cash EBITDA for the twelve months ended 31 March 2018, adjusted to include the Cash EBITDA contribution of the Carve-out business as if this acquisition had occurred at 1 April 2017 and further adjusted for the Carve-out Business management fee adjustment, Carve-out Business depreciation charge adjustment, SRG contract adjustment and DACH division reorganisation cost adjustment.

1. Highlights (continued)

Commenting on the results, Colin Storrar CFO said:

"We have built on the momentum of the final quarter of last year and started 2018 positively. Focus has been maintained on the delivery of our core strategy while we continued to work through the integration of our new Nordic businesses, where we are already seeing positive performance. Our prudent approach has seen us make significant investment but do it selectively - taking opportunities both to grow and to review.

That fundamental strategy of prudent investment, focused on sustainable returns, together with effective and mutually beneficial customer and client relationships continues to set us apart.

The Group's net debt position remains largely unchanged despite significant portfolio purchasing. This is a positive reflection of our ability to generate free cash flow for further re-investment.

The increase in commitments for the Revolving Credit Facility to €455m demonstrates the underlying value and strength seen in Lowell, with the key terms of the facility remaining the same. The extended facility enhances the Group's ability and flexibility to grow the business, whilst reducing the average cost of debt, in-turn providing for greater cash-flow generation."

About Lowell:

Lowell is one of Europe's largest credit management companies with a mission to make credit work better for all. It operates in the UK, Germany, Austria, Switzerland, Denmark, Norway, Finland, Sweden and Estonia.

Lowell's unparalleled combination of data analytics insight and robust risk management provides clients with expert solutions in debt purchasing, third party collections and business process outsourcing. With its ethical approach to debt management, Lowell always looks for the most appropriate, sustainable and fair outcome for each customer's specific circumstances.

Lowell was formed in 2015 following the merger of the UK and German market leaders: the Lowell Group and the GFKL Group. In 2018, Lowell completed the acquisition of the Carve-out Business from Intrum, which has market leading positions in the Nordic region. It is backed by global private equity firm Permira and Ontario Teachers' Pension Plan.

For more information on Lowell, please visit our investor website: www.lowell.com

1. Highlights (continued)

Non-IFRS financial measures

We have included certain non-IFRS financial measures in this trading update, including **Estimated Remaining Collections** (“ERC”), **Cash EBITDA** and **Gross Money Multiples**.

We present ERC because it represents our expected gross cash proceeds of the purchased debt portfolios recorded on our balance sheet over the 84-month, 120-month and 180-month periods. ERC is calculated as of a point in time assuming no additional purchases are made. ERC is a metric that is also often used by other companies in our industry. **We present ERC because it represents our best estimate of the undiscounted cash value of our purchased debt portfolios at any point in time, which is an important supplemental measure for our board of directors and management to assess the gross cash generation capacity of the assets backing our business**. In addition, the instruments governing our indebtedness use ERC to measure our compliance with certain covenants and, in certain circumstances, our ability to incur indebtedness. Our ERC projection, calculated by our proprietary analytical models, utilises historical portfolio collection performance data and assumptions about future collection rates. While we cannot guarantee that we will achieve such collections and while our ERC projection may not be comparable to similar metrics used by other companies in our industry, our ERC forecasts have historically proven to be somewhat conservative through all phases of the economic cycle.

We present Cash EBITDA because we believe it may enhance an investor’s understanding of our underlying cash flow generation at a given point in time that can be used to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses. Cash EBITDA is defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation.

Our board of directors and management use Cash EBITDA to understand cash profit in a period, mindful it is neither a proxy for future periods (since it is a lagged measure which can be influenced by the volume and mix of purchases in the latter months of the reported period), nor is it an indication of run off cash generation as the current cost base is representative of our front loaded cost curves and recent purchasing activity. Cash EBITDA is not a measure calculated in accordance with IFRS and our use of the term Cash EBITDA may vary from others in our industry. For a reconciliation of Cash EBITDA to operating profit, see page 20.

We present Gross Money Multiples (“GMMs”) because it represents our expected gross cash return from purchased debt portfolios. In addition, GMMs are one of a number of return metrics that we use when making pricing and investment decisions. GMMs can be reported on a rolling basis or on a static basis. On a rolling basis, GMMs are calculated as the sum of gross collections achieved to date plus our ERC as at the reporting date, divided by purchase price. All things being equal and based on this rolling definition, GMMs should improve over time as portfolios and vintages mature. On a static basis, GMMs are calculated over a static time-period – for example, a static 120m GMM will be based upon either gross collections achieved to date plus the remaining months of ERC required to get to a 120m total period or the original priced 120m collection expectations, divided by purchase price.

ERC, Cash EBITDA and Gross Money Multiples and all other non-IFRS measures have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS.

2. Operating & financial review

The following table summarises key performance indicators at, and for the periods ended 31 March 2018 and 31 March 2017.

(£ in millions unless otherwise noted)	**Three months ended 31 March 2018**	**Three months ended 31 March 2017**
Extant group[1]		
Portfolio investments acquired	72.8	36.0
Gross cash collections (in total)	224.5	220.7
Gross cash collections (DP 'debt purchase')	128.6	119.6
Gross cash collections (3PC 'third party collections')	95.9	101.1
3PC income	24.8	28.0
Cash income	153.4	147.6
Cash EBITDA[2]	77.9	78.3

	Pro forma group as at 31 March 2018	**Extant group[1] as at 31 March 2017**
84 month ERC	2,381.7	1,506.9
120 month ERC	2,819.0	1,782.3
180 month ERC	3,286.7	2,072.9

(1) For accounting purposes, the effective date of the acquitision was 31 March 2018 (see note 8), these measures do not include the Carve-out business.

(2) Cash EBITDA is defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation.

2. Operating & financial review (continued)

For accounting purposes, the effective date of the Carve-out business acquitision was 31 March 2018 (see note 8), the below measures therefore do not include the Carve-out business.

Collections
Strong quarterly collections on DP Portfolios were achieved by the business totalling £128.6m in the three months ending 31 March 2018, an increase of 7.5% on the corresponding three months ending 31 March 2017.

Income
Total income of £120.0m was generated in the three months ending 31 March 2018. Service revenue in the three months to 31 March 2018 of £36.3m included 3PC income of £24.8m and lawyer service revenue of £11.5m (three months to 31 March 2017: 3PC income of £28.0m and lawyer service revenue of £15.5m).

Operating expenses
Operating expenses including exceptional costs of £6.2m were £99.2m for the period, of which £58.3m were collection activity costs. Collection costs include lawyer service costs which totalled £11.7m in the three months to 31 March 2018 (three months to March 2017: £15.7m).

Finance costs
Excluding foreign exchange effects, finance costs totalled £50.0m for the three months ended 31 March 2018, see note 3.

Cash flow
Net cash used in operating activities after portfolio purchases and exceptional costs totalled £23.2m in the three months to 31 March 2018. Net cash generated from operating activities before portfolio purchases and income taxes paid totalled £57.9m in the 3 months to March 2018.

While returns achieved on an individual portfolio can vary, the business has a consistent and impressive track record of generating strong and sustainable unlevered returns on its aggregate purchased portfolios. Gross Money Multiple as at 31 March 2018 is shown below.

	UK As of 31 March 2018		DACH As of 31 March 2018	
	Invested (£ millions)	**Gross Money Multiple (1)**	**Invested (€ millions)**	**Gross Money Multiple (1)**
Total 120 month	1,477.7	2.5	530.1	2.9
Total 180 month	1,477.7	2.7	530.1	3.1

(1) Gross Money Multiple presented in this quarterly report only includes actuals to date and forecast collections for the next 120 or 180 months, although collections can extend past that period.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of comprehensive income
3 months ended 31 March 2018

	Note	3 months to 31 March 2018 £000	3 months to 31 March 2017* £000
Continuing operations			
Income			
Income from portfolio investments	4	68,700	57,241
Net portfolio write up	4	14,312	26,660
Portfolio fair value release	4	(497)	(641)
Service revenue	2	36,315	43,487
Other revenue		825	754
Other income		360	283
Total income		**120,015**	**127,784**
Operating expenses			
Collection activity costs		(58,315)	(60,615)
Other expenses		(40,918)	(32,640)
Total operating expenses		**(99,233)**	**(93,255)**
Operating profit		**20,782**	**34,529**
Finance income		155	141
Finance costs	3	(50,215)	(36,732)
Loss for the period, before tax		**(29,278)**	**(2,062)**
Tax credit		485	986
Loss for the period		**(28,793)**	**(1,076)**
Other comprehensive income			
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		3,099	359
Other comprehensive income, net of tax		**3,099**	**359**
Total comprehensive expenditure for the period		**(25,694)**	**(717)**

The notes on pages 11 to 19 form part of the interim financial statements.

* Prior period figures have been restated to reclassify an amount from other expenses to collection activity costs and to reclassify net portfolio write up to income. See note 1 for further detail.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of financial position
As at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Assets			
Non-current assets			
Goodwill		1,197,119	1,005,420
Intangible assets		167,532	120,131
Property, plant and equipment		11,966	9,817
Portfolio investments	4	859,734	490,568
Other financial assets		8,421	2,542
Deferred tax assets		6,252	-
Total non-current assets		**2,251,024**	**1,628,478**
Current assets			
Portfolio investments	4	521,280	344,504
Inventories		104	37
Trade and other receivables	5	90,650	38,599
Other financial assets		7,115	8,449
Assets for current tax		1,517	1,423
Cash and cash equivalents		114,987	73,448
Total current assets		**735,653**	**466,460**
Total assets		**2,986,677**	**2,094,938**
Equity			
Share capital		4,385	3,730
Share premium and similar premiums		516,721	400,396
Reserves		(89,896)	(20,103)
Retained deficit		(191,220)	(100,747)
Total equity		**239,990**	**283,276**
Liabilities			
Non-current liabilities			
Borrowings	7	2,344,401	1,538,499
Provisions		10,576	6,926
Derivatives		-	88
Other financial liabilities		104	61
Deferred tax liabilities		49,266	45,023
Total non-current liabilities		**2,404,347**	**1,590,597**
Current liabilities			
Trade and other payables	6	119,666	62,760
Provisions		16,670	14,431
Borrowings	7	160,760	120,052
Derivatives		5,587	229
Other financial liabilities		6,888	6,555
Current tax liabilities		32,769	17,038
Total current liabilities		**342,340**	**221,065**
Total equity and liabilities		**2,986,677**	**2,094,938**

The notes on pages 11 to 19 form part of the interim financial statements.

Lowell

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of changes in equity
As at 31 March 2018

	Share Capital	Share premium and similar premiums	Capital Reserve	Translation reserve	Valuation reserve	Retained earnings	Total
Balance at 1 January 2017	**3,730**	**400,396**	**(7,948)**	**(12,086)**	**(428)**	**(99,671)**	**283,993**
Loss for the period	-	-	-	-	-	(1,076)	**(1,076)**
Exchange differences	-	-	-	359	-	-	**359**
Total comprehensive income/(expenditure)	**-**	**-**	**-**	**359**	**-**	**(1,076)**	**(717)**
Balance at 31 March 2017	**3,730**	**400,396**	**(7,948)**	**(11,727)**	**(428)**	**(100,747)**	**283,276**
Loss for the period	-	-	-	-	-	(61,680)	**(61,680)**
Exchange differences	-	-	-	(4,300)	-	-	**(4,300)**
Actuarial gains on pension	-	-	-	-	95	-	**95**
Deferred tax on pensions	-	-	-	-	(29)	-	**(29)**
Total comprehensive income/(expenditure)	**-**	**-**	**-**	**(4,300)**	**66**	**(61,680)**	**(65,914)**
Balance at 31 December 2017	**3,730**	**400,396**	**(7,948)**	**(16,027)**	**(362)**	**(162,427)**	**217,362**
Loss for the period	-	-	-	-	-	(28,793)	**(28,793)**
Exchange differences	-	-	-	3,099	-	-	**3,099**
Total comprehensive income/(expenditure)	**-**	**-**	**-**	**3,099**	**-**	**(28,793)**	**25,694**
Capital contribution	-	48,322	-	-	-	-	**48,322**
Functional currency adjustment[1]	655	68,003	2	(68,660)	-	-	-
Balance at 31 March 2018	**4,385**	**516,721**	**(7,946)**	**(81,588)**	**(362)**	**(191,220)**	**239,990**

The notes on pages 11 to 19 form part of the interim financial statements.

(1) During the period 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.
Unaudited condensed consolidated interim statement of cash flows
3 months ended 31 March 2018

	Note	3 months to 31 March 2018 £000	3 months to 31 March 2017 £000
Net cash used in operating activities	**9**	**(23,242)**	**(15,510)**
Investing activities			
Interest received		-	38
Purchase of property, plant and equipment		(682)	(307)
Purchase of intangible assets		(1,100)	(393)
Acquisition of subsidiary, net of cash acquired		(594,958)	-
Net cash used in investing activities		**(596,740)**	**(662)**
Financing activities			
Proceeds from issue of Senior Secured Notes		567,472	-
Proceeds from loans and borrowings		81,891	7,500
Proceeds from capital contribution		48,322	-
Transaction costs related to loans and borrowings		(4,594)	-
Repayment of borrowings		(1,718)	-
Interest paid		(20,771)	(15,841)
Net cash generated from/(used in) financing activities		**670,602**	**(8,341)**
Net increase/(decrease) in cash and cash equivalents		**50,620**	**(24,513)**
Cash and cash equivalents at beginning of period		65,324	98,053
Effect of movements in exchange rates on cash held		(957)	(92)
Cash and cash equivalents at end of period		**114,987**	**73,448**

The notes on pages 11 to 19 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2018

1. Accounting policies

General information and basis of preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These interim 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.

Restatement of prior year presentation

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications have no effect on the reported loss for the period. An adjustment has been made to the Consolidated Statement of Comprehensive Income ("SCI") for the 3 months ended 31 March 2017 to reclassify appropriate staff costs as collection activity costs. In addition, as a result of the adoption of IFRS 9 on 1 January 2018, an adjustment has been made to present net portfolio write up within income for the 3 months to 31 March 2017. Previously, net portfolio write up was presented within revenue and operating expenses.

Basis of consolidation

The Group interim financial statements consolidate the interim financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and its subsidiaries (together "the Group") for the three month period ending 31 March 2018.

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

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

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

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

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

Going concern

There are long-term business plans and short-term forecasts in place, which are reviewed and updated on an ongoing regular basis by management.

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

1. Accounting policies (continued)

Foreign currency

The Group entities initially record all their transactions in the Functional Currency of each entity and items included in the financial statements of these entities are measured using their Functional Currency.

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

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.

Change in functional currency

As a result of the acquisition of the Carve-out business in the quarter, 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.

Business combinations

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

Goodwill

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

Total goodwill is tested for impairment annually. Additionally, if there is evidence of impairment in any cash-generating unit ("CGU"), goodwill allocated to that CGU is also tested for impairment.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2018

1. Accounting policies (continued)

Revenue recognition and effective interest rate method

Finance revenue on portfolio investments

Income from portfolio investments represents the yield from acquired portfolio investments, net of VAT where applicable. Acquired portfolio investments are financial instruments that are accounted for using IFRS 9, and are measured at amortised cost using the effective interest method.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition, (i.e. the price paid to acquire the asset). These estimated future cash receipts are reflective of the conditions within the markets which the Group operates and range from 84 months to 120 months. An initial EIR is determined at the acquisition of the portfolio investment, following this there is a short period that is required to adjust the EIR due to the complexity of the portfolios acquired. Reassessing and changing the EIR in this way does not have a material impact on the financial statements.

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

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

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

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 the 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 at the Statement of Financial Position ("SFP") date in accordance with IFRS 9. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio investment. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio investment and is included in net portfolio write up. If the forecast portfolio collections are lower than previous forecasts the revenue from previous upward revaluations are reversed and this reversal is recognised in net portfolio write up.

1. 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.

Loans and receivables

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

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

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

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

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

Impairment of financial assets

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

Financial liabilities and equity

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

Financial liabilities

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

Garfunkelux Holdco 2 S.A.
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1. Accounting policies (continued)

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

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

Current tax

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

Deferred tax

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

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

2. Service revenue

	3 months to 31 March 2018 £000	3 months to 31 March 2017 £000
3PC income	24,834	27,981
Lawyer service revenue	11,481	15,506
	36,315	**43,487**

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Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2018

3. Finance costs

	3 months to 31 March 2018 £000	3 months to 31 March 2017 £000
Interest payable on the Senior Secured Notes	26,106	20,586
Interest payable on the Senior Unsecured Notes	6,325	6,325
Fees payable on the notes	1,389	1,717
Interest and fees payable on Revolving Credit Facility	1,015	1,245
Interest payable on shareholder loan	7,233	6,442
Net loss on financial instruments designated as FVTPL	7,502	60
Other interest payable	401	266
Net foreign exchange loss	244	91
	50,215	**36,732**

4. Portfolio investments

	31 March 2018 £000	31 March 2017 £000
Non-current	859,734	490,568
Current	521,280	344,504
Total	**1,381,014**	**835,072**

	31 March 2018 £000	31 March 2017 £000
At start of the period	964,507	831,705
Portfolios acquired during the period	72,832	35,996
Portfolios acquired through acquisition of subsidiary	389,078	-
Collections in the period	(128,629)	(119,594)
Income from portfolio investments	68,700	57,241
Net portfolio write up	14,312	26,660
Portfolio fair value release	(497)	(641)
Other	711	3,705
At end of the period	**1,381,014**	**835,072**

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5. Trade and other receivables

	31 March 2018 £000	31 March 2017 £000
Trade receivables	16,399	8,889
Prepayments and accrued income	14,683	7,404
Other receivables	59,568	22,306
	90,650	**38,599**

6. Trade and other payables

	31 March 2018 £000	31 March 2017 £000
Trade payables	17,930	8,023
Other taxes and social security	13,204	1,745
Accruals and deferred income	33,944	13,584
Other payables	54,588	39,408
	119,666	**62,760**

Other payables includes amounts due of £8.8m in respect of portfolios purchased but not yet paid for as at 31 March 2018 (31 March 2017: £10.6m).

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7. Borrowings

	31 March 2018 £000	31 March 2017 £000
Non-current		
Unsecured borrowing at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on unsecured borrowings	(6,674)	(7,986)
Shareholder loan owed to Garfunkelux Holdco 1 S.à.r.l.	339,554	280,486
Total unsecured	**562,880**	**502,500**
Secured borrowing at amortised cost		
Senior Secured Notes	1,814,191	1,073,725
Prepaid costs on secured borrowings	(38,104)	(37,726)
Securitisation loans	5,434	-
Total secured	**1,781,521**	**1,035,999**
Total borrowings due for settlement after 12 months	**2,344,401**	**1,538,499**
Current		
Unsecured borrowing at amortised cost		
Interest on Senior Notes	10,543	10,543
Other interest payable	412	392
Total unsecured	**10,955**	**10,935**
Secured borrowing at amortised cost		
Interest on Senior Secured Notes	27,953	26,617
Revolving credit facility	97,372	82,500
Securitisation loans	24,480	-
Total secured	**149,805**	**109,117**
Total borrowings due for settlement before 12 months	**160,760**	**120,052**

Senior Secured Notes

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

Revolving credit facility ("RCF")

On 2 May 2018, the Group RCF commitment was increased to €455m. There have been no changes to the key terms of the facility. The RCF has a variable interest rate linked to LIBOR/EURIBOR and a quarterly commitment fee calculated on the undrawn facility.

Garfunkelux Holdco 2 S.A.
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8. Acquisition of Carve-out business

On 20 March 2018, the Group acquired 100% share in Fair Play Please AS and Lindorff Sverige AB, which represent the Carve-out Business of Intrum for €741 million (£648 million). The acquisition was made through Hansa Bidco Oy (formally Pofidax Oy), an indirect subsidiary of Garfunkelux Holdco 2 S.A..

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 provisional recognised net assets acquired at the date of acquisition were €532m (£465m).

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.

The initial accounting for the acquisition has been determined provisionally because of the limited time available between the acquisition date and the preparation of these quarterly statements.

9. Note to the statement of cashflows

	Note	3 months to 31 March 2018 £000	3 months to 31 March 2017 £000
Loss for the period before tax		**(29,278)**	**(2,062)**
Adjustments for:			
Income on portfolio investments	4	(68,700)	(57,241)
Net portfolio write up	4	(14,312)	(26,660)
Portfolio fair value release	4	497	641
Collections on owned portfolios	4	128,629	119,594
Depreciation and amortisation		4,782	4,827
Finance income		(155)	(141)
Finance costs	3	50,215	36,732
Unrealised (losses)/gains from foreign exchange		(536)	39
Increase in trade and other receivables		(5,858)	(4,149)
Decrease in trade and other payables		(2,137)	(627)
Movement in other net assets		(5,262)	(4,277)
Cash generated from operating activities before portfolio acquisitions		**57,885**	**66,676**
Portfolios acquired (1)		(80,868)	(80,362)
Net cash used in operating activities		**(22,983)**	**(13,686)**
Income taxes paid		(259)	(1,824)
Net cash used in operating activities		**(23,242)**	**(15,510)**

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

Reconciliations

Profit to Cash EBITDA

	3 months to 31 March 2018 £000
Loss for the period	(28,793)
Net finance costs	50,060
Taxation credit	(485)
Operating profit	**20,782**
Portfolio amortisation	59,929
Net portfolio write up	(14,312)
Portfolio fair value release	497
Non-recurring costs / exceptional items, net of exceptional income	6,190
Depreciation and amortisation	4,782
Cash EBITDA	**77,868**

Cash collections to Cash EBITDA

	3 months to 31 March 2018 £000
Cash collections	128,629
Other income	37,500
Operating expenses	(99,233)
Non-recurring costs / exceptional items, net of exceptional income	6,190
Depreciation and amortisation	4,782
Cash EBITDA	**77,868**

Net cash flow to Cash EBITDA

	3 months to 31 March 2018 £000
Increase in cash in the period	50,620
Movement in debt	(647,645)
Capital contribution	(48,322)
Portfolios acquired	80,868
Interest paid, net of interest received	20,771
Income taxes paid	259
Transaction costs related to loans and borrowings	4,594
Capital expenditure and financial investment	596,740
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**57,885**
Working capital adjustments	13,793
Non-recurring costs /exceptional items, net of exceptional income	6,190
Cash EBITDA	**77,868**