Lowell

Garfunkelux Holdco 2 S.A.

QE 31 March 2019 Results

1. Highlights

- **120 Month Estimated Remaining Collections** (“ERC”) at £3,128.7m as of 31 March 2019, an increase of 11.0% on 31 March 2018.
- **Portfolio investments acquired** for the three months ending 31 March 2019 total £93.5m.
- **Debt Purchase gross cash collections** of £184.9m in the three months ending 31 March 2019.
- **Cash income** of £225.2m in the three months ending 31 March 2019.
- **Cash EBITDA**[(1)] for the three months ended 31 March 2019 of £108.3m.
- **Net debt to Pro forma LTM Cash EBITDA**[(2)] is at 5.1x as at 31 March 2019.
- **Net secured debt to Pro forma LTM Cash EBITDA**[(2)] is at 4.0x as at 31 March 2019.

(1) 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) Pro forma LTM Cash EBITDA as quoted is defined as Group Cash EBITDA for the twelve months ended 31 March 2019, adjusted for Pro forma cost adjustments.

1. Highlights (continued)

Commenting on the results, Colin Storrar, CFO, said:

"I am pleased with the start we have made to the year. These results are the natural progression of a maturing business capitalising on its scale and the strong momentum created last year.

We have delivered growth across our key metrics. Cash EBITDA growth has continued to outperform Cash Income growth as we benefit from an increase in margin. Our 3PC business contributed 20% to Cash Income: providing an important capital-light source of revenue. Our 120m ERC has grown 11% year-on-year to over £3.1 billion, and our collections performance in the first quarter has continued to perform above expectations – a clear demonstration of our forecasting accuracy and prudent approach to pricing.

The balance sheet is central to our growth plans – we are committed to reducing leverage in our business, and are on track to deliver this.

We have a healthy pipeline of opportunities across our regions, at increasingly attractive returns. We have made a positive start to 2019, having deployed £94 million in the first quarter. The outlook for our business remains very strong."

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 incurrence covenants. 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 they represent 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 2019 and 31 March 2018.

(£ in millions unless otherwise noted)	Three months ended or as at 31 March 2019	Three months ended or as at 31 March 2018
Portfolio investments acquired[1]	93.5	72.8
Gross cash collections (in total) [1]	455.5	224.5
Gross cash collections (DP 'debt purchase') [1]	184.9	128.6
Gross cash collections (3PC 'third party collections') [1]	270.6	95.9
3PC income[1]	40.3	24.8
Cash income[1]	225.2	153.4
Cash EBITDA[1] [2]	108.3	77.9
84 month ERC	2,608.0	2,381.7
120 month ERC	3,128.7	2,819.0
180 month ERC	3,721.1	3,286.7

(1) The effective date of the Carve-out Business acquisition was 31 March 2018 and as such these measures for the three months ended 31 March 2019 include the results of the Carve-out Business. 2018 comparatives 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)

Collections
Strong quarterly collections on DP Portfolios were achieved by the business totalling £184.9m in the three months ending 31 March 2019.

Income
Total income of £172.3m was generated in the three months ending 31 March 2019. Service revenue in the three months to 31 March 2019 of £53.3m included 3PC income of £40.3m and lawyer service revenue of £13.0m (three months to 31 March 2018: 3PC income of £24.8m and lawyer service revenue of £11.5m).

Operating expenses
Operating expenses including exceptional costs of £14.2m were £155.6m for the period, of which £88.6m were collection activity costs. Collection costs include lawyer service costs which totalled £13.3m in the three months to 31 March 2019 (three months to March 2018: £11.7m).

Finance costs
Finance costs totalled £60.1m for the three months ended 31 March 2019, see note 3.

Cash flow
Net cash used in operating activities after portfolio purchases and exceptional costs totalled £16.9m in the three months to 31 March 2019. Net cash generated from operating activities before portfolio purchases and income taxes totalled £89.9m in the 3 months to March 2019.

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 2019 is shown below.

	UK As at 31 March 2019		DACH As at 31 March 2019		Nordics As at 31 March 2019	
	Invested (£ millions)	Gross Money Multiple (1)	Invested (€ millions)	Gross Money Multiple (1)	Invested (€ millions)	Gross Money Multiple (1)
Total 120 month	1,717	2.5x	575	3.1x	1,082	2.4x
Total 180 month	1,717	2.7x	575	3.3x	1,082	2.5x

(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 2019

	Note	3 months to 31 March 2019 £000	3 months to 31 March 2018 £000
Continuing operations			
Income			
Income from portfolio investments	4	89,585	68,700
Net portfolio write up	4	28,055	14,312
Portfolio fair value release	4	(391)	(497)
Service revenue	2	53,340	36,315
Other revenue		1,375	825
Other income		338	360
Total income		**172,302**	**120,015**
Operating expenses			
Collection activity costs		(88,552)	(58,315)
Other expenses		(67,067)	(40,918)
Total operating expenses		**(155,619)**	**(99,233)**
Operating profit		**16,683**	**20,782**
Finance income		1,629	155
Finance costs	3	(60,066)	(50,215)
Loss for the period, before tax		**(41,754)**	**(29,278)**
Tax credit		2,978	485
Loss for the period		**(38,776)**	**(28,793)**
Other comprehensive income/(expenditure)			
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		9,541	3,099
Net fair value losses – cash flow hedges		(312)	-
Other comprehensive income, net of tax		**9,229**	**3,099**
Total comprehensive expenditure for the period		**(29,547)**	**(25,694)**

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

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of financial position
As at 31 March 2019

	Note	31 March 2019 £000	31 March 2018 £000
Assets			
Non-current assets			
Goodwill		1,188,987	1,197,119
Intangible assets		155,010	167,532
Property, plant and equipment		59,674	11,966
Portfolio investments	4	1,008,912	859,734
Other financial assets		8,868	8,421
Deferred tax assets		14,719	6,252
Total non-current assets		**2,436,170**	**2,251,024**
Current assets			
Portfolio investments	4	549,162	521,280
Inventories		90	104
Trade and other receivables	5	51,465	90,650
Other financial assets		7,459	7,115
Assets for current tax		4,149	1,517
Cash and cash equivalents		134,734	114,987
Total current assets		**747,059**	**735,653**
Total assets		**3,183,229**	**2,986,677**
Equity			
Share capital		4,385	4,385
Share premium and similar premiums		516,721	516,721
Reserves		(88,385)	(89,896)
Retained deficit		(249,304)	(191,220)
Total equity		**183,417**	**239,990**
Liabilities			
Non-current liabilities			
Borrowings	7	2,508,911	2,344,401
Provisions		10,266	10,576
Other financial liabilities		47,247	104
Deferred tax liabilities		47,141	49,266
Total non-current liabilities		**2,613,565**	**2,404,347**
Current liabilities			
Trade and other payables	6	113,529	119,666
Provisions		16,251	16,670
Borrowings	7	205,441	160,760
Derivatives		10,999	5,587
Other financial liabilities		10,692	6,888
Current tax liabilities		29,335	32,769
Total current liabilities		**386,247**	**342,340**
Total equity and liabilities		**3,183,229**	**2,986,677**

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

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of changes in equity
As at 31 March 2019

	Share Capital	Share premium and similar premiums	Capital Reserve	Translation reserve	Hedging reserve	Valuation reserve	Retained deficit	Total
Balance at 1 January 2018	**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	655	68,003	2	(68,660)	-	-	-	-
Balance at 31 March 2018	**4,385**	**516,721**	**(7,946)**	**(81,588)**	**-**	**(362)**	**(191,220)**	**239,990**
Loss for the period	-	-	-	-	-	-	(19,308)	(19,308)
Exchange differences	-	-	-	(8,026)	-	-	-	(8,026)
Actuarial gains on pension	-	-	-	-	-	457	-	457
Deferred tax on pensions	-	-	-	-	-	(149)	-	(149)
Total comprehensive income/ (expenditure)	**-**	**-**	**-**	**(8,026)**	**-**	**308**	**(19,308)**	**(27,026)**
Balance at 31 December 2018	**4,385**	**516,721**	**(7,946)**	**(89,614)**	**-**	**(54)**	**(210,528)**	**212,964**
Loss for the period	-	-	-	-	-	-	(38,776)	(38,776)
Net fair value losses – cash flow hedges	-	-	-	-	(312)	-	-	(312)
Exchange differences	-	-	-	9,541	-	-	-	9,541
Total comprehensive income/ (expenditure)	**-**	**-**	**-**	**9,541**	**(312)**	**-**	**(38,776)**	**(29,547)**
Balance at 31 March 2019	**4,385**	**516,721**	**(7,946)**	**(80,073)**	**(312)**	**(54)**	**(249,304)**	**183,417**

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

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of cash flows
3 months ended 31 March 2019

	Note	3 months to 31 March 2019 £000	3 months to 31 March 2018 £000
Net cash used in operating activities	**8**	**(16,886)**	**(23,242)**
Investing activities			
Purchase of property, plant and equipment		(1,933)	(682)
Purchase of intangible assets		(4,293)	(1,100)
Proceeds from sale of subsidiary, net of cash disposed		3,441	-
Acquisition of subsidiary, net of cash acquired		-	(594,958)
Net cash used in investing activities		**(2,785)**	**(596,740)**
Financing activities			
Proceeds from issue of Senior Secured Notes		-	567,472
Proceeds from loans and borrowings		76,758	81,891
Proceeds from capital contribution		-	48,322
Transaction costs related to loans and borrowings		-	(4,594)
Repayment of borrowings		(19,918)	(1,718)
Payment of lease liabilities		(2,006)	-
Interest paid		(25,223)	(20,771)
Net cash generated by financing activities		**29,611**	**670,602**
Net increase in cash and cash equivalents		**9,940**	**50,620**
Cash and cash equivalents at beginning of period		129,171	65,324
Effect of movements in exchange rates on cash held		(4,377)	(957)
Cash and cash equivalents at end of period		**134,734**	**114,987**

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

Lowell

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2019

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.

Adoption of new and revised standards

IFRS 16 is effective from 1 January 2019 and has been adopted by the Group from this date. 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 applied the modified retrospective approach with no restatement of comparative information required.

At 1 January 2019, the Group recognised a right-of-use asset of £49.3m (disclosed as part of property, plant and equipment in the balance sheet), lease liabilities of £53.7m and release of lease accruals of £4.4m.

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 2019.

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.

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.

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 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.

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 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. This uplift is being unwound in line with the standard profile of a gross collection 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 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 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 the Group's 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.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2019

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.

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 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.

1. 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.

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 2019 £000	3 months to 31 March 2018 £000
3PC income	40,308	24,834
Lawyer service revenue	13,032	11,481
	53,340	**36,315**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2019

3. Finance costs

	3 months to 31 March 2019 £000	3 months to 31 March 2018 £000
Interest payable on the Senior Secured Notes	27,617	26,106
Interest payable on the Senior Unsecured Notes	6,325	6,325
Fees payable on the notes	1,813	1,389
Interest and fees payable on Revolving Credit Facility	1,794	1,015
Interest payable on shareholder loan	8,468	7,233
Net loss on financial instruments designated as FVTPL	10,326	7,382
Interest payable on securitisation	2,146	120
Other interest payable	860	401
Interest on lease liabilities	540	-
Foreign exchange loss	177	244
	60,066	**50,215**

4. Portfolio investments

	31 March 2019 £000	31 March 2018 £000
Non-current	1,008,912	859,734
Current	549,162	521,280
Total	**1,558,074**	**1,381,014**

	31 March 2019 £000	31 March 2018 £000
At start of the period	1,561,013	964,507
Portfolios acquired during the period	93,518	72,832
Portfolios acquired through acquisition of subsidiary	-	389,078
Collections in the period	(184,857)	(128,629)
Income from portfolio investments	89,585	68,700
Net portfolio write up	28,055	14,312
Portfolio fair value release	(391)	(497)
Other	(28,849)	711
At end of the period	**1,558,074**	**1,381,014**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2019

5. Trade and other receivables

	31 March 2019 £000	31 March 2018 £000
Trade receivables	12,896	16,399
Prepayments and accrued income	19,895	14,683
Other receivables	18,674	59,568
	51,465	**90,650**

6. Trade and other payables

	31 March 2019 £000	31 March 2018 £000
Trade payables	16,399	17,930
Other taxes and social security	7,905	13,204
Accruals and deferred income	36,115	33,944
Other payables	53,110	54,588
	113,529	**119,666**

Other payables includes amounts due of £8.8m in respect of portfolios purchased but not yet paid for as at 31 March 2019 (31 March 2018: £8.8m).

7. Borrowings

	31 March 2019 £000	31 March 2018 £000
Non-current		
Unsecured borrowing at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on unsecured borrowings	(5,833)	(6,674)
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	365,634	339,554
Total unsecured	**589,801**	**562,880**
Secured borrowing at amortised cost		
Senior Secured Notes	1,790,628	1,814,191
Prepaid costs on secured borrowings	(37,708)	(38,104)
Securitisation loans	166,190	5,434
Total secured	**1,919,110**	**1,781,521**
Total borrowings due for settlement after 12 months	**2,508,911**	**2,344,401**
Current		
Unsecured borrowing at amortised cost		
Interest on Senior Notes	10,542	10,543
Other interest payable	1,385	412
Total unsecured	**11,927**	**10,955**
Secured borrowing at amortised cost		
Interest on Senior Secured Notes	27,135	27,953
Revolving credit facility	90,483	97,372
Securitisation loans	75,896	24,480
Total secured	**193,514**	**149,805**
Total borrowings due for settlement before 12 months	**205,441**	**160,760**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2019

8. Note to the statement of cashflows

	Note	3 months to 31 March 2019 £000	3 months to 31 March 2018 £000
Loss for the period, before tax		**(41,754)**	**(29,278)**
Adjustments for:			
Income on portfolio investments	4	(89,585)	(68,700)
Net portfolio write up	4	(28,055)	(14,312)
Portfolio fair value release	4	391	497
Collections on owned portfolios	4	184,857	128,629
Depreciation, amortisation and impairment		9,767	4,782
Finance income		(1,629)	(155)
Loss on disposal of property, plant and equipment and intangible assets		262	-
Finance costs	3	60,066	50,215
Unrealised losses from foreign exchange		4,248	(536)
Increase in trade and other receivables		(6,752)	(5,858)
Decrease in trade and other payables		(1,400)	(2,137)
Movement in other net assets		(505)	(5,262)
Cash generated from operating activities before portfolio acquisitions		**89,911**	**57,885**
Portfolios acquired (1)		(105,710)	(80,868)
Net cash used in operating activities before tax		**(15,799)**	**(22,983)**
Income taxes paid		(1,087)	(259)
Net cash used in operating activities		**(16,886)**	**(23,242)**

(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 2019 £000
Loss for the period	(38,776)
Net finance costs	58,437
Tax credit	(2,978)
Operating profit	**16,683**
Portfolio amortisation	95,272
Net portfolio write up	(28,055)
Portfolio fair value release	391
Non-recurring costs / exceptional items, net of exceptional income	14,233
Depreciation, amortisation and impairment	9,767
Cash EBITDA	**108,291**

Cash collections to Cash EBITDA

	3 months to 31 March 2019 £000
Cash collections	184,857
Other income	55,053
Operating expenses	(155,619)
Non-recurring costs / exceptional items, net of exceptional income	14,233
Depreciation, amortisation and impairment	9,767
Cash EBITDA	**108,291**

Net cash flow to Cash EBITDA

	3 months to 31 March 2019 £000
Increase in cash in the period	9,940
Movement in debt	(56,840)
Portfolios acquired	105,710
Interest paid	25,223
Income taxes paid	1,087
Capital expenditure and financial investment	6,226
Proceeds from sale of subsidiary	(3,441)
Payment of lease liabilities	2,006
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**89,911**
Working capital adjustments	4,147
Non-recurring costs /exceptional items, net of exceptional income	14,233
Cash EBITDA	**108,291**