

**H1 2018**

# **Cabot Credit Management Limited**

**Unaudited results for the period ended  
30 June 2018**

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# About Cabot



Cabot Credit Management (CCM) is a market leader in credit management services including debt purchasing, contingency collections, business process outsourcing and litigation. Cabot Credit Management Limited ("the Company" including its subsidiary companies, together referred to as the "Group") encompasses six UK businesses including Cabot Financial, dlc, Orbit Debt Collections, Wescot Credit Services and Mortimer Clarke Solicitors (a specialist litigation law firm, authorised and regulated by the Solicitors Regulation Authority) and three European businesses; Cabot Financial Ireland, Cabot Financial Spain S.A. and Cabot Financial France.

From its inception in 1998, CCM has invested c£2.4 billion in acquiring portfolios with a face value in excess of £25.3 billion. CCM has a 120 month ERC (estimated remaining collections) of £2.5 billion. It manages in the region of £6.6 billion of assets on behalf of clients, collects on average £75 million per month on portfolios it either owns or services on behalf of clients, and has delivered a consistently strong financial performance, having grown its business in each of the last 17 years without exception.

The Group, which has purchased circa 9.5 million customer accounts, employs over 2,600 people with offices in Kings Hill, Worthing, London, Bolton, Saltcoats, Glasgow, Dublin, Madrid, Paris, Lyon and Marseille. The company prides itself on its ethical values, customer service and high standards. It has an impressive list of accolades including:

- Investors in People Gold and Champion awards
- Treating Customers Fairly Award 2015 and 2016, Credit Strategy
- Customer Feedback Strategy Award 2017, The Institute of Customer Service

On 7 May 2018, Encore Capital Group Inc, the ultimate parent company and controlling shareholder of the Group, entered into an agreement to purchase the non-controlling interests held by JC Flowers & Co and company management. On 24 July 2018, Encore completed the purchase and took 100% ownership of the Cabot Credit Management Limited Group.



# Officers and Professional Advisors



The Officers and professional advisers of the Company at the date of this report are as follows:

## **Directors**

K Stannard  
C Buick  
P Grinberg

## **Secretary**

C Taggart

## **Company Registration Number**

05754978

## **Registered office**

1 Kings Hill Avenue  
Kings Hill  
West Malling  
Kent  
ME19 4UA

## **Auditors**

BDO LLP  
Chartered Accountants and Statutory Auditor  
55 Baker Street  
London  
United Kingdom  
W1U 7EU

# Directors' Report



## Business review and results

The accounts presented herein are for Cabot Credit Management Limited ("CCM") and its consolidated subsidiaries (the "Group"). Previously Cabot Financial Limited ("CFL"), a wholly-owned direct subsidiary of CCM, produced and released quarterly consolidated accounts for the purpose of reporting to holders of the Group's outstanding senior secured notes. Beginning with the nine months ended 30 September 2017, the Group's results were consolidated and reported at the CCM level as permitted under the reporting provisions of the bond indentures. The differences between the consolidated accounts of CFL and the consolidated accounts of CCM relate to the level of equity, intercompany loans and balances owed to holding companies of which CCM is a subsidiary, and the incurrence of some professional fees at the CCM level. CCM's consolidated equity as of 30 June 2018 was £215.9 million, compared to CFL's consolidated equity as of 30 June 2018 of £214.2 million as a result of non-recurring other operating expenses in CCM. CCM's consolidated liabilities as of 30 June 2018 were £1,495.8 million, compared to CFL's consolidated liabilities as of 30 June 2018 of £1,495.5 million as a result of non-recurring expenses in CCM. CCM's and CFL's consolidated recurring operating expenses as of 30 June 2018 were £32.6 million. Other than the line items described above, there are no material differences between CCM's consolidated accounts and CFL's consolidated accounts.

The Directors of Cabot Credit Management Limited ("the Company" including its subsidiary companies, together referred to as the "Group") present their unaudited condensed interim financial statements on the activities and financial performance of the Group for the six months ended 30 June 2018 prepared in accordance with the Offering Memorandum for the 8.375% Senior Secured Loan Notes due 2020, the 6.500% Senior Secured Loan Notes due 2021, the 5.875% Senior Secured Floating Loan Notes due 2021, and the 7.500% Senior Secured Loan Notes due 2023. See Note 19 for information regarding the bond exchange that took place in July 2018.

# Directors' Report

## Key indicators of performance

The key financial data and key performance indicators presented also contain other ratios and other measures which are derived from a combination of the principal IFRS measures and non-GAAP measures used by the Company. Where such amounts have been presented a description of the amount and the measures from which it has been derived has been included in the appendix.

(£ in millions, except for percentages and ratios unless otherwise noted)	6 months to 30 June 2018	6 months to 30 June 2017	Change %
<b>84-Month ERC at reporting date</b>	<b>2,108.0</b>	1,832.0	+15.1
<b>120-Month ERC at reporting date</b>	<b>2,519.0</b>	2,189.0	+15.1
<b>Loan portfolio purchases <sup>(a)</sup></b>	<b>160.0</b>	128.2	+24.8
<b>Accounts (in thousands) <sup>(b)</sup></b>	<b>9,463</b>	8,764	+8.0
<b>Number of owned loan portfolios (in thousands) <sup>(c)</sup></b>	<b>1,702</b>	1,469	+15.9
<b>Net debt <sup>(d)</sup></b>	<b>1,345.1</b>	1,038.6	+29.5
<b>Collections on owned loan portfolios <sup>(e)</sup></b>	<b>220.1</b>	195.2	+12.8
<b>Commission on serviced portfolios <sup>(f)</sup></b>	<b>41.1</b>	14.2	+189.4
<b>Costs to collect <sup>(g)</sup></b>	<b>27.8%</b>	23.4%	+19.2
<b>Adjusted EBITDA <sup>(h)</sup></b>	<b>161.9</b>	139.0	+16.5
<b>Adjusted EBITDA margin <sup>(i)</sup></b>	<b>61.3%</b>	66.4%	-7.7
<b>Staff turnover</b>	<b>34.1%</b>	32.4%	+5.2

<sup>(a)</sup> Gross aggregate amount payable for all portfolio purchases in the period.

<sup>(b)</sup> Total number of individual consumer debts that the Group owns.

<sup>(c)</sup> Number of individual portfolios of accounts that the Group owns.

<sup>(d)</sup> Refer to Note 14 of the Financial Statements.

<sup>(e)</sup> Amounts collected from accounts on owned loan portfolios.

<sup>(f)</sup> Fees and commissions receivable from the servicing of loans on behalf of third parties.

<sup>(g)</sup> Collections activity costs divided by collections on owned loan portfolios plus servicing fees plus property sales income. Collection activity costs consists of staff salaries and benefit costs, servicing fees, communication costs (including the cost of collection letters sent to customers, such as printing and postage costs), credit bureau data costs and legal costs directly associated with collection activity.

<sup>(h)</sup> See page 38 of the Interim Report.

<sup>(i)</sup> Adjusted EBITDA divided by revenue adjusted to add back the effects of current value movements on owned loan portfolios.

# Directors' Report

## Asset base and returns on portfolios purchased

The Group continues to experience significant growth in its asset base and cash flow generation as a result of the growing volume of portfolios which it has been able to purchase, and the strong and stable return on capital which it has delivered through its pricing disciplines and the sophistication of its collection operations.

While returns achieved on individual portfolios can vary, the Group has a track record of generating strong and consistent unlevered returns on its aggregate purchased portfolios.

The table below shows the actual collections to date plus the 120-Month ERC for each vintage as at 30 June 2018, where a vintage represents the year of portfolio purchase. This means that for the portfolios purchased in the year to 30 June 2018, the actual collections will only include a maximum of 6 months of collections, compared to a maximum of 120 months for the portfolios purchased in 2008. Therefore as the portfolios age further both the "total estimated collections" and "gross cash-on-cash multiple" statistics shown for the more recent portfolios should increase significantly.

## Cumulative vintage analysis

(£ in millions, except for ratios)	Purchase Price <sup>(a)</sup>	Actual collection to date	120-Month ERC	Total estimated collections <sup>(b)</sup>	Gross cash-on-cash multiple <sup>(c)</sup>
<b>Pre 2008</b>	292	685	77	762	2.61
<b>2008</b>	81	186	42	228	2.81
<b>2009</b>	74	206	64	270	3.65
<b>2010</b>	70	148	46	194	2.77
<b>2011</b>	182	364	185	549	3.02
<b>2012</b>	149	246	193	439	2.95
<b>2013</b>	188	266	241	507	2.70
<b>2014</b>	227	258	252	510	2.25
<b>2015</b>	289	255	315	570	1.97
<b>2016</b>	196	142	312	454	2.32
<b>2017</b>	321	104	497	601	1.87
<b>2018</b>	160	5	295	300	1.86
<b>Total</b>	<b>2,229</b>	<b>2,865</b>	<b>2,519</b>	<b>5,384</b>	<b>2.42</b>

<sup>(a)</sup> Gross aggregate amount paid for all portfolio purchases.

<sup>(b)</sup> Actual collection to 30 June 2018 plus the 120-Month ERC.

<sup>(c)</sup> Total estimated collections / purchase price.

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the interim consolidated statement of comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity and interim consolidated statement of cash flows.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with the International Accounting Standard 34 as adopted by the European Union.

BDO LLP

Chartered Accountants

London

United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Interim Consolidated Statement of Comprehensive Income For the six month period ended 30 June 2018

	Note	6 months to 30 June 2018 (unaudited) £m	6 months to 30 June 2017 (unaudited) £m
<b>Revenue</b>			
Income from portfolio investments		117.3	132.1
Positive impairment of portfolio investments		23.7	-
Servicing revenue		41.1	14.2
Property sales income		2.6	-
<b>Total Revenue</b>	3	<b>184.7</b>	146.3
<b>Operating expenses</b>			
Collection activity costs		(73.4)	(49.0)
Recurring other operating expenses		(32.5)	(25.0)
Amortisation of acquired intangibles	4	(2.5)	(0.6)
Non-recurring other operating expenses	4	(2.7)	(5.8)
<b>Total Operating expenses</b>		<b>(111.1)</b>	(80.4)
<b>Operating profit</b>		<b>73.6</b>	65.9
<b>Finance income and costs</b>			
Recurring finance income	5	0.1	0.1
Gain on derivative financial instruments	4	0.2	2.0
<b>Total finance income</b>		<b>0.3</b>	2.1
Recurring finance costs	6	(42.4)	(42.3)
Non-recurring finance costs	4	-	(0.5)
Loss on derivative financial instruments	4	(0.3)	(0.5)
<b>Total finance costs</b>		<b>(42.7)</b>	(43.3)
<b>Total profit before taxation</b>		<b>31.2</b>	24.7
Total tax expense	7	(6.3)	(5.6)
<b>Profit for the financial period</b>		<b>24.9</b>	19.1
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		0.7	(2.1)
<b>Total comprehensive income for the period</b>		<b>25.6</b>	17.0
<b>Underlying profit for the period</b>	4	<b>29.0</b>	24.1

**Interim Consolidated Statement of Comprehensive Income  
For the six month period ended 30 June 2018**

	<b>6 months to 30 June 2018 (unaudited) £m</b>	<b>6 months to 30 June 2017 (unaudited) £m</b>
Profit for the period attributable to:		
Shareholder interest	<b>24.6</b>	19.0
Non-controlling interest	<b>0.3</b>	0.1
	<b><u>24.9</u></b>	<u>19.1</u>
Other comprehensive income for the period attributable to:		
Shareholder interest	<b>0.7</b>	(2.1)
	<b><u>0.7</u></b>	<u>(2.1)</u>
Total comprehensive income for the period attributable to:		
Shareholder interest	<b>25.3</b>	16.9
Non-controlling interest	<b>0.3</b>	0.1
	<b><u>25.6</u></b>	<u>17.0</u>

## Interim Consolidated Statement of Comprehensive Income For the three month period ended 30 June 2018

	Note	3 months to 30 June 2018 (unaudited) £m	3 months to 30 June 2017 (unaudited) £m
<b>Revenue</b>			
Income from portfolio investments		58.0	67.4
Positive impairment of portfolio investments		15.6	-
Servicing revenue		21.3	7.6
Property sales income		1.4	-
<b>Total Revenue</b>	3	<b>96.3</b>	<b>75.0</b>
<b>Operating expenses</b>			
Collection activity costs		(37.8)	(24.3)
Recurring other operating expenses		(15.5)	(12.1)
Amortisation of acquired intangibles	4	(1.3)	(0.3)
Non-recurring other operating expenses	4	(0.4)	(6.4)
<b>Total Operating expenses</b>		<b>(55.0)</b>	<b>(43.1)</b>
<b>Operating profit</b>		<b>41.3</b>	<b>31.9</b>
Gain on derivative financial instruments	4	-	2.2
<b>Total finance income</b>		<b>-</b>	<b>2.2</b>
Recurring finance costs	6	(22.0)	(21.4)
Loss on derivative financial instruments	4	(0.8)	-
<b>Total finance costs</b>		<b>(22.8)</b>	<b>(21.4)</b>
<b>Total profit before taxation</b>		<b>18.5</b>	<b>12.7</b>
Total tax expense	7	(3.5)	(3.3)
<b>Profit for the financial period</b>		<b>15.0</b>	<b>9.4</b>
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		(0.1)	(2.4)
<b>Total comprehensive income for the period</b>		<b>14.9</b>	<b>7.0</b>
<b>Underlying profit for the period</b>	4	<b>16.5</b>	<b>13.6</b>

**Interim Consolidated Statement of Comprehensive Income  
For the three month period ended 30 June 2018**

	<b>3 months to 30 June 2018 (unaudited) £m</b>	<b>3 months to 30 June 2017 (unaudited) £m</b>
Profit for the period attributable to:		
Shareholder interest	<b>15.1</b>	9.4
Non-controlling interest	<b>(0.1)</b>	-
	<b><u>15.0</u></b>	<u>9.4</u>
Other comprehensive income for the period attributable to:		
Shareholder interest	<b>(0.1)</b>	(2.4)
	<b><u>(0.1)</u></b>	<u>(2.4)</u>
Total comprehensive income for the period attributable to:		
Shareholder interest	<b>15.0</b>	9.4
Non-controlling interest	<b>(0.1)</b>	(2.4)
	<b><u>14.9</u></b>	<u>7.0</u>

**Interim Consolidated Statement of Financial Position  
As at 30 June 2018**

	Note	30 June 2018 (unaudited) £m	31 December 2017 (audited) £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	9	326.4	326.5
Intangible assets		51.1	53.1
Property, plant and equipment		7.3	8.1
Deferred tax asset		4.6	4.5
		<b>389.4</b>	<b>392.2</b>
<b>Current assets</b>			
Cash and cash equivalents	10	52.2	57.7
Purchased loan portfolios	11	1,217.3	1,143.0
Inventory		13.1	10.0
Trade and other receivables	12	36.0	33.5
Current tax asset		2.5	2.3
Other financial assets		2.2	1.5
		<b>1,323.3</b>	<b>1,248.0</b>
<b>Total assets</b>		<b>1,712.7</b>	<b>1,640.2</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		0.4	0.4
Capital contribution reserve		16.9	16.1
Retranslation reserve		(27.2)	(27.9)
Retained earnings		224.8	200.2
<b>Equity attributable to owners of the parent</b>		<b>214.9</b>	<b>188.8</b>
Non-controlling interest		1.0	0.7
<b>Total equity</b>		<b>215.9</b>	<b>189.5</b>

**Interim Consolidated Statement of Financial Position  
As at 30 June 2018**

	Notes	30 June 2018 (unaudited) £m	31 December 2017 (audited) £m
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	14	1,362.7	1,308.1
Deferred tax liability		24.4	26.0
Other financial liabilities		6.7	16.2
Provisions	15	4.2	4.3
		<b>1,398.0</b>	<b>1,354.6</b>
<b>Current liabilities</b>			
Trade and other payables	13	65.8	68.3
Borrowings	14	10.3	10.4
Current tax liabilities		8.5	2.4
Provisions	15	9.9	14.2
Other financial liabilities		4.3	0.8
		<b>98.8</b>	<b>96.1</b>
<b>Total liabilities</b>		<b>1,496.8</b>	<b>1,450.7</b>
<b>Total equity and liabilities</b>		<b>1,712.7</b>	<b>1,640.2</b>

These financial statements of Cabot Credit Management Limited, with registered number 05754978, were approved by the Board of Directors and authorised for issue on August 2018.

Signed on behalf of the Board of Directors by:

C Buick  
Director

## Interim Consolidated Statement of Changes in Equity (unaudited)

	Share Capital	Share Premium	Capital contribution reserve	Retrans- -lation reserve	Accum- -ulated profit	Total attributable to parent	Non- Controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
<b>As at 1 January 2017</b>	0.3	-	3.4	(25.6)	117.7	95.8	0.6	96.4
<i>Comprehensive income for the period:</i>								
Profit for the period	-	-	-	-	19.0	19.0	0.1	19.1
Other comprehensive income	-	-	-	(2.1)	-	(2.1)	-	(2.1)
Total comprehensive income	0.3	-	3.4	(27.7)	136.7	112.7	0.7	113.4
<b>As at 30 June 2017</b>								
Profit for the period	-	-	-	-	16.2	16.2	-	16.2
Other comprehensive losses	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Issue of share capital	0.1	48.1	-	-	-	48.2	-	48.2
Capital contribution received	-	-	12.7	-	-	12.7	-	12.7
Dividend declared	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Share capital reduction	-	(48.1)	-	-	48.1	-	-	-
<b>As at 31 December 2017</b>	0.4	-	16.1	(27.9)	200.2	188.8	0.7	189.5
<i>Comprehensive income for the period:</i>								
Profit for the period	-	-	-	-	24.6	24.6	0.3	24.9
Other comprehensive income	-	-	-	0.7	-	0.7	-	0.7
Total comprehensive income	-	-	-	0.7	24.6	25.3	0.3	25.6
Capital contribution received	-	-	0.8	-	-	0.8	-	0.8
<b>As at 30 June 2018</b>	0.4	-	16.9	(27.2)	224.8	214.9	1.0	215.9



**Interim Consolidated Statement of Cash Flows**  
**For the period ended 30 June 2018**

	Notes	6 months to 30 June 2018 (unaudited) £m	6 Months to 30 June 2017 (unaudited) £m
<b>Net cash used in operating activities</b>	16	<b>(14.6)</b>	(1.0)
<b>Investing activities</b>			
Purchases of property, plant and equipment & intangibles		<b>(3.4)</b>	(2.8)
Acquisition of subsidiary, net of cash acquired		-	(3.1)
Contingent consideration paid		<b>(0.1)</b>	-
<b>Net cash used in investing activities</b>		<b>(3.5)</b>	(5.9)
<b>Financing activities</b>			
Interest paid		<b>(39.3)</b>	(40.3)
Repayment of borrowings		<b>(82.5)</b>	(71.5)
Proceeds from borrowings		<b>135.5</b>	106.0
Cash flows on derivatives		<b>(1.6)</b>	-
Transaction costs from borrowings		-	(0.7)
<b>Net cash generated from/(used in) financing activities</b>		<b>11.9</b>	(6.5)
<b>Net movement in cash and cash equivalents</b>		<b>(6.2)</b>	(13.4)
<b>Cash and cash equivalents at beginning of period</b>		<b>57.7</b>	43.3
Effect of foreign exchange rate changes on cash and cash equivalents		<b>0.7</b>	(0.1)
<b>Cash and cash equivalents at end of period</b>		<b>52.2</b>	29.8

## Notes to the interim consolidated financial statements

### For the six months ended 30 June 2018

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#### 1. General information

Cabot Credit Management Limited ("the Company" including its subsidiary companies, together referred to the Group) is a public limited company incorporated and domiciled in England and Wales. The registered office is located at 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA.

The principal activities of the Group comprise the purchase and management of non-performing consumer loans in the United Kingdom and Europe.

#### 2. Significant accounting policies

##### 2.1. Basis of preparation

These interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

The preparation of interim consolidated financial statements in compliance with IAS 34 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the annual financial statements for the year ended 31 December 2017.

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017. Other than the adoption of new standards as discussed in note 2.2, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

These condensed consolidated interim financial statements do not comprise statutory financial statements within the meaning of Section 435 of the Companies Act 2006. Statutory financial statements for the year ended 31 December 2017 can be found on our website. The auditor's report on those financial statements:

- (i) was unqualified;
- (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
- (iii) did not constitute a statement under Section 498 (2) or (3) of the Companies Act 2006.

The purchased loan portfolios held on the statement of financial position are classified as current assets in line with IAS 1, as they represent the trading assets of the business and are expected to be realised within the normal operating cycle.

## Notes to the interim consolidated financial statements

### For the six months ended 30 June 2018

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#### 2.2. Changes in accounting policies and disclosures

As a result of the adoption of IFRS 9, from 1 January 2018 the Group adopted consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Group's business model is to hold assets to collect solely payments on the principal and interest (SPPI) of the loan balances, as such the group holds loan portfolios at amortised cost.

IFRS 9 replaces the 'incurred loss' model in IAS39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost.

The Group purchase credit impaired assets that are typically outside the original credit terms, as such 100% of ECL are already recognised.

Any differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Group has adopted IFRS 15 from 1 January 2018, which applied to all revenue in the Group other than that related to the loan portfolio financial assets.

The adoption of IFRS 15 has no impact on the revenue recognition applied within the Group. The Group's contracts do not typically contain multiple performance obligations and as such the transaction price is directly linked to the sole service deliverable.

#### Recent accounting pronouncements

##### IFRS 16 Leases

IFRS 16 Leases applies to accounting periods beginning on or after 1 January 2019 and has been endorsed for use by those entities applying EU IFRS. It requires lessees to bring all leases within its scope on the statement of financial position, showing an asset for the right of use and a liability for the discounted amount of future payments. The Directors are currently assessing the impact of this standard.

**Notes to the interim consolidated financial statements**  
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**2.3. Significant accounting judgements, estimates and assumptions**

The key judgements and assumptions relate to the future cash receipts expected. A purchased loan portfolio is initially recognised at the price paid plus any attributable transaction costs. A yield is established at the initial recognition of a loan portfolio, based on the purchase price and the timing and size of the estimated future cash receipts.

At each reporting date expected cash receipts are revisited and updated if appropriate. Expected cash receipts for any future period comprise amounts that the Group anticipates recovering from the purchased loan portfolios. The forecast of expected future cash receipts is a probability weighted estimate based on modelling a number of scenarios all of which include consideration of factors such as the actual collections performance experience in the preceding months, a long term trend analysis, monthly decay rate assumptions, maturities of the underlying portfolios as well as macro-economic factors such as interest rates, unemployment rates and inflation. An unbiased probability weighted forecast is produced to use in evaluating the cash flow forecast to utilise. The resulting cash flows are then discounted at the yield established at initial recognition.

A loan portfolio will not be revalued above its purchase price until sufficient collections experience is obtained, typically 12 months from purchase. After a loan portfolio has been held for between 12 months and (up to) 24 months, it is added to a consolidated portfolio. Consolidated portfolios comprise multiple individual loan portfolios which are grouped on the basis of their financial year of purchase. A weighted average discount rate and forecast period are calculated based on all of the individual portfolios which are included in the consolidated portfolio.

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**3. Revenue**

An analysis of revenue by activity is as follows:

	<b>6 months ended 30 June 2018 (unaudited) £m</b>	6 months ended 30 June 2017 (unaudited) £m
Income on owned portfolios (note 11)	<b>117.3</b>	132.1
Positive impairment of portfolio investments (note 11)	<b>23.7</b>	-
Servicing fees	<b>41.1</b>	14.2
Property sales income	<b>2.6</b>	-
	<b>184.7</b>	146.3

*Of which outside United Kingdom*

Income on owned portfolios	<b>19.7</b>	20.1
Positive impairment of portfolio investments	<b>4.2</b>	-
Servicing fees	<b>7.9</b>	8.4
Property sales income	<b>2.6</b>	-
	<b>34.4</b>	28.5

	<b>3 months ended 30 June 2018 (unaudited) £m</b>	3 months ended 30 June 2017 (unaudited) £m
Income on owned portfolios (note 11)	<b>58.0</b>	67.4
Positive impairment of portfolio investments (note 11)	<b>15.6</b>	-
Servicing fees	<b>21.3</b>	7.6
Property sales income	<b>1.4</b>	-
	<b>96.3</b>	75.0

*Of which outside United Kingdom*

Income on owned portfolios	<b>9.5</b>	11.1
Positive impairment of portfolio investments	<b>2.5</b>	-
Servicing fees	<b>3.9</b>	4.2
Property sales income	<b>1.4</b>	-
	<b>17.3</b>	15.3

**Notes to the interim consolidated financial statements**  
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**4. Underlying Profit**

Underlying profit is the profit for the period after tax adjusted for the post-tax effect of non-recurring items, amortisation of acquired intangibles, foreign exchange gains or losses and the gain or loss on the derivative financial instruments. This is considered a more comparable performance metric as this excludes the impact of one-off material items which are not considered to be part of the performance of the underlying business. Other non-recurring operating expenses includes costs that relate to the process of changing the ultimate shareholding structure of the Group and the refinancing of bonds (see note 19 for further information).

	<b>6 Months to 30 June 2018 (unaudited) £m</b>	<b>6 Months to 30 June 2017 (unaudited) £m</b>
<b>Profit after tax</b>	<b>24.9</b>	<b>19.1</b>
<i>Add back: Non-recurring other operating expenses</i>		
Restructuring costs	-	0.5
Company acquisition costs	-	2.3
Other non-recurring operating expenses	<b>2.7</b>	3.4
<b>Total non-recurring other operating expenses</b>	<b>2.7</b>	6.2
Facility fees	-	0.5
<b>Total non-recurring finance costs</b>	<b>-</b>	0.5
Net loss/(gain) on derivative instrument	<b>0.1</b>	(2.0)
Foreign exchange gains	<b>(0.6)</b>	0.2
Amortisation of acquired intangibles	<b>2.5</b>	0.6
<b>Items excluded from underlying profit</b>	<b>4.7</b>	5.5
Tax effect of above	<b>(0.6)</b>	(0.5)
<b>Underlying profit after tax</b>	<b>29.0</b>	<b>24.1</b>

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**4. Underlying Profit (Continued)**

	<b>3 Months to 30 June 2018 (unaudited) £m</b>	<b>3 Months to 30 June 2017 (unaudited) £m</b>
<b>Profit after tax</b>	<b>15.0</b>	<b>9.4</b>
<i>Add back: Non-recurring other operating expenses</i>		
Restructuring costs	-	-
Company acquisition costs	-	2.1
IPO costs	-	3.5
Other non-recurring operating expenses	<b>0.4</b>	0.3
<b>Total non-recurring other operating expenses</b>	<b>0.4</b>	5.9
Facility fees	-	0.5
<b>Total non-recurring finance costs</b>	-	0.5
Loss/(Gain) on derivative instrument	<b>0.9</b>	(2.2)
Foreign exchange gains	<b>(0.6)</b>	0.2
Amortisation of acquired intangibles	<b>1.3</b>	0.3
<b>Items excluded from underlying profit</b>	<b>2.0</b>	4.7
Tax effect of above	<b>(0.5)</b>	(0.5)
<b>Underlying profit after tax</b>	<b>16.5</b>	13.6

**5. Finance income**

	<b>6 months ended 30 June 2018 (unaudited) £m</b>	<b>6 months ended 30 June 2017 (unaudited) £m</b>
Bank interest income	<b>0.1</b>	-
Interest income from parent undertakings	-	0.1
<b>Total recurring finance income</b>	<b>0.1</b>	0.1

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**6. Finance cost**

	<b>6 months ended 30 June 2018 (unaudited) £m</b>	6 months ended 30 June 2017 (unaudited) £m
Interest and fees on borrowings	<b>10.6</b>	4.6
Interest on Senior Secured Notes and related charges	<b>31.1</b>	37.2
Interest expense due to parent undertakings	-	0.1
Unwind of discount on deferred consideration	<b>0.2</b>	0.2
Foreign exchange on borrowings	<b>0.5</b>	0.2
Total finance cost	<b>42.4</b>	42.3

	<b>3 months ended 30 June 2018 (unaudited) £m</b>	3 months ended 30 June 2017 (unaudited) £m
Interest and fees on borrowings	<b>8.1</b>	2.4
Interest on Senior Secured Notes and related charges	<b>13.3</b>	18.7
Unwind of discount on deferred consideration	<b>0.1</b>	0.1
Foreign exchange on borrowings	<b>0.5</b>	0.2
Total finance cost	<b>22.0</b>	21.4



**Notes to the interim consolidated financial statements**  
**For the six months ended 30 June 2018**

**7. Tax**

The applicable corporation tax rate for the period to 30 June 2018 was 19% (30 June 2017: 19.25%). The Group's effective consolidated tax rate for the period to 30 June 2018 was 20% (30 June 2017: 20%). The current period effective rate tax is reflective of the applicable corporate tax rate for the period and reconciling items.

**8. Business combinations**

**Orbit**

On 19 May 2017, the Group completed the acquisition of 100% of the ordinary shares of Orbit Debt Collections Limited ("Orbit"), a servicing business based in the UK. Orbit was acquired by Cabot Financial Debt Recovery Solutions Limited which is a member of the Group. Orbit was acquired because it allowed for entry into a new market that fits naturally with the Group's group model. The assessment of fair values of the identifiable assets and liabilities at acquisition are shown below.

	<b>Fair value recognised on acquisition</b>
	<b>£m</b>
<b>Assets</b>	
Property, plant and equipment	0.3
Trade and other receivables	1.9
Cash	0.4
Intangible assets	2.1
	<u>4.7</u>
<b>Liabilities</b>	
Trade and other payables	(1.3)
Deferred tax liability	(0.4)
	<u>(1.7)</u>
Total identifiable net assets at fair value	3.0
Goodwill arising on acquisition	8.6
Purchase consideration recognised	<u>11.6</u>
<i>Purchase consideration</i>	
Cash paid	3.5
Deferred contingent consideration	8.1
Total consideration	<u>11.6</u>
<i>Analysis of cash flows on acquisition</i>	
Net cash acquired with the subsidiary	0.4
Cash paid	(3.5)
Net cash flow on acquisition	<u>(3.1)</u>

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**8. Business combinations (continued)**

The excess of consideration over fair value of identifiable net assets (goodwill) of £8.6 million is primarily attributed to synergies and other benefits from combining the assets and activities of Orbit with those of the Group. The goodwill is not deductible for income tax purposes.

All acquired receivables are accounted for at fair value and represent the full contractual amounts. As at the date of acquisition, the gross contractual amount of trade and other receivables was equal to the fair value, and this reflects the best estimate of contractual cash flows.

The deferred contingent consideration of £8.1 million had been calculated at acquisition based upon the expected outcome calculated with reference to the terms stipulated in the SPA. This is based on the future performance of Orbit measured against performance targets over the period to 30 June 2019. These terms do not limit this payment.

**Wescot**

On 10 November 2017, the Group completed the acquisition of 100% of the ordinary shares of Wescot Top Co Limited (“Wescot”), a leading UK contingent debt collection and business process outsourcing (BPO) services business. Wescot was acquired by Cabot Financial Debt Recovery Solutions Limited which is a member of the Group. Wescot was acquired to further the Group’s capabilities in the debt servicing industry. The assessment of fair values of the identifiable assets and liabilities at acquisition are shown below and are provisional under the measurement period.

	<b>Fair value recognised on acquisition</b>
	<b>£m</b>
<b>Assets</b>	
Property, plant and equipment	3.0
Trade and other receivables	7.3
Cash	19.7
Intangible assets	37.6
Deferred tax asset	0.1
	<u>67.7</u>
<b>Liabilities</b>	
Trade and other payables	(13.2)
Deferred tax liability	(6.6)
	<u>(19.8)</u>
Total identifiable net assets at fair value	47.9
Goodwill arising on acquisition	<u>49.8</u>
Purchase consideration recognised	<u>97.7</u>

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**8. Business combinations (continued)**

*Purchase consideration*

Cash paid to sellers	94.4
Deferred consideration	1.8
Contingent consideration	1.5
Total consideration	<u>97.7</u>

*Analysis of cash flows on acquisition*

Net cash acquired with the subsidiary	19.7
Cash paid	(96.2)
Net cash flow on acquisition	<u>(76.5)</u>

The excess of consideration over fair value of identifiable net assets (goodwill) of £49.8 million is primarily attributed to synergies and other benefits from combining the assets and activities of Wescot with those of the Group. The goodwill is not deductible for income tax purposes.

All acquired receivables are accounted for at fair value and represent the full contractual amounts. As at the date of acquisition, the gross contractual amount of trade and other receivables was equal to the fair value, and this reflects the best estimate of contractual cash flows.

£1.8 million of deferred consideration has been paid to an escrow account.

The deferred contingent consideration of £1.5 million has been calculated based upon the expected outcome calculated with reference to the terms stipulated in the SPA. This is based on the future performance of Wescot measured against performance targets over the period to 31 March 2019.

**9. Goodwill**

	<b>£m</b>
At 1 January 2017	267.7
Acquisitions	58.4
Exchange differences	0.4
At 31 December 2017	<u>326.5</u>
Exchange differences	(0.1)
At 30 June 2018	<u><b>326.4</b></u>

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**10. Cash and cash equivalents**

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
Own cash balances	<b>32.6</b>	40.5
Client cash balances <sup>(a)</sup>	<b>19.6</b>	17.2
<b>Total</b>	<b><u>52.2</u></b>	<u>57.7</u>

<sup>(a)</sup> Cash balances collected on behalf of and due to third party clients and relates to items held within trade and other payables

**11. Purchased loan portfolios**

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
<b>Expected to fall due after 12 months</b>		
Purchased loan portfolios	<b>1,078.6</b>	992.1
<b>Expected to fall due within 12 months</b>		
Purchased loan portfolios	<b>138.7</b>	150.9
<b>Total</b>	<b><u>1,217.3</u></b>	<u>1,143.0</u>

The following table summarises the movement in the current value of the Group's loan portfolios in the period:

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
Current value at the beginning of the financial period	<b>1,143.0</b>	944.6
Movement in current value <sup>(a)</sup>	<b>141.0</b>	272.0
Gross collections on owned portfolios	<b>(220.1)</b>	(407.5)
Portfolios acquired during the period, net of determination cash	<b>156.5</b>	315.8
Portfolios sold during the period	-	(1.5)
Transfer (to) / from inventory	<b>(2.2)</b>	5.4
Foreign exchange	<b>(0.9)</b>	14.2
<b>Current value at the end of the financial period</b>	<b><u>1,217.3</u></b>	<u>1,143.0</u>

<sup>(a)</sup> Return for credit risk, adjusted for changes in the current values of the loan portfolios arising from periodic changes in estimates of future cash flows on owned loan portfolios as shown in note 3.

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**11. Purchased loan portfolios (continued)**

The loan portfolio asset has been assessed applying IFRS 9 to the 31 December 2017 closing balance under IAS 39. As the Group passes the SPPI test and 100% of ECL are already recognised under IAS 39, there was no adjustment arising in respect of the net book value of these assets as a result of adopting IFRS 9.

**12. Trade and other receivables**

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
Trade and other receivables	<b>28.0</b>	26.8
Amounts owed by parent undertakings	<b>0.3</b>	1.2
Prepayments, accrued income and other debtors	<b>7.7</b>	5.5
	<b><u>36.0</u></b>	<u>33.5</u>

Loans and amounts owed by parent and subsidiary undertakings are unsecured, include amounts outside of the Group but under common control, have no fixed repayment date, are repayable on demand and interest on such balances is accrued on an arm's length basis.

**13. Trade and other payables**

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
Trade payables	<b>27.0</b>	21.5
Other tax and social security	<b>6.1</b>	4.7
Amounts owed to parent undertakings	<b>0.2</b>	1.2
Other payables	<b>11.4</b>	13.6
Accruals and deferred income	<b>21.1</b>	27.3
	<b><u>65.8</u></b>	<u>68.3</u>

The group considers that the carrying amounts of financial liabilities included above are a reasonable approximation of a fair value due to their short term nature.

Interest accrued on amounts owed to parent undertakings is at an arm's length basis and is accrued, not paid.

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**14. Borrowings**

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
<b>Non-current</b>		
Senior Secured Notes	<b>890.7</b>	890.4
Bank loans and overdrafts	<b>181.4</b>	128.4
Other loans	<b>290.6</b>	289.3
	<b>1,362.7</b>	1,308.1
<b>Current</b>		
Senior Secured Notes	<b>12.5</b>	12.6
Bank loans and overdrafts	<b>(1.4)</b>	(1.4)
Other loans	<b>(0.8)</b>	(0.8)
	<b>10.3</b>	10.4
<b>Total borrowings</b>	<b>1,373.0</b>	1,318.5
<u>Analysis of loan repayments:</u>		
Within one year	<b>10.3</b>	10.4
In more than one year but less than 5 years	<b>1,013.0</b>	958.7
In more than 5 years	<b>349.7</b>	349.4
	<b>1,373.0</b>	1,318.5

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**14. Borrowings (continued)**

The following table analyses the Senior Secured Notes (“SSN”) held by the Group, together with the Directors assessment of their fair value based on the Luxembourg Stock Exchange quoted price at the reporting date.

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m	<b>Maturity date</b>	<b>Interest rate</b>	<b>Fair value 30 June 2018 (unaudited) £m</b>	Fair value 31 December 2017 (audited) £m
£100m SSN	<b>100.0</b>	100.0	August 2020	8.375%	<b>101.1</b>	103.9
£175m SSN	<b>175.0</b>	175.0	April 2021	6.500%	<b>176.0</b>	177.9
€310m Floating Rate Note	<b>274.6</b>	275.5	November 2021	EURIBOR +5.875%	<b>278.1</b>	284.2
£350m SSN	<b>350.0</b>	350.0	October 2023	7.500%	<b>356.2</b>	365.9
	<b>899.6</b>	900.5			<b>911.4</b>	931.9
Asset backed lending facility	<b>290.0</b>	290.0	September 2022	LIBOR +2.85%	<b>290.0</b>	290.0
Revolving credit facility	<b>184.7</b>	132.5	September 2021/ March 2022		<b>184.7</b>	132.5
Other loans	<b>3.5</b>	2.5			<b>3.5</b>	2.5
Unamortised debt issue costs	<b>(20.4)</b>	(22.6)			<b>(20.4)</b>	(22.6)
Accrued interest	<b>15.6</b>	15.6			<b>15.6</b>	15.6
	<b>1,373.0</b>	1,318.5			<b>1,384.8</b>	1,349.9

Based on the Luxembourg Stock Exchange quoted price at the reporting date, the Directors believe the fair value of the senior secured loan notes to be £911.4 million (31 December 2017: £931.9 million). For all other items, the Directors believe the fair value of the liabilities is not materially different to the carrying value because the balances are readily converted to cash and because there has been no significant change in interest rates since the amounts were initially recognised.

The Group is covenanted to ensure its Loan to Value (“LTV”) Ratio shall not exceed 0.75, and at 30 June 2018 the LTV Ratio was compliant at 0.64 (31 December 2017: 0.65). The LTV Ratio is calculated as being the ratio of the net financial indebtedness to the Group 84 month ERC at the reporting date.

Net debt represents third-party indebtedness, less cash at bank and in hand (excluding cash held for clients), and excluding unamortised debt issue costs and accrued interest relating to the Group’s third-party indebtedness. A reconciliation of Net Debt as reported in the key indicators of performance is as follows.

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**14. Borrowings (continued)**

In line with the covenants held on bonds, the calculation of net debt for the Group is as follows:

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
Borrowings less cash	<b>1,320.8</b>	1,260.8
Add back: unamortised facility fees and similar costs	<b>20.4</b>	22.6
Add back: client cash (note 10)	<b>19.6</b>	17.2
Deduct: accrued interest	<b>(15.7)</b>	(15.6)
	<b><u>1,345.1</u></b>	<u>1,285.0</u>

**15. Provisions**

	<b>Decommissioning £m</b>	<b>Restructuring £m</b>	<b>Other £m</b>	<b>Total £m</b>
Brought forward as at 1 January 2018	0.3	11.1	7.1	18.5
Utilisation	-	(3.7)	(0.7)	(4.4)
As at 30 June 2018	<u>0.3</u>	<u>7.4</u>	<u>6.4</u>	<u>14.1</u>
Current	-	7.4	2.5	9.9
Non-current	0.3	-	3.9	4.2

*Decommissioning*

A provision has been recognised for decommissioning costs associated with various premises leased by the Group. The Group is committed to restoring the premises to their original state at the end of the lease term.

*Restructuring*

During 2015 a restructuring provision was established in relation to the Group closing the Apex office in Stratford and consolidating the servicing operations in Brackley. This provision is being utilised across the remaining life of the vacated property that the Group still holds the lease for.

Following the acquisition of Wescot, in December 2017 the Group concluded a consultation process and announced a program impacting the servicing businesses operated from the site at Brackley, with c300 employees at the site placed at risk of redundancy.



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**15. Provisions (continued)**

A provision of £9.9 million was established to cover the estimated costs to settle the constructive obligations established as part of this program. These provisions include amounts related to people, premises and IT decommissioning costs. The restructuring plan is due to be fully executed during 2018. At 30 June 2018, £3.5 million of the provision has been utilised.

*Other*

Other provisions include liabilities that arise as a result of regulation, compliance and business acquisitions.

**16. Notes to the statement of cash flows**

	<b>30 June 2018 (unaudited) £m</b>	30 June 2017 (unaudited) £m
Profit for the period	<b>24.9</b>	19.1
Adjustments for:		
Current value movement on owned loan portfolios	<b>(141.0)</b>	(132.1)
Net finance costs	<b>42.4</b>	40.2
Income tax expense	<b>6.3</b>	5.6
Depreciation of property, plant and equipment	<b>1.4</b>	1.4
Amortisation of intangible assets	<b>5.1</b>	2.8
Non-recurring costs	<b>2.0</b>	6.9
Share-based payment expense	<b>0.8</b>	-
<b>Operating cash flows before movements in working capital</b>	<b>(58.1)</b>	(56.1)
(Increase)/decrease in receivables	<b>(3.1)</b>	2.2
Decrease/(increase) in inventory	<b>(0.9)</b>	(0.2)
Decrease in payables and provisions	<b>(12.0)</b>	(6.5)
<b>Net cash used in operating activities before collections and purchases</b>	<b>(74.1)</b>	(60.6)
Income taxes and overseas taxation	<b>(1.7)</b>	(0.7)
Collections on owned loan portfolios	<b>220.1</b>	195.2
Purchases of loan portfolios	<b>(158.9)</b>	(135.2)
Proceeds on disposal of inventory	-	0.3
<b>Net cash used in operating activities</b>	<b>(14.6)</b>	(1.0)

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**17. Financial Instruments**

*(a) Carrying amount of financial instruments*

A summary of the financial instruments held by category is provided below:

	<b>30 June 2018 (unaudited) £m</b>	31 December 2017 (audited) £m
<b><i>Financial assets</i></b>		
<u><i>Financial assets at fair value through profit and loss</i></u>		
Derivative assets	<b>2.2</b>	1.5
<u><i>Financial assets not at fair value through profit and loss</i></u>		
Cash and cash equivalents (note 10)	<b>52.2</b>	57.7
Loan portfolios (note 11)	<b>1,217.3</b>	1,143.0
Trade and other receivables (note 12)	<b>28.3</b>	28.0
<b>Total</b>	<b>1,300.0</b>	1,230.2
<b><i>Financial liabilities</i></b>		
<u><i>Financial liabilities at fair value through profit and loss</i></u>		
Derivative liabilities	-	0.8
Other financial liabilities	<b>5.7</b>	9.3
<u><i>Financial liabilities not at fair value through profit and loss</i></u>		
Trade and other payables (note 13)	<b>59.7</b>	63.6
Loans and borrowings (note 14)	<b>1,373.0</b>	1,318.5
Other financial liabilities	<b>5.3</b>	6.9
<b>Total</b>	<b>1,443.7</b>	1,399.1

*(b) Carrying Amount versus Fair value*

The following table compares the carrying amounts and fair values of the Group's financial assets and financial liabilities as at 30 June 2018. The Group considered that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value due to their short term nature:

- Trade and other receivables;
- Trade and other payables; and
- Cash and cash equivalents.

The carrying amount of other payables is considered to be equal to its fair value as there has been no significant change in interest rates since the payable was initially recognised.

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**17. Financial Instruments (Continued)**

	30 June 2018 (unaudited)		31 December 2017 (audited)	
	Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
<i>Financial Assets</i>				
Cash and cash equivalents (note 10)	52.2	52.2	57.7	57.7
Loan portfolios (note 11)	1,217.3	1,217.3	1,143.0	1,143.0
Trade and other receivables (note 12)	28.3	28.3	28.0	28.0
Derivative financial assets	2.2	2.2	1.5	1.5
<b>Total</b>	<b>1,300.0</b>	<b>1,300.0</b>	<b>1,230.2</b>	<b>1,230.2</b>
<i>Financial liabilities</i>				
Trade and other payables (note 13)	59.7	59.7	63.6	63.6
Loans and borrowings (note 14)	1,373.0	1,384.8	1,318.5	1,349.9
Other payables	11.0	11.0	16.2	16.2
Derivative liabilities	-	-	0.8	0.8
<b>Total</b>	<b>1,443.7</b>	<b>1,455.5</b>	<b>1,399.1</b>	<b>1,430.5</b>

(c) *Fair value Hierarchy*

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities are classified in their entirety into only one of the three levels. The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - 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);
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

**Notes to the interim consolidated financial statements**  
**For the six months ended 30 June 2018**

**17. Financial Instruments (*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. Derivatives held by the Group are model-valued using interest and currency market rates as input data. Further information on the deferred contingent consideration and loans and borrowings can be found in notes 8 and 14 respectively. The remaining financial assets and liabilities carried have a fair value equal to their carrying value.

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	<b>30 June 2018 (unaudited) £000</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>
<i><u>Financial instruments measured at fair value</u></i>				
Derivative assets	2.2	-	2.2	-
Deferred contingent consideration	(5.7)	-	-	(5.7)
<b>Total</b>	(3.5)	-	2.2	(5.7)
<i><u>Financial instruments not measured at fair value</u></i>				
Loan portfolios	1,217.3	-	-	1,217.3
Loans & borrowings	(1,373.0)	-	-	(1,373.0)
<b>Total</b>	(155.7)	-	-	(155.7)

**Notes to the interim consolidated financial statements**  
**For the six months ended 30 June 2018**

**17. Financial Instruments (continued)**

	31 December 2017 (audited) £000	Level 1 £000	Level 2 £000	Level 3 £000
<i>Financial instruments measured at fair value</i>				
Derivative assets	1.5	-	1.5	-
Derivative liabilities	(0.8)		(0.8)	
Deferred contingent consideration	(8.0)	-	-	(8.0)
<b>Total</b>	(7.3)	-	0.7	(8.0)
<i>Financial instruments not measured at fair value</i>				
Loan portfolios	1,143.0	-	-	1,143.0
Loans & borrowings	(1,318.5)	-	-	(1,318.5)
<b>Total</b>	(175.5)	-	-	(175.5)

*(d) Transfers during the period*

During the period ending 30 June 2018:

- There were no transfers between Level 1 and Level 2 fair value measurements; and
- There were no transfers into or out of Level 3 fair value measurements.

*(e) Valuation techniques*

*(i) Deferred contingent consideration*

Contingent consideration is calculated using the latest view of future performance, measured against the individual contractual terms relating to the liability. The deferred contingent consideration at 30 June 2018 relates to the purchase of Orbit (£3.1 million) and Wescot (£2.5 million). On initial recognition, the deferred contingent consideration relating to Orbit was £8.1 million and subsequent to initial recognition fair value adjustments of £5.0 million have been made. On initial recognition, the deferred contingent consideration relating to Wescot was £0.2 million. During the period it was recognised that £1.3m of deferred consideration was deferred contingent consideration and has therefore been reallocated as part of the provisional purchase price accounting. Subsequent to initial recognition, net fair value adjustments of £1.0m have been made. For the period to 30 June 2018 an aggregate downward revaluation of £3.4 million was recognised.

**Notes to the interim consolidated financial statements**  
**For the six months ended 30 June 2018**

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**18. Related party transactions**

During the six month period to 30 June 2018 there were intra-group interest charges with companies outside of the Group but under common control that resulted in interest income of £Nil million (30 June 2017: £0.1 million) and interest expenses of £Nil million (30 June 2017: £0.1 million). These amounts are included within the amounts owed by parent undertakings of £0.2 million (31 December 2017: £1.2 million) and amounts owed to parent undertakings of £0.3 million (31 December 2017: £1.2 million).

During the six month period to 30 June 2018, fees of £0.3 million (30 June 2017: £0.5 million) were recharged to Encore Capital Group Inc (“Encore”), the Company’s ultimate parent for any fees incurred by the Group which solely relate to US GAAP and Sarbanes Oxley compliance. Amounts outstanding as at 30 June 2018 were £1.0 million (31 December 2017: £0.7 million).

During the six month period to 30 June 2018, fees of £0.1 million (30 June 2017: £0.1 million) were recharged from Encore for costs that it incurred on behalf of the Group. Amounts due as at 30 June 2018 were £0.7 million (31 December 2017: £0.5 million).

During the six month period to 30 June 2018, a fee of £1.0 million (30 June 2017: £0.9 million) was charged to the statement of comprehensive income in respect of servicing fees payable to Grove Performance Management Limited, a fellow subsidiary of Encore. The amount due in respect of these fees as at 30 June 2018 was £0.6 million (31 December 2017: £0.6 million) which is included within other payables.

**19. Events after the balance sheet date**

On 24 July 2018, Encore Capital Group Inc completed the purchase to purchase of the non-controlling interests held by JC Flowers & Co and company management and took 100% ownership of the Cabot Credit Management Limited Group.

On 18 July 2018, Cabot Credit Management Limited Group announced the closing of a bond exchange to the holders of its outstanding £100 million 8.375% Senior Secured Notes due 2020 and of its £175 million 6.500% Senior Secured Notes due 2021. The outcome of the exchange resulted in £32.2 million in aggregate principal amount of the Existing Cabot 2020 Notes and £95.0 million in aggregate principal amount of the Existing Cabot 2021 Notes exchanged for additional Cabot 2023 Notes. Additional Notes amounting to £34.5 million were issued. The funds raised were used to repay £29.0 million of the RCF.

On 20 July 2018, Cabot Credit Management plc re-registered under the Companies Act 2006 as a private company, and is now incorporated under the name of Cabot Credit Management Limited.

# Appendix

(unreviewed)

## Reconciliation of Adjusted EBITDA

The following table provides a reconciliation of net cash inflow/ (outflow) from operating activities to Adjusted EBITDA:

	Note	6 months ending 30 June 2018 £m	6 months ending 30 June 2017 £m
<b>Net cash used in operating activities</b>		<b>(14.6)</b>	<b>(1.0)</b>
Purchases of loan portfolios	16	158.9	127.5
Non-recurring other operating expenses	16	2.0	6.9
Income taxes and overseas taxation	16	(1.4)	(0.7)
Other working capital movements		17.0	6.3
<b>Adjusted EBITDA</b>		<b>161.9</b>	<b>139.0</b>

The following table provides a reconciliation of operating profit for the period to Adjusted EBITDA:

	Note	6 months ending 30 June 2018 £m	6 months ending 30 June 2017 £m
<b>Operating profit</b>		<b>73.6</b>	<b>65.4</b>
Current value movements on owned portfolios	11	79.1	63.1
Depreciation on property, plant and equipment		1.4	1.4
Amortisation of intangible assets		5.1	2.8
Non-recurring operating costs	4	2.7	6.3
<b>Adjusted EBITDA</b>		<b>161.9</b>	<b>139.0</b>

The financial information included within this interim report includes certain measures which are not accounting measures within the scope of IFRS. The primary non-GAAP measures included are 84-Month ERC, 120-Month ERC, 180-Month ERC and Adjusted EBITDA which are explained below. These measures and all other non-IFRS measures presented in this annual report have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the results of the Company reported under IFRS.



## Definitions

### **Estimated Remaining Collections (“ERC”)**

84-Month ERC, 120-Month ERC and 180-Month ERC mean the estimated remaining collections on loan portfolios owned by the Group over an 84, 120 or 180 month period and represents the expected future gross cash collections from such portfolios over the period based upon performance data on historical portfolio collection. The calculation is performed at the end of each month based on the Group’s proprietary cash flow model and assumes no additional purchases are made after the month end. The Company does not deduct future servicing costs in calculating ERC.

The Directors present ERC because it represents an estimate of the undiscounted cash value of the loan portfolios owned by the Company at a point in time which is an important supplemental measure for the Directors to assess the performance of the Group and the cash generation capacity of the portfolios. In addition the Senior Committed Revolving Credit Facility uses a measure similar to 84-Month ERC to measure the compliance of the Group with certain covenants and, in certain circumstances, its ability to incur indebtedness.

The cash flow projections used by the Group to calculate ERC are the same as those used in the discounted cash flow calculation of the statement of financial position value of the loan portfolios.

ERC is a metric that is often used by other companies in the industry in which the Company operates. However ERC as computed by the Company may not be comparable to similar metrics used by other companies in the industry.

### **Adjusted EBITDA**

The Directors define Adjusted EBITDA as Operating Profit adjusted to add back the effects of current value movements on owned loan portfolios, depreciation of property, plant and equipment, amortisation of intangibles and non-recurring operating expenses. A reconciliation of net cash generated from/(used in) operating activities and Operating profit to Adjusted EBITDA has been included within the appendix.

Adjusted EBITDA is not a measure calculated in accordance with IFRS and the use by the Company of the term Adjusted EBITDA may vary from others in the industry and should not be considered as an alternative to “net cash generated from/(used in) operating activities”, “profit/(loss) for the financial period”, “operating profit/(loss)” or any other performance measure derived in accordance with IFRS. The Directors have presented Adjusted EBITDA because they believe it may enhance an investor’s understanding of the cash flow generation of the Group that could be used to service or pay down debt, pay income taxes, purchase new loan portfolios and for other uses and the liquidity of the Company, and because it is frequently used by readers of the financial statements in the evaluation of debt purchasing companies.

## Key contacts

### Key Contacts

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