LINDORFF

# Q4

QUARTERLY REPORT

2015

# Financial highlights*

- Net revenue of EUR 143m in Q4, up 10% y/y (13% in constant currency)
- Adj. EBITDA excl. NRI's of EUR 102m in Q4, up 13% y/y
- All time high ERC of EUR 2,442m, up 24% y/y

Adjusted EBITDA

## Up 13%

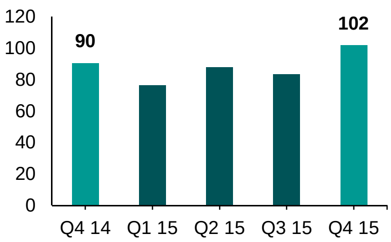
ERC

## Up 24%

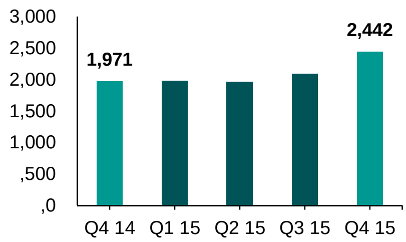
Investments

## EUR230m

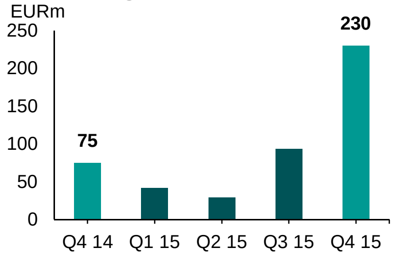
**Adj. EBITDA (excl. NRI's)**
EURm




**ERC 180 month**
EURm




**Investments in Debt Purchasing**
EURm




| EURm unless otherwise stated | Oct-Dec 2015 | Oct-Dec 2014 | Change % | Jan-Dec 2015 | Proforma Jan-Dec 2014* | Change % |
|---|---|---|---|---|---|---|
| Revenues | 143 | 130 | 10 % | 534 | 475 | 12 % |
| EBITDA | 53 | 26 | 109 % | 186 | 141 | 32 % |
| EBITDA margin (%) | 37 % | 20 % | | 35 % | 30 % | |
| EBITDA excl. NRI's | 59 | 52 | 15 % | 205 | 173 | 18 % |
| Adjusted EBITDA | 96 | 64 | 49 % | 330 | 264 | 25 % |
| Adjusted EBITDA excl. NRI's | 102 | 90 | 13 % | 349 | 296 | 18 % |
| NIBD | 2,063 | 1,659 | 24 % | 2,063 | 1,659 | 24 % |
| NIBD / Adjusted EBITDA (LTM)** | 5.7 | 5.1 | | 5.7 | 5.1 | |
| ERC, end of period | 2,442 | 1,971 | 24 % | 2,442 | 1,971 | 24 % |
| Investments in Debt Purchasing | 230 | 75 | 207 % | 395 | 275 | 44 % |
| Return in Debt Purchasing (LTM) | 14.9 % | 15.5 % | | 14.9 % | 15.5 % | |
| Gross collection in Debt Purchasing | 117 | 95 | 23 % | 408 | 340 | 20 % |
| Average number of FTEs | 3,725 | 2,988 | 25 % | 3,380 | 2,827 | 20 % |

* Lock Lower Holding AS was established 22 May 2014 and acquired Lindorff Group AB through Lock AS 6 October 2014. All information relating to Q4 2015 and full year 2015 are based on consolidated numbers of Lock Lower Holding AS. Comparable figures Pro forma Jan-Dec 2014 include consolidated numbers of Lindorff Group AB for the full year (but not pro forma for any acquisitions made in the period).
** See definition on page 23.

# Operational and Market update

**Sustained double digit growth in revenue and earnings**
Lindorff continued its strong revenue growth in Q4, with Net revenue of EUR 143m representing an increase of 10% compared to the same quarter last year. The increase was 13% in constant currency. The growth was driven by significant investments in Debt Purchasing as well as the acquisition of Casus Finanse in Poland.

Lindorff continues to deliver profitable growth. Adjusted EBITDA excluding NRI's was up 13% compared to the same quarter last year, coming in at EUR 102m.

Investments in Debt Purchasing amounted to EUR 230m in the quarter compared to EUR 75m in the same quarter last year. Collection performance continues to be strong, delivering 107% of the forecast for the full year 2015 compared to 103% in 2014.

For the full year 2015 Net revenue and Adjusted EBITDA excluding NRI's were EUR 534m and EUR 349m, representing an increase of 12% and 18% compared to last year respectively. The increase in constant currency was 15% and 20%. Investments in Debt Purchasing amounted to EUR 395m for the full year compared to EUR 275m in 2014. The main driver for the increase was the acquisitions from DNB in Norway and Nordea in Sweden. Both acquisitions were from existing clients and the majority of the debt was already serviced in the Debt Collection business.

At the end of 2015 the estimated remaining collections (ERC 180 months) was EUR 2,442m, which is up from EUR 1,971m last year.

In Q4 2015 Lindorff closed an extension to an existing carve-out from Banco Mare Nostrum (BMN) in Spain.

**Balanced growth in geographies and business lines**
During the course of 2015 Lindorff continued to see a significant number of opportunities across business lines and geographies. Due to regulatory changes for financial institutions there is a high supply of NPL's available for sale as well as several new opportunities emerging for outsourcing of collection units. Lindorff has succeeded in obtaining important new business, especially in the Debt Purchasing segment. Lindorff has maintained strict pricing discipline in an increasingly competitive market.

Financial performance and transactions in 2015 demonstrate the value of Lindorff's geographical footprint. Lindorff has strengthened its market position in Southern Europe through acquisitions of collection units. Lindorff has also strengthened its position in the Nordics through landmark portfolio acquisitions. The platform for growth is consequently well balanced between our business lines and geographies. Third Party Collection is growing in markets such as Spain, while the estimated remaining collection in our Debt Purchasing business is currently largest in Norway, Sweden and Germany.

In August, Lindorff added Poland to the Group geographic footprint through the acquisition of Casus Finanse, one of the leading Credit Management Service companies in Poland. The acquisition is a good fit with Lindorff's balanced business, opens up further growth opportunities and provides risk diversification for Lindorff's owners and investors.

In summary, Lindorff has delivered a strong 2015 performance with double digit revenue growth and improved profitability. The market is currently trending towards more carve-outs and NPL sales. Lindorff will have high focus on growing and improving its 3PC business in parallel with delivering on our recent acquisitions. To retain a business model where 3PC and Debt Purchasing is reasonably balanced is a strategic priority.

Lindorff has several operational initiatives ongoing that will continue to drive efficiency and profitability. In a competitive market situation it is of great importance to keep the momentum in terms of sharing best practices and introduce cost saving initiatives. Lindorff is well positioned to deploy these initiatives across multiple markets and benefit from scale and skills advantages.

# Financial review Q4 2015

## Lindorff Group

### Lock Lower Holding AS parent company

From 6 October 2014 Lindorff Group consists of Lock Lower Holding AS with subsidiary Lock AS together with Lindorff Group AB (former Lindorff First Holding AB that merged with its subsidiary Lindorff Group AB in 2015, the latter as surviving entity) and its subsidiaries. As there are no comparable financial statements for 2014 for the new Lindorff Group, all comparisons and comments to 2014 include consolidated numbers for Lindorff Group AB for the full year.

Casus Finanse is consolidated from the acquisition date 18 August 2015.

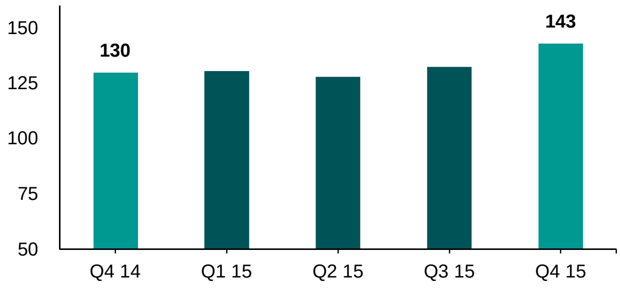
Throughout the report the terms Lindorff and Lindorff Group mean Lock Lower Holding AS and its subsidiaries. Parent company is Lock Lower Holding AS.

### Net revenue

Net revenue was EUR 143m in Q4 2015. This represents an increase of 10% compared to EUR 130m in Q4 2014. In constant currency the growth rate was 13%. The increase in revenue was mainly driven by the investment in Debt Purchasing and the acquisition of Casus Finanse.

Net revenue in 2015 was EUR 534m, representing an increase of 12% compared to 2014. In constant currency the increase was 15%. The increase was driven by the acquired Spanish collection unit in 2014, investments in Debt Purchasing and the acquisition of Casus Finanse.

**Net revenue**
EURm




### Earnings

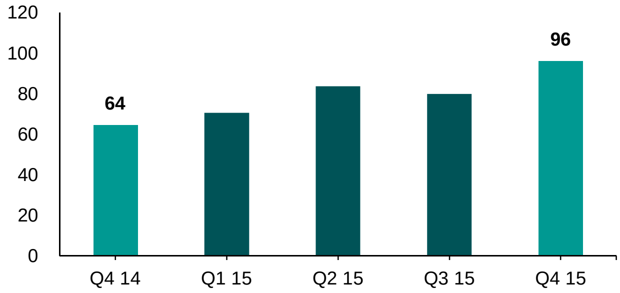
The reported Adjusted EBITDA amounted to EUR 96m in Q4 2015 compared to EUR 64m in Q4 2014. Excluding NRI's, the adjusted EBITDA was EUR 102m in the fourth quarter, up EUR 13% compared to last year.

The reported Adjusted EBITDA for 2015 was EUR 330m compared to EUR 264m in 2014. Excluding NRI's, the Adjusted EBITDA was EUR 349m, up 18% from EUR 296m in 2014.

The EBITDA for the fourth quarter 2015 was EUR 53m compared to EUR 26m in Q4 2014. The EBITDA margin was 37% in Q4 2015 compared to 20% in Q4 2014. Adjusting for NRI's, the Q4 EBITDA margin was 41%.

The growth in EBITDA and the improved margin is mainly driven by growth in Debt Purchasing and performance by the acquired collection unit in Spain.

**Adjusted EBITDA (reported)**
EURm




### Operating expenses

Total operating expenses excluding depreciation and amortisation amounted to EUR 90m in Q4 2015, down from EUR 104m in Q4 2014. Total operating expenses in 2015 amounted to EUR 348m, up from EUR 334m last year.

In Q4 2015 employee benefit expenses stayed at the same level as Q4 2014. For the full year employee benefit expenses were EUR 187m compared to EUR 178m in 2014. The increase is mainly due to increased number of FTEs resulting from the acquisition in Spain in Q4 2014, the acquisition in Poland in Q3 2015 and severance pay that will lead to future cost savings.

Other operating costs decreased by EUR 15m in the fourth quarter 2015 from EUR 55m in 2014 to EUR 40m. The decrease is mainly related to lower consultancy fees. Other operating costs increased by 3%, from EUR 156m in 2014 to EUR 160m in 2015. The increase is mainly due to reclassification of legal fees from net to gross in the Netherlands and increase of legal fees in Spain.

NRI's were EUR 19m in 2015 compared to EUR 32m in 2014. The EUR 19m is mainly expenses related to M&A and bond tap in September, severance payment, site consolidation in Denmark and start-up cost for Lindorff Business Services.

### Depreciation and Amortisation

Depreciation and amortisation (excl. portfolio amortisation) increased from EUR 5m in Q4 2014 to EUR 10m in Q4 2015 and from EUR 16m in 2014 to EUR 37m in 2015. The increase was mainly due to amortisation of the collection contract acquired in Spain in Q4 2014.

### SG&A and IT

SG&A and IT costs decreased by 4% from EUR 23m in Q4 2014 to EUR 22m in Q4 2015. SG&A/Net revenue ratio decreased from 11% in Q4 2014 to 10% in Q4 2015, while IT cost/Net revenue ratio decreased from 7% in Q4 2014 to 6% in Q4 2015.

Reported SG&A and IT costs (including EUR 1.7m restructuring cost in Denmark) increased by 6% from EUR 84m in 2014 to EUR 89m this year. SG&A/Net revenue ratio and IT/Net revenue ratio was 10% and 7% in 2015, both at the same level as last year.

### Net financial items

Net financial costs decreased from EUR 48m in Q4 2014 to EUR 45m in Q4 2015. The decrease is mainly due to large foreign currency losses in Q4 2014.

Net financial costs for 2015 were EUR 172m compared to EUR 177m in 2014. Net financial cost in 2014 was affected by expensed unamortized fees related to the previous funding of Lindorff. This effect is partly offset by increased interest expenses in 2015 compared to 2014.

### Investments and cash flow

Investments in Debt Purchasing were EUR 230m in the fourth quarter compared to EUR 75m in Q4 2014. In 2015, investments in Debt Purchasing amounted to EUR 395m, compared to EUR 275m last year. The main driver for the increase was the portfolios acquired from DNB in Norway and Nordea in Sweden. Both acquisitions were from existing clients, and the debt Lindorff purchased was in part already serviced by the Debt Collection business. In Q4 2015 Lindorff closed an extension to an existing carve-out from BMN in Spain.

Cash flow from operating activities was EUR 58m in Q4 2015 compared to EUR 44m in Q4 2014. The increase in operating cash flow is mainly due to double digit revenue growth in 2015. Interest paid was EUR 18m in Q4 2015 versus EUR 5m in Q4 2014. Ramp up of Payment Services had a negative effect on working capital of EUR 21m in Q4 2015.

In 2015 cash flow from operating activities was EUR 90m. Excluding cash effect of interest paid at EUR 152m, the cash from operating activities was EUR 242m. 2015 was also negatively affected by payment of one-off tax claims of EUR 27m in Finland and Norway. Ramp up of Payment Services had a negative effect on working capital of EUR 35m in 2015.

### Tax

The income tax expense for the quarter was negative EUR 1m, including recognition of deferred tax assets that were previously not recognised. For the full year 2015 the income tax expense was negative EUR 6m.

The Lindorff Group has certain tax disputes related to the deductibility of interest expense on group internal loans in Finland and Norway. The total tax exposure including penalties of these disputes is estimated at EUR 42m, however as EUR 27m has been paid to the tax authorities the remaining estimated cash tax exposure at 31 December 2015 is EUR 15m.

Lindorff contests the claims and has filed complaints to the Tax Authorities in both countries. No provisions have been recorded as Lindorff believes that our arguments are strong and hence our standing in the disputes is solid. Accordingly, the amounts paid are included in deferred tax assets.

### Funding

Lindorff Group is funded through a Super Senior RCF of EUR 324m (whereof EUR 25m is allocated to guarantees), Senior Secured Notes of EUR 1,457m equivalent (issued in EUR and NOK) and Senior Notes of EUR 451m equivalent (issued in EUR and SEK).

The average interest rate on the notes is approximately 7% with an average duration of 5.6 years. The multicurrency RCF is priced at a margin of 3.5% with a commitment fee equivalent to 35% of the applicable margin on any undrawn amount. At the end of Q4 2015, the RCF draw amounted to EUR 207m (excluding a draw for unfunded guarantees of EUR 20m).

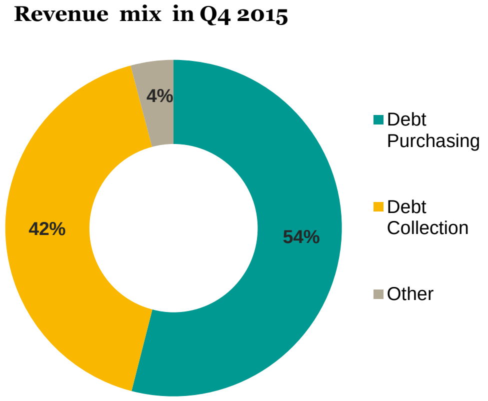
In addition to the above borrowings, Casus Finanse has remaining bond debt totalling EUR 1m. This debt will be repaid in full in 2016.

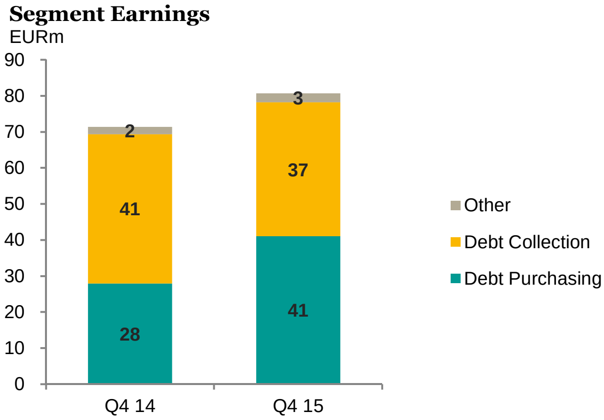
At end of Q4 2015 NIBD was EUR 2,063 (including Casus Finanse), which implies 5.7x NIBD/Adjusted EBITDA excluding NRI's (LTM) and including pro forma adjustments for the acquisition of Casus Finanse and the BMN carve-out extension. Leverage has increased as a result of the high level of portfolio acquisitions that will generate cash flows going forward. The full year impact of this cash flow is not reflected in adjusted EBTIDA used for leverage calculation purposes.

### Goodwill

Consolidated goodwill amounted to EUR 1,383m at the end of 2015 based on the purchase price from the acquisition of Lindorff Group and Casus Finanse Group.

# Operating segments




## Debt Collection

Net revenue in Q4 2015, excluding intersegment revenue of EUR 31m from collection on Lindorff owned portfolios, amounted to EUR 60m, compared to EUR 68m in Q4 2014. This represents a decrease of 12%, partly related to recent trends in the market where financial institutions are trending towards more NPL sales and carve outs instead of traditional 3PC contracts. Two examples of this trend are the acquisitions of portfolios from DNB and Nordea which had a negative impact on 3PC revenue, but a significant positive effect on the Debt Purchasing segment.

The Segment Earnings decreased 10% from EUR 41m in Q4 2014 to EUR 37m in Q4 2015. The decrease was mainly related to a decline in revenue compared to last year.

Debt Collection, excluding intersegment revenue, accounted for 42% of Group net revenue and 46% of Group Segment Earnings in Q4 2015.

Net revenue increased by 4% from EUR 238m in 2014 to EUR 248m in 2015. Segment Earnings increased by 9% from EUR 139m in 2014 to EUR 151m in 2015. The Earnings margin increased from 59% in 2014 to 61% in 2015.

## Debt Purchasing

Net revenue in Q4 2015 amounted to EUR 77m compared to EUR 58m in Q4 2014, representing an increase of 33% as a result of investments and improved collection performance from 102% to 107% of forecasts.

The Segment Earnings came in at EUR 41m compared to EUR 28m in Q4 2014, mainly driven by the strong revenue growth.

Total investment in Debt Purchasing during the fourth quarter was EUR 230m compared to EUR 75m in Q4 2014. For the full year 2015, investment in Debt Purchasing amounted to EUR 395m compared to EUR 275m last year.

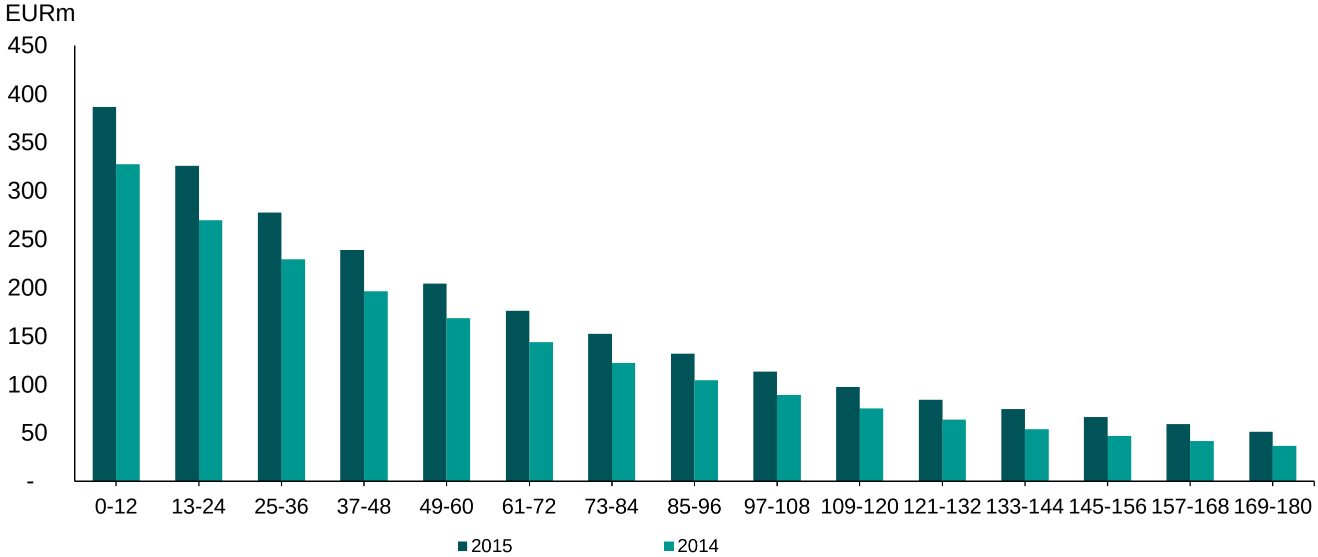
Debt Purchasing accounted for 54% of Group net revenue and 51% of Group Segment Earnings in Q4 2015. Net revenue increased by 21%, from EUR 220m in 2014 to EUR 267m for the full year 2015. The increase was driven by new investments in portfolios as well as continuous focus on improving collection efficiency. Collection performance for 2015 was 107% compared to forecast.

Segment Earnings increased by 22%, from EUR 115m in 2014 to EUR 140m in 2015. The Earnings margin was maintained at 52% in a competitive market.

Return in Debt Purchasing in 2015 was 14.9% compared to 15.5% last year. Decrease is due to large investments in Debt Purchasing in Q3 and Q4 in 2015 driving up average book value of purchased loans and receivables.

Estimated Remaining Collection (ERC) on Lindorff own portfolios was EUR 2,442m as at 31 December 2015, up 24% from EUR 1,971m at 31 December 2014.

**ERC, next 180 months**




# Other Services

Revenue of other services comprising invoicing, payment services and other income was in Q4 2015 EUR 6.3m, compared to EUR 4.5m in Q4 2014. Revenue from payment services increased with EUR 1.7m from EUR 0.3m in Q4 2014 to EUR 2.1m in Q4 2015 but was offset by a decrease in other income. 2015 revenue from other services was EUR 19.2m compared to EUR 17.0m in 2014. Revenue from payment services increased with EUR 2.9m from EUR 1.1m in 2014 to EUR 4.0m in 2015. The increase was offset by a decrease in other income.

# Summary of Operating Segments

| EURm | Oct-Dec 2015 | Oct-Dec 2014 | Change % | Jan-Dec 2015 | Proforma Jan-Dec 2014* | Change % |
|---|---|---|---|---|---|---|
| **Revenue per segment** | | | | | | |
| Debt Purchasing | **77** | **58** | 33 % | **267** | **220** | 21 % |
| Debt Collection | **60** | **68** | -12 % | **248** | **238** | 4 % |
| Other | **6** | **4** | 39 % | **19** | **17** | 12 % |
| **Total** | **143** | **130** | **10 %** | **534** | **475** | **12 %** |
| **Earnings per segment** | | | | | | |
| Debt Purchasing | **41** | **28** | 47 % | **140** | **115** | 22 % |
| Debt Collection | **37** | **41** | -10 % | **151** | **139** | 9 % |
| Other | **3** | **2** | 38 % | **6** | **4** | 48 % |
| **Total** | **81** | **71** | **14 %** | **297** | **258** | **15 %** |

* Lock Lower Holding AS was established 22 May 2014 and acquired Lindorff Group AB through Lock AS 6 October 2014. All information relating to Q4 2015 and full year 2015 are based on consolidated numbers of Lock Lower Holding AS. Comparable figures Pro forma Jan-Dec 2014 include consolidated numbers of Lindorff Group AB for the full year (but not pro forma for any acquisitions made in the period).

# Significant risk and uncertainties

The Group's and Parent Company's risks include, among other things, strategic risks related to economic development and acquisitions, regulatory changes, possible errors and omissions and financial risks such as market risk, funding risk and credit risk inherent in purchased loans and receivables and counter party risk for third party business.

### Tax

Lindorff has ongoing discussions with tax authorities in some countries mainly related to the deductibility of interest on group internal loans.

### Financial risk

The financial position of the parent company and group is strong. The company has through its interest rate policy minimized the risk of adverse effects from changes in the market's interest rates on the group's cash flow.

The group's currency exposure is limited through a natural alignment of Lindorff's interest-bearing loans relative to operational cash flows denominations. The group is exposed to transaction risks on acquisitions/disposals and other transactions involving foreign currency. The currency exposure is primarily in EUR, NOK, SEK, DKK and PLN.

The risks are described in more detail in the Board of Directors report, and Note 3 and 4 in Lock Lower Holding AS consolidated 2014 Annual report.

# Share and shareholders

The company's shareholder is Lock Upper Holding AS (100%).

# Parent company

The parent company is a holding company with 1 employee per 31 December 2015. Net result for Q4 2015 was EUR 1m. Net result in 2015 was EUR -0.4m.

# Events after the end of the period

Trond Brandsrud appointed CFO from 1 February 2016.

Trond Brandsrud was Chief Financial Officer of Aker until August 2015, and previously held the CFO position with Seadrill as well as several key local and international finance positions over a period of more than 20 years at Shell. Brandsrud has served as non-executive director in several listed as well as privately owned companies.

# Consolidated Income statement

| EURm | Oct-Dec 2015 | Oct-Dec 2014 | Jan-Dec 2015 | Proforma Jan-Dec 2014* | 22 May-Dec 2014 |
|---|---|---|---|---|---|
| Revenue | **143** | **130** | **534** | **475** | **130** |
| Employee benefit expense | -50 | -50 | -187 | -178 | -50 |
| Legal fee cost | -12 | -9 | -43 | -35 | -9 |
| Phone, postage and packaging | -4 | -4 | -18 | -19 | -4 |
| Other operating costs | -23 | -41 | -100 | -103 | -41 |
| Depreciation and amortisation | -10 | -5 | -37 | -16 | -5 |
| **Results from operating activities (EBIT)** | **43** | **21** | **150** | **125** | **21** |
| Net financial items | -45 | -48 | -172 | -177 | -66 |
| **Profit (loss) before tax** | **-2** | **-28** | **-23** | **-52** | **-45** |
| Income tax expense | 1 | 10 | 6 | 5 | 15 |
| **Profit (loss) for the period** | **-1** | **-17** | **-17** | **-47** | **-30** |
| **Profit (loss) attributable to:** | | | | | |
| Owners of the Company | **-1** | **-17** | **-17** | **-47** | **-30** |
| Profit (loss)for the period | -1 | -17 | -17 | -47 | -30 |

# Consolidated Statement of comprehensive income

| EURm | Oct-Dec 2015 | Oct-Dec 2014 | Jan-Dec 2015 | Proforma Jan-Dec 2014* | 22 May-Dec 2014 |
|---|---|---|---|---|---|
| **Profit for the period** | -1 | -17 | -17 | -47 | -30 |
| **Other comprehensive income:** | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Remeasurements of post employment benefit obligations | 3 | -3 | 3 | -3 | -3 |
| **Items that may be subsequently reclassified to profit or loss** | | | | | |
| Currency translation differences | -1 | 57 | -3 | 80 | 69 |
| **Total comprehensive income for the period** | **1** | **37** | **-17** | **30** | **35** |
| **Attributable to:** | | | | | |
| Owners of the Company | **1** | **37** | **-17** | **30** | **35** |

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# Consolidated Statement of financial position

| EURm | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **ASSETS** | | |
| Fixtures and furnitures | 14 | 12 |
| Intangible assets | 327 | 319 |
| Goodwill | 1,383 | 1,378 |
| Loans and receivables | 1,070 | 809 |
| Deferred income tax assets | 71 | 27 |
| Other long-term assets | 12 | 6 |
| **Non-current assets** | **2,877** | **2,551** |
| Trade receivables | 21 | 13 |
| Current tax receivable | 16 | 3 |
| Other short-term receivables | 73 | 39 |
| Client funds | 38 | 21 |
| Cash and cash equivalents | 53 | 99 |
| **Current assets** | **202** | **175** |
| **Total assets** | **3,079** | **2,726** |
| **EQUITY** | | |
| Share capital | 9 | 9 |
| Share premium | 715 | 760 |
| Retained earnings | 65 | 35 |
| **Total equity** | **789** | **805** |
| **Liabilities** | | |
| Bonds | 1,860 | 1,629 |
| Other long-term liabilities | 1 | 2 |
| Pension liabilities | 7 | 12 |
| Deferred income tax liabilities | 58 | 40 |
| Financial derivatives | 0 | 3 |
| **Non-current liabilities** | **1,926** | **1,686** |
| Trade payables | 19 | 21 |
| Short-term loan | 208 | 124 |
| Client liabilities | 38 | 21 |
| Current tax liabilities | 5 | 6 |
| Other short-term liabilities | 92 | 63 |
| Financial derivatives | 2 | 0 |
| **Current liabilities** | **364** | **235** |
| **Total liabilities** | **2,290** | **1,921** |
| **Total equity and liabilities** | **3,079** | **2,726** |

# Consolidated Statement of changes in equity

| EURm | 1 Jan-31 Dec 2015 | 22 May-31 Dec 2014 |
|---|---|---|
| **Beginning balance, 1 January** | **805** | **0** |
| Net income for the period | -17 | -30 |
| Remeasurements of post-employment benefit obligations | 3 | -3 |
| Currency translation differences | -3 | 69 |
| Other comprehensive income | 0 | 66 |
| **Total comprehensive income** | **-17** | **35** |
| Capital increase | 0 | 769 |
| **Ending balance** | **789** | **805** |

# Consolidated Statement of cash flow

| EURm | Oct-Dec 2015 | Jan-Dec 2015 | 22 May-31 Dec 2014 |
|---|---|---|---|
| **Operating activities:** | | | |
| Results from operating activities (EBIT) | 43 | 150 | 21 |
| Amortisation, depreciation and impairment | 10 | 37 | 5 |
| Amortisation and revaluation of Purchased debt | 43 | 144 | 39 |
| Interest received | 0 | 1 | 0 |
| Interest paid | -18 | -152 | -5 |
| Corporate Income tax paid | -4 | -36 | -7 |
| **Cash flow from operating activities before changes in working capital** | **75** | **144** | **52** |
| **Cash flow from changes in working capital:** | | | |
| Decrease(+) / increase(-) in accounts receivable | -5 | -8 | 2 |
| Decrease(+) / increase(-) in other receivables | -11 | -39 | 3 |
| Decrease(-) / increase(+) in accounts payable | -2 | -2 | -1 |
| Decrease(-) /increase(+) in other current liabilities | 1 | -4 | -12 |
| **Cash flow (used in)/from operating activities** | **58** | **90** | **44** |
| **Investment activities:** | | | |
| Acquisition/disposal of subsidiaries | 0 | -33 | -905 |
| Acquisition of receivables | 0 | 0 | -255 |
| Acquisition of tangible fixed assets | -1 | -5 | -3 |
| Acquisition of intangible fixed assets | -30 | -40 | -165 |
| Proceeds from sale of shares | 1 | 1 | |
| Acquisition of loans and receivables | -236 | -396 | -94 |
| **Cash flow (used in)/from investing activities** | **-266** | **-472** | **-1,422** |
| **Financing activities:** | | | |
| Proceeds from issue of share capital | 0 | 0 | 639 |
| Proceeds from new debt | 222 | 671 | 1,740 |
| Retirement of debt | -31 | -327 | -898 |
| Loan to group companies | 0 | -2 | 0 |
| Other financial expenses | -5 | -8 | 0 |
| **Cash flow (used in)/from financing activities** | **185** | **334** | **1,481** |
| **Cash flow for the period** | **-23** | **-48** | **102** |
| Currency effect | 4 | 2 | -4 |
| Cash and cash equivalents at the beginning of the period | 72 | 99 | 0 |
| **Cash and cash equivalents at end of period** | **53** | **53** | **99** |

# Income Statement Parent Company

| EURm | Oct-Dec 2015 | Jan-Dec 2015 | 22 May-Dec 2014 |
|---|---|---|---|
| Revenue | 1 | 1 | 0 |
| Other operating costs | 0 | -1 | 0 |
| **Results from operating activities (EBIT)** | **1** | **0** | **0** |
| | | | |
| Finance income | 10 | 41 | 18 |
| Finance costs | -10 | -41 | -18 |
| **Net finance costs** | **0** | **0** | **0** |
| | | | |
| **Profit before tax** | **1** | **0** | **0** |
| | | | |
| Income tax expense | 0 | 0 | 0 |
| **Profit for the period** | **1** | **0** | **0** |

# Statement of financial position Parent Company

| EURm | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| **ASSETS** | | |
| Investment in subsidiaries | 724 | 769 |
| Long-term receivables | 451 | 444 |
| Deferred tax assets | 0 | 0 |
| **Non-current assets** | **1,175** | **1,214** |
| | | |
| Other short-term receivables | 13 | 17 |
| Cash and cash equivalents | 0 | 0 |
| **Current assets** | **13** | **17** |
| **Total assets** | **1,188** | **1,231** |
| | | |
| **EQUITY** | | |
| Share Capital | 9 | 9 |
| **Total restricted capital** | **9** | **9** |
| Share Premium | 715 | 760 |
| Retained earnings | 0 | 0 |
| **Total non-restricted capital** | **715** | **760** |
| **Total equity** | **723** | **769** |
| | | |
| **LIABILITIES** | | |
| Bonds | 451 | 444 |
| Other long-term liabilities | 2 | 0 |
| **Non-current liabilities** | **453** | **444** |
| | | |
| Other short-term liabilities | 12 | 17 |
| **Current liabilities** | **12** | **17** |
| **Total liabilities** | **465** | **461** |
| **Total equity and liabilities** | **1,188** | **1,231** |
| | | |
| **Pledged assets (shares in subsidiaries)** | 724 | 769 |

# Notes

## Note 1 – Accounting Principles

Lock Lower Holding AS consolidated financial statements for the fourth quarter of 2015 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as the Norwegian Annual Accounts Act.

The consolidated financial statements have been prepared in accordance with the cost method, and derivative instruments are measured at fair value through profit or loss.

The parent company's financial statements have been prepared in accordance with the Norwegian Annual Accounts Act as well as NGAAP.

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The accounting policies adopted are consistent with those of the previous financial year for Lock Lower Holding AS (see consolidated Financial Statements of Lock Lower Holding AS 2014).

The Parent Company's reporting currency is euro (EUR), which is also the reporting currency for the group. The consolidated financial statements are presented in EUR and all values are rounded to the nearest million (EURm) except when otherwise indicated. The consolidated and parent company accounts pertain to 1 January to 31 December for income statements and 31 December for items on the statements of financial position.

# Note 2 – Operating segments

Management has determined the operating segments based on information reviewed by management for the purpose of allocating resources and assessing performance. Management considers the performance from a product perspective and separately considers the Debt Purchasing and Debt Collection segments. Both segments meet the quantitative thresholds required by IFRS 8 for reportable segments. Management assesses the performance of the operating segments based on a measure of Segment Earnings which is gross revenues minus direct operating expenses.

**Revenue**

Sales between segments are carried out at arm's length. The revenue from external parties reported to management is measured in a manner consistent with that in the income statement. The following table presents a reconciliation of the reportable segments' main captions from profit and loss to the entity's profit and loss before tax.

| EURm | Oct-Dec 2015 | Oct-Dec 2014 | Jan-Dec 2015 | 22 May-Dec 2014 |
|---|---|---|---|---|
| **Revenue from external customers** | | | | |
| Debt Purchasing | 77 | 58 | 267 | 58 |
| Debt Collection | 60 | 68 | 248 | 68 |
| Other | 6 | 4 | 19 | 5 |
| **Total** | **143** | **130** | **534** | **130** |
| **Inter- segment revenue** | | | | |
| Debt Collection | 31 | 27 | 110 | 27 |
| Elimination | -31 | -27 | -110 | -27 |
| **Earnings per segment** | | | | |
| Debt Purchasing | 41 | 28 | 140 | 28 |
| Debt Collection | 37 | 41 | 151 | 41 |
| Other | 3 | 2 | 6 | 2 |
| **Total** | **81** | **71** | **297** | **71** |
| **Unallocated cost** | | | | |
| SG&A | -14 | -14 | -54 | -14 |
| IT | -9 | -10 | -36 | -10 |
| Other not allocated expenses | -5 | -22 | -21 | -22 |
| **EBITDA** | **53** | **26** | **186** | **26** |
| Depreciaton and amortisation | -10 | -5 | -37 | -5 |
| **EBIT** | **43** | **21** | **150** | **21** |
| Net financial Items | -45 | -48 | -172 | -66 |
| **Profit before tax** | **-2** | **-28** | **-23** | **-45** |
| **Purchased loans and receivables** | | | | |
| Beginning value | **891** | **787** | **809** | **0** |
| Amortisation | -45 | -39 | -149 | -39 |
| Revaluation | 2 | 1 | 5 | 1 |
| Portfolio acquisitions | 230 | 75 | 395 | 862 |
| Investment in portfolios through acquisitions | | | 21 | |
| Divestment and disposals | -0 | -0 | -1 | 0 |
| Effect of change in FX rates | -8 | -15 | -9 | -15 |
| **Ending value** | **1,070** | **809** | **1,070** | **809** |
| Average carrying value of purchased debt | **981** | **798** | **940** | **798*** |
| Return in Debt Purchasing (LTM) | 14.9 % | 15.5 % | 14.9 % | |

* For the period 6 Oct – 31 Dec 2014.

# Note 3 – Reconciliation of income to Adjusted EBITDA

| EURm | Oct-Dec 2015 | Oct-Dec 2014 | Jan-Dec 2015 | 22 May-Dec 2014 |
|---|---|---|---|---|
| Net revenue from Debt Purchasing | 77 | 58 | 267 | 58 |
| Amortisation and revaluation | 43 | 39 | 144 | 39 |
| **Gross revenue from Debt Purchasing** | **120** | **97** | **411** | **97** |
| Revenue from Debt Collection and Other Services | 66 | 72 | 267 | 72 |
| Employee benefit expense | -50 | -50 | -187 | -50 |
| Legal fee cost | -12 | -9 | -43 | -9 |
| Phone, postage and packaging | -4 | -4 | -18 | -4 |
| Other operating costs | -23 | -41 | -100 | -41 |
| **Adjusted EBITDA** | **96** | **64** | **330** | **64** |

# Note 4 – Fair value of financial assets and liabilities

| | Book value | Fair value* | |
|---|---|---|---|
| EURm | 31 Dec 2015 | 31 Dec 2015 | FV - hierarchy |
| **Financial assets at amortised cost** | | | |
| Loans and receivables | 1,070 | 1,070 | 3 |
| Other long-term assets | 9 | 9 | 3 |
| Trade receivables | 21 | 21 | 3 |
| Other short-term receivables | 62 | 62 | 3 |
| Cash and cash equivalents | 53 | 53 | |
| **Total** | **1,216** | **1,216** | |
| **Financial liabilities at fair value through profit or loss** | | | |
| Financial derivatives | 2 | 2 | 2 |
| **Financial liabilites at amortised costs** | | | |
| Bonds | 1,860 | 1,956 | 1 |
| Trade payables | 19 | 19 | 3 |
| Short-term loan | 208 | 208 | 2 |
| Other short-term liabilities | 63 | 63 | 3 |
| **Total** | **2,152** | **2,248** | |

* See Annual Report Lock Lower Holding AS 2014 for description of calculation of fair value.

# Note 5 – Borrowing

| Revolving Credit Facility (RCF) | Limit* | Security | Maturity | Interest | Margin | Participants |
|---|---|---|---|---|---|---|
| EURm | 299 | Super Senior secured | 06.04.2020 | Floating | EURIBOR+3.50% | Nordea, DNB, SEB, NYK |

* As at 31 December 2015 was EUR 207m drawn, excluding EUR 20m in guarantees. Total RCF facility is EUR 324m, whereof EUR 25m is allocated to guarantees.

| Bonds | Issue Date | Issue | Security | Maturity | Interest | Coupon | Issuer |
|---|---|---|---|---|---|---|---|
| EURm | 06.08.2014 | 253 | Senior secured notes | 15.08.2020 | Floating | 3m EURIBOR+5.50% | Lock AS |
| EURm | 07.11.2014* | 100 | Senior secured notes | 15.08.2020 | Floating | 3m EURIBOR+5.50% | Lock AS |
| EURm | 10.09.2015** | 200 | Senior secured notes | 15.08.2020 | Floating | 3m EURIBOR+5.50% | Lock AS |
| NOKm | 06.08.2014 | 1,680 | Senior secured notes | 15.08.2020 | Floating | 3m NIBOR+5.75% | Lock AS |
| EURm | 06.08.2014 | 550 | Senior secured notes | 15.08.2021 | Fixed | 7.0 % | Lock AS |
| EURm | 07.11.2014* | 150 | Senior secured notes | 15.08.2021 | Fixed | 7.0 % | Lock AS |
| EURm | 10.09.2015** | 30 | Senior secured notes | 15.08.2021 | Fixed | 7.0 % | Lock AS |
| EURm | 06.08.2014 | 250 | Senior notes | 15.08.2022 | Fixed | 9.5 % | Lock Lower Holding AS |
| SEKm | 06.08.2014 | 1,850 | Senior notes | 15.08.2022 | Floating | 3m STIBOR+8.775% | Lock Lower Holding AS |
| **Total (EURm)*** |  | **1,909** |  |  |  |  |  |

* Interest accrued from 06.08.2014

** Interest accrued from 15.08.2015

*** Total is in EURm equivalent based on closing rates 31 December. Book value of long term liabilities is net of capitalised fees.

Lock Lower Holding AS Senior notes are on-lent to Lock AS at the same interest conditions as the issuer has.

# Note 6 – Events after the end of the period

Trond Brandsrud appointed CFO from 1 February 2016.

Trond Brandsrud was Chief Financial Officer of Aker until August 2015, and previously held the CFO position with Seadrill as well as several key local and international finance positions over a period of more than 20 years at Shell. Brandsrud has served as non-executive director in several listed as well as privately owned companies.

# Definitions and abbreviations

## Definitions

**Adjusted EBITDA** – EBITDA adjusted for amortisation and revaluation of portfolios of purchased loans and receivables

**Direct opex** – Operational expenses related to collection activities, excluding SG&A and IT cost

**ERC** – Estimated Remaining Collections next 180 months on purchased loans and receivables in Debt Purchasing

**Intersegment Revenue** – Commission to the Debt Collection segment from the Debt Purchasing segment

**Investments in Debt Purchasing** – Acquisitions of non-performing loans and receivables (may differ from acquisition of loans and receivables in the cash flow statement due to actual payment of the acquisition may be due in another period)

**NIBD/Adj EBITDA** – Net interest bearing debt divided by Adjusted EBITDA LTM (Leverage ratio is adjusted for proforma effect of acquisitions in the given period. Not including investments in Debt Purchasing).

**Portfolio revaluation** – Change in carrying value of purchased loans and receivables due to changed collection forecasts

**Return in Debt Purchasing** – Last Twelve Months (LTM) segment earning in % of average book value of purchased loans and receivables for the last twelve months

**Segment earnings** – Segment EBITDA excluding SG&A and IT cost

**Segment earnings Debt Collection –** Includes earnings from collection on own portfolios and third party debt

## Abbreviations

**3PC** – Third Party Collection

**IDC** – Internal Debt Collection

**CAGR** – Compounded Annual Growth Rate

**Constant Currency** – Fixed currency rates for comparable reporting periods

**EBITDA** – Earnings Before Interest Tax Depreciation and Amortisation

**FTE** – Full Time Equivalent employees

**IRR** – Internal Rate of Return

**NIBD** – Net Interest Bearing Debt

**NPL** – Non-performing Loan

**NRI's** – Non-recurring Items

**LTM** – Last Twelve Months

# Other information

## Contact info

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