

LINDORFF

Q1

QUARTERLY REPORT

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2016

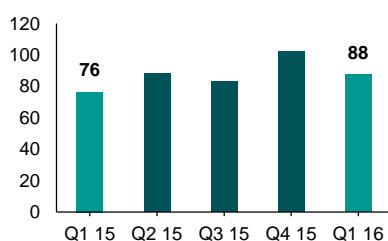


# Financial highlights

- Net revenue of EUR 135m in Q1, up 3% y/y (6% in constant currency)
- Adj. EBITDA excl. NRIs of EUR 88m in Q1, up 15% y/y
- ERC of EUR 2,412m, up 22% y/y

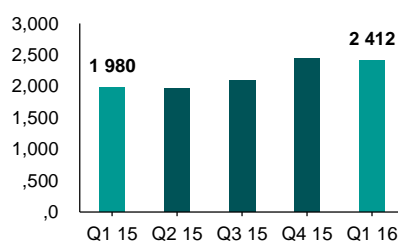
Adjusted EBITDA

Up 15%

Adj. EBITDA (excl. NRIs)  
EURm

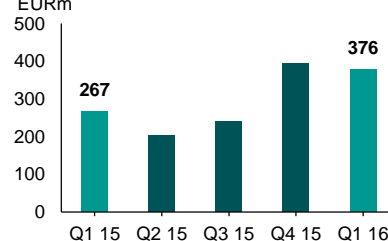
ERC

Up 22%

ERC 180 month  
EURm

Investments (LTM)

EUR 376m

Investments in Debt  
Purchasing LTM  
EURm

| EURm unless otherwise stated           | Jan-Mar<br>2016 | Jan-Mar<br>2015 | Change % | Jan-Dec<br>2015 | LTM    |
|--|-----------------|-----------------|----------|-----------------|--------|
| Net revenue                            | 135             | 131             | 3 %      | 534             | 538    |
| EBITDA                                 | 46              | 39              | 18 %     | 186             | 193    |
| EBITDA margin (%)                      | 34 %            | 30 %            |          | 35 %            | 36 %   |
| EBITDA excl. NRIs                      | 51              | 45              | 14 %     | 205             | 211    |
| Adjusted EBITDA                        | 83              | 71              | 17 %     | 331             | 343    |
| Adjusted EBITDA excl. NRIs             | 88              | 76              | 15 %     | 350             | 361    |
| NIBD                                   | 2,073           | 1,754           | 18 %     | 2,063           | 2,073  |
| NIBD / Proforma Adjusted EBITDA (LTM)* | 5.6             | 5.2             |          | 5.7             | 5.6    |
| ERC, end of period                     | 2,412           | 1,980           | 22 %     | 2,442           | 2,412  |
| Investments in Debt Purchasing         | 24              | 42              | -44 %    | 395             | 376    |
| Return in Debt Purchasing (LTM)        | 15.5 %          | 15.7 %          |          | 14.9 %          | 15.5 % |
| Gross collection in Debt Purchasing    | 106             | 91              | 17 %     | 408             | 423    |
| Average number of FTEs                 | 3,636           | 3,140           | 16 %     | 3,380           | 3,498  |

\* See definition on page 22.

# Operational and Market update

## Continued profitable growth

Lindorff delivered Net revenue of EUR 135m in Q1 representing an increase of 3% compared to the same quarter last year. The Net revenue increase was 6% in constant currency.

Lindorff continues to deliver profitable growth. Adjusted EBITDA excluding NRIs was up 15% in Q1 compared to the same quarter last year, coming in at EUR 88m.

Investments in Debt Purchasing amounted to EUR 24m in the quarter compared to EUR 42m in the same quarter last year. Over the last twelve months Investments in Debt Purchasing amounted to EUR 376m.

Collection performance on Lindorff's portfolios was maintained at a high level, coming in at 104% of the forecast, same level as Q1 last year. Return in Debt Purchasing (LTM) was 15.5% compared to 15.7% the same quarter last year.

At the end of Q1 2016 the Estimated Remaining Collections (ERC) on Lindorff's own portfolios were EUR 2,412m, up 22% from EUR 1,980m at the end of Q1 2015.

## Multiple opportunities in the pipeline

Lindorff's Debt Purchasing segment had a strong quarter driven by the EUR 395m investments in 2015, in particular two large Nordic acquisitions. Strong performance from the internal debt collection unit contributed to the 104% performance compared to the forecast.

In the third party collection (3PC) business revenue declined compared to last year. The decline is partly due to Lindorff acquiring several 3PC portfolios in the Debt Purchasing business. The 3PC business continues to be an important source for winning Debt Purchasing transactions, which has a net positive effect for the group. Lindorff continue to see a high supply of NPL sales in the Financial Institution sector and that the market is trending towards NPL's sold earlier in the cycle. However, the company also has a high priority on building its 3PC sales pipeline.

Payment services had a positive development, growing Net revenue from EUR 0.4m in Q1 2015 to EUR 2.3m in Q1 2016. Payment services will continue to be an important growth area for Lindorff going forward.

In Q4 2015 Lindorff signed a new collection contract with a leading financial institution in Spain. The integration process has been more efficient than anticipated. The swift integration of this carve-out is a demonstration of Lindorff's ability to deliver a diversified and flexible suite of credit management services to our clients.

The investment level in Q1 was somewhat lower than last year, but Lindorff's momentum is strong following the portfolio acquisitions in 2015 and the Q4 2015 carve-out in Spain. The current pipeline reflects a dynamic market with a high supply of opportunities across the company's business lines. Lindorff is well positioned to continue to benefit from these opportunities and will maintain a disciplined approach by allocating capital to the most attractive transactions.

# Financial review Q1 2016

## Lindorff Group

Lindorff Group consists of Lock Lower Holding AS, Corporate Identity Number 913 741 110, as parent company with subsidiary Lock AS together with Lindorff AB (former Lindorff Group AB) and its subsidiaries.

Lindorff S.A. in Poland (former Casus Finanse S.A.) was consolidated from the acquisition date 18 August 2015.

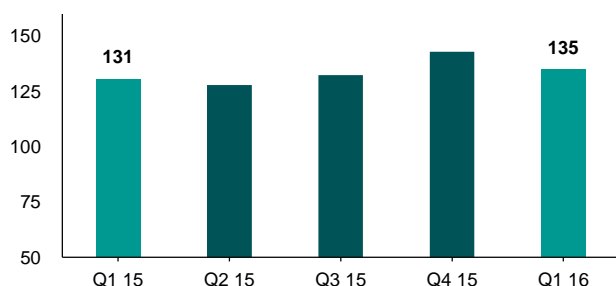
Throughout the report the terms Lindorff and Lindorff Group mean Lock Lower Holding AS and its subsidiaries.

### Net revenue

Net revenue was EUR 135m in Q1 2016. This represents an increase of 3% compared to EUR 131m in Q1 2015. In constant currency the growth rate was 6%. The increase in Net revenue was mainly driven by the investment in Debt Purchasing, the acquisition of Lindorff S.A. in Poland (former Casus Finanse S.A.), growth in payment services and the carve-out in Spain in Q4 2015.

#### Net revenue

EURm



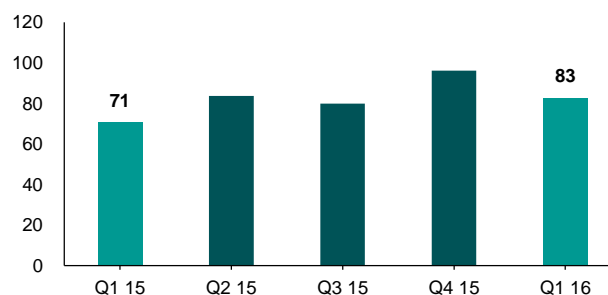
### Earnings

The reported Adjusted EBITDA amounted to EUR 83m in Q1 2016 compared to EUR 71m in Q1 2015. Excluding NRIs, the adjusted EBITDA was EUR 88m in the first quarter, up 15% compared to last year.

The EBITDA for the first quarter 2016 was EUR 46m compared to EUR 39m in Q1 2015. The EBITDA margin was 34% in Q1 2016 compared to 30% in Q1 2015. Adjusting for NRIs the Q1 EBITDA was 51m, up 14% compared to last year.

### Adjusted EBITDA (reported)

EURm



### Operating expenses

Total operating expenses excluding depreciation and amortisation amounted to EUR 88m in Q1 2016, down from EUR 91m in Q1 2015.

In Q1 2016 employee benefit expenses amounted to EUR 50m, up from EUR 47m in first quarter 2015. The increase is mainly due to increased number of FTEs resulting from the acquisition in Poland in Q3 2015 and severance pay that will lead to future cost savings.

Legal fee cost amounted to EUR 11m in Q1 2016 compared to EUR 10m in first quarter 2015.

Other operating costs decreased by EUR 7m in the first quarter 2016 from EUR 30m in 2015 to EUR 23m. The decrease is mainly related to lower contracted labour costs and consultancy fees.

NRIs were EUR 5m in Q1 2016 compared to EUR 6m in first quarter 2015. The EUR 5m is mainly expenses related to M&A, site consolidation in Norway and severance payments.

### Depreciation and Amortisation

Depreciation and amortisation (excl. portfolio amortisation) increased from EUR 9m in Q1 2015 to EUR 10m in Q1 2016. The increase was mainly due to amortisation of the collection contract acquired in Spain in Q4 2015.

### SG&A and IT

SG&A and IT costs decreased by 7% from EUR 26m in Q1 2015 to EUR 24m in Q1 2016. The decrease is mainly related to lower restructuring and marketing costs. SG&A/Net revenue ratio decreased from 13% in Q1 2015 to 11% in Q1 2016, while IT cost/Net revenue ratio remained on the same level, 7% of Net revenue.

**Net financial items**

Net financial costs decreased from EUR 36m in Q1 2015 to EUR 32m in Q1 2016.

**Investments and cash flow**

Investments in Debt Purchasing were EUR 24m in the first quarter compared to EUR 42m in Q1 2015.

Cash flow from operating activities was EUR 18m in Q1 2016 compared to EUR -42m in Q1 2015. The increase in operating cash flow is mainly due to lower interest payment in Q1 2016 compared to Q1 2015 due accrued interest from 2014, and a one-off tax claim of EUR 22m paid in Q1 2015. Interest paid was EUR 59m in Q1 2016 versus EUR 68m in Q1 2015. Working capital increased by EUR 3m in Q1 2016 which is mainly related to the ramp up and growth in payment services.

**Tax**

The income tax expense for the quarter was EUR 5m.

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. Out of this total, EUR 27m was paid upon request from the tax authorities during 2015 and EUR 5m was included in the advance current tax payments in 2015. The remaining estimated cash tax exposure as at 31 March 2016 is therefore EUR 10m.

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, EUR 32m are included in deferred tax assets.

**Funding**

Lindorff Group is funded through a Super Senior RCF of EUR 320m (whereof EUR 25m is allocated to guarantees), Senior Secured Notes of EUR 1,461m 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 5.3 years. The multicurrency RCF is priced at a margin of 3.5. At the end of Q1 2016, the RCF draw amounted to EUR 212m (excluding a draw for unfunded guarantees of EUR 21m).

In addition to the above borrowings, Lindorff S.A. in Poland has remaining bond debt totalling EUR 1m. This debt will be repaid in full during 2016.

At end of Q1 2016 Net Interest Bearing Debt ("NIBD") was EUR 2,073m (including Lindorff S.A. in Poland), which implies 5.6x NIBD/Adjusted EBITDA excluding NRIs (LTM) and including pro forma adjustments for the acquisition of Casus Finanse S.A. in Poland and the Spanish carve-out in Q4 2015. Leverage has decreased slightly, but still the full year impact from large portfolio acquisitions in 2015 is not fully reflected in the Adjusted EBITDA used for leverage calculation purposes.

**Available liquidity**

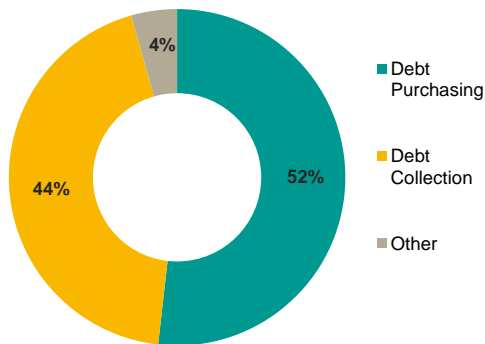
| EURm  | 31 Mar 2016 |
|---|-------------|
| RCF capacity at the end of period               | 320         |
| - amount drawn                                  | -212        |
| - amount allocated to guarantees                | -25         |
| <b>Available RCF</b>                            | <b>83</b>   |
| + Cash  | 51          |
| <b>Available liquidity at the end of period</b> | <b>135</b>  |

**Goodwill**

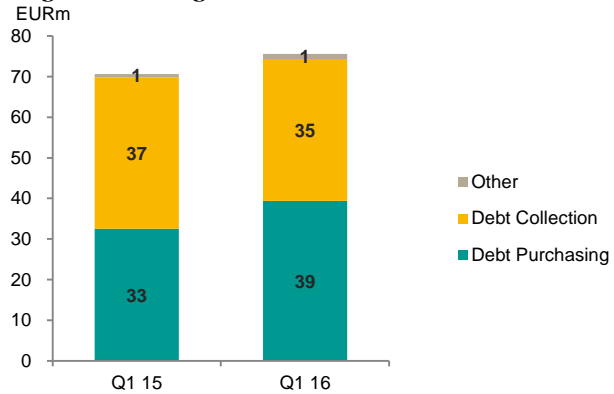
Consolidated goodwill amounted to EUR 1,391m at the end of March 2016 and increased by EUR 7m from EUR 1,384m at the end of December 2015 due to foreign exchange changes.

## Operating segments

Net revenue mix in Q1 2016



Segment Earnings



### Debt Collection

Net revenue in Q1 2016, excluding intersegment revenue of EUR 26m from collection on Lindorff owned portfolios, amounted to EUR 59m, compared to EUR 66m in Q1 2015. This represents a decrease of 11%, which is partly a result of current market trends where there is increasing supply of NPLs available for sale as opposed to traditional outsourcing of collection. This trend is visible for example in the acquisition of two large portfolios in the Nordic region in 2015 which had a negative impact on Debt Collection revenue, while having a positive impact on Debt Purchasing.

The Segment Earnings decreased 6% from EUR 37m in Q1 2015 to EUR 35m in Q1 2016. The decrease was mainly related to a decline in revenue compared to last year, but cost efficiency secured a lower decline in earnings than in revenue.

The Debt Collection segment, excluding intersegment revenue, accounted for 44% of Group Net revenue and 46% of Group Segment Earnings in Q1 2016.

### Debt Purchasing

Net revenue in Q1 2016 amounted to EUR 70m compared to EUR 60m in Q1 2015, representing an increase of 16% as a result of investments and continued high collection performance at 104% of forecast.

The Segment Earnings came in at EUR 39m in Q1 compared to EUR 33m in Q1 2015, mainly driven by the strong revenue growth. The earnings margin increased from 54% in Q1 2015 to 56% in Q1 2016.

Total investment in Debt Purchasing during the first quarter was EUR 24m compared to EUR 42m in Q1 2015. Total investments last twelve months amounted to EUR 376m.

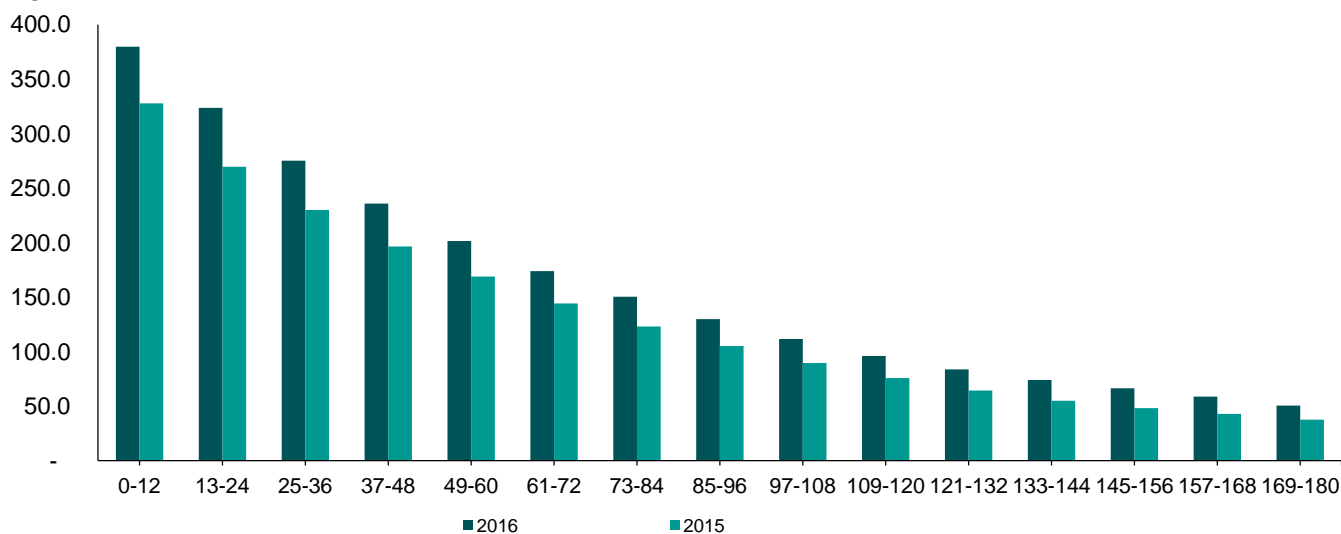
Debt Purchasing accounted for 52% of Group Net revenue and 52% of Group Segment Earnings in Q1 2016.

Return in Debt Purchasing (LTM) was 15.5% compared to 15.7% the same quarter last year.

Estimated Remaining Collections (ERC) on Lindorff's own portfolios were EUR 2,412m at 31 March 2016, up 22% from EUR 1,980m at 31 March 2015.

**ERC, next 180 months**

EURm



## Other Services

Other services consist of invoicing, payment services and other income. Revenue in Q1 2016 was EUR 6.0m, compared to EUR 4.0m in Q1 2015.

Total Segment earnings for Other Services increased with EUR 0.5m from EUR 0.8m to EUR 1.3m.

Payment services is showing a strong development, and will continue to be an important growth area for Lindorff going forward. Revenue from payment services increased with EUR 1.9m from EUR 0.4m in Q1 2015 to EUR 2.3m in Q1 2016.

## Summary of Operating Segments

| EURm                        | Jan-Mar<br>2016 | Jan-Mar<br>2015 | Change %   |
|-----------------------------|-----------------|-----------------|------------|
| <b>Revenue per segment</b>  |                 |                 |            |
| Debt Purchasing             | 70              | 60              | 16 %       |
| Debt Collection             | 59              | 66              | -11 %      |
| Other                       | 6               | 4               | 48 %       |
| <b>Total</b>                | <b>135</b>      | <b>131</b>      | <b>3 %</b> |
| <b>Earnings per segment</b> |                 |                 |            |
| Debt Purchasing             | 39              | 33              | 21 %       |
| Debt Collection             | 35              | 37              | -6 %       |
| Other                       | 1               | 1               | 66 %       |
| <b>Total</b>                | <b>76</b>       | <b>71</b>       | <b>7 %</b> |



## 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 2015 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 March 2016. Net result for Q1 2016 was EUR 0.2m.

## Events after the end of the period

Lindorff has signed an agreement to acquire 100% of the shares in Cross Factor. Cross Factor is an Italian company providing both Debt Purchasing and Debt Collection services. Closing is expected in Q2 2016.

## Consolidated Income Statement

| EURm  | Jan-Mar<br>2016 | Jan-Mar<br>2015 |
|---|-----------------|-----------------|
| Net revenue                                     | 135             | 131             |
| Employee benefit expense                        | -50             | -47             |
| Legal fee cost                                  | -11             | -10             |
| Phone, postage and packaging                    | -5              | -5              |
| Other operating costs                           | -23             | -30             |
| Depreciation and amortisation                   | -10             | -9              |
| <b>Results from operating activities (EBIT)</b> | <b>36</b>       | <b>31</b>       |
| Net financial items                             | -32             | -36             |
| <b>Profit (loss) before tax</b>                 | <b>5</b>        | <b>-6</b>       |
| Income tax expense                              | -5              | -4              |
| <b>Profit (loss) for the period</b>             | <b>0</b>        | <b>-10</b>      |
| <b>Profit (loss) attributable to:</b>           |                 |                 |
| Owners of the Company                           | 0               | -10             |
| Profit (loss)for the period                     | 0               | -10             |

## Consolidated Statement of comprehensive income

| EURm   | Jan-Mar<br>2016 | Jan-Mar<br>2015 |
|--|-----------------|-----------------|
| <b>Profit for the period</b>   | <b>0</b>        | <b>-10</b>      |
| <b>Other comprehensive income:</b>                                   |                 |                 |
| <b>Items that will not be reclassified to profit or loss</b>         |                 |                 |
| Remeasurements of post-employment benefit obligations                | -1              | 0               |
| <b>Items that may be subsequently reclassified to profit or loss</b> |                 |                 |
| Currency translation differences                                     | 2               | 5               |
| <b>Total comprehensive income for the period</b>                     | <b>1</b>        | <b>-5</b>       |
| <b>Attributable to:</b>  |                 |                 |
| Owners of the Company  | 1               | -5              |

# Consolidated Statement of financial position

| EURm                                | 31 Mar 2016  | 31 Dec 2015  |
|-------------------------------------|--------------|--------------|
| <b>ASSETS</b>                       |              |              |
| Fixtures and furnitures             | 14           | 14           |
| Intangible assets                   | 323          | 327          |
| Goodwill                            | 1,391        | 1,384        |
| Loans and receivables               | 1,061        | 1,070        |
| Deferred income tax assets          | 70           | 71           |
| Other long-term assets              | 10           | 12           |
| <b>Non-current assets</b>           | <b>2,868</b> | <b>2,878</b> |
| Trade receivables                   | 24           | 21           |
| Current tax receivable              | 5            | 5            |
| Other short-term receivables        | 78           | 73           |
| Client funds                        | 37           | 38           |
| Cash and cash equivalents           | 51           | 53           |
| <b>Current assets</b>               | <b>195</b>   | <b>191</b>   |
| <b>Total assets</b>                 | <b>3,063</b> | <b>3,069</b> |
| <b>EQUITY</b>                       |              |              |
| Share capital                       | 9            | 9            |
| Share premium                       | 730          | 715          |
| Retained earnings                   | 51           | 66           |
| <b>Total equity</b>                 | <b>790</b>   | <b>789</b>   |
| <b>Liabilities</b>                  |              |              |
| Bonds                               | 1,864        | 1,860        |
| Other long-term liabilities         | 2            | 1            |
| Pension liabilities                 | 7            | 7            |
| Deferred income tax liabilities     | 49           | 47           |
| <b>Non-current liabilities</b>      | <b>1,922</b> | <b>1,915</b> |
| Trade payables                      | 19           | 19           |
| Short-term loan                     | 229          | 242          |
| Client liabilities                  | 37           | 38           |
| Current tax liabilities             | 5            | 5            |
| Other short-term liabilities        | 59           | 58           |
| Financial derivatives               | 2            | 2            |
| <b>Current liabilities</b>          | <b>351</b>   | <b>365</b>   |
| <b>Total liabilities</b>            | <b>2,273</b> | <b>2,280</b> |
| <b>Total equity and liabilities</b> | <b>3,063</b> | <b>3,069</b> |

## Consolidated Statement of changes in equity

| EURm  | Jan-Mar 2016 | Jan-Dec 2015 |
|---|--------------|--------------|
| <b>Beginning balance, 1 January</b>                   | <b>789</b>   | <b>805</b>   |
| Net income for the period                             | 0            | -16          |
| Remeasurements of post-employment benefit obligations | -1           | 3            |
| Currency translation differences                      | 2            | -2           |
| Other comprehensive income                            | 1            | 1            |
| <b>Total comprehensive income</b>                     | <b>1</b>     | <b>-15</b>   |
| Capital increase                                      | 0            | 0            |
| <b>Ending balance</b>                                 | <b>790</b>   | <b>789</b>   |

# Consolidated Statement of cash flow

| EURm   | Jan-Mar<br>2016 | Jan-Dec<br>2015 |
|--|-----------------|-----------------|
| <b>Operating activities:</b>   |                 |                 |
| Results from operating activities (EBIT)                                     | 36              | 150             |
| Amortisation, depreciation and impairment                                    | 10              | 37              |
| Amortisation and revaluation of Purchased Debt                               | 36              | 144             |
| Interest received  | 0               | 1               |
| Interest paid  | -59             | -152            |
| Corporate Income tax paid  | -1              | -36             |
| <b>Cash flow from operating activities before changes in working capital</b> | <b>23</b>       | <b>144</b>      |
| <b>Cash flow from changes in working capital:</b>                            |                 |                 |
| Decrease(+) / increase(-) in accounts receivable                             | -7              | -8              |
| Decrease(+) / increase(-) in other receivables                               | 2               | -39             |
| Decrease(-) / increase(+) in accounts payable                                | 6               | -2              |
| Decrease(-) /increase(+) in other current liabilities                        | -6              | -4              |
| <b>Cash flow (used in)/from operating activities</b>                         | <b>18</b>       | <b>90</b>       |
| <b>Investment activities:</b>  |                 |                 |
| Acquisition/disposal of subsidiaries   | -1              | -33             |
| Acquisition of tangible fixed assets   | -1              | -5              |
| Acquisition of intangible fixed assets                                       | -4              | -40             |
| Proceeds from sale of shares   | 0               | 1               |
| Acquisition of loans and receivables   | -23             | -396            |
| <b>Cash flow (used in)/from investing activities</b>                         | <b>-28</b>      | <b>-472</b>     |
| <b>Financing activities:</b>   |                 |                 |
| Proceeds from new debt   | 44              | 671             |
| Retirement of debt   | -39             | -327            |
| Loan to group companies  | 0               | -2              |
| Other financial expenses   | -1              | -8              |
| <b>Cash flow (used in)/from financing activities</b>                         | <b>5</b>        | <b>334</b>      |
| <b>Cash flow for the period</b>  | <b>-6</b>       | <b>-48</b>      |
| Currency effect  | 4               | 2               |
| Cash and cash equivalents at the beginning of the period                     | 53              | 99              |
| <b>Cash and cash equivalents at end of period</b>                            | <b>51</b>       | <b>53</b>       |

# Income Statement Parent Company

| EURm  | Jan-Mar 2016 | Jan-Mar 2015 |
|---|--------------|--------------|
| Net revenue                                     | 1            | 0            |
| Other operating costs                           | 0            | 0            |
| <b>Results from operating activities (EBIT)</b> | <b>0</b>     | <b>0</b>     |
| Finance income                                  | 10           | 11           |
| Finance costs                                   | -10          | -11          |
| <b>Net finance costs</b>                        | <b>0</b>     | <b>0</b>     |
| <b>Profit before tax</b>                        | <b>0</b>     | <b>0</b>     |
| Income tax expense                              | 0            | 0            |
| <b>Profit for the period</b>                    | <b>0</b>     | <b>0</b>     |

# Statement of financial position Parent Company

| EURm   | 31 Mar 2016  | 31 Dec 2015  |
|--|--------------|--------------|
| <b>ASSETS</b>                                  |              |              |
| Investment in subsidiaries                     | 739          | 724          |
| Long-term receivables                          | 452          | 451          |
| <b>Non-current assets</b>                      | <b>1,191</b> | <b>1,175</b> |
| Other short-term receivables                   | 6            | 13           |
| <b>Current assets</b>                          | <b>6</b>     | <b>13</b>    |
| <b>Total assets</b>                            | <b>1,197</b> | <b>1,188</b> |
| <b>EQUITY</b>                                  |              |              |
| Share Capital                                  | 9            | 9            |
| <b>Total restricted capital</b>                | <b>9</b>     | <b>9</b>     |
| Share Premium                                  | 730          | 715          |
| Retained earnings                              | 0            | 0            |
| <b>Total non-restricted capital</b>            | <b>730</b>   | <b>715</b>   |
| <b>Total equity</b>                            | <b>739</b>   | <b>723</b>   |
| <b>LIABILITIES</b>                             |              |              |
| Bonds  | 451          | 451          |
| Other long-term liabilities                    | 2            | 2            |
| <b>Non-current liabilities</b>                 | <b>452</b>   | <b>453</b>   |
| Other short-term liabilities                   | 5            | 12           |
| <b>Current liabilities</b>                     | <b>5</b>     | <b>12</b>    |
| <b>Total liabilities</b>                       | <b>458</b>   | <b>465</b>   |
| <b>Total equity and liabilities</b>            | <b>1,197</b> | <b>1,188</b> |
| <b>Pledged assets (shares in subsidiaries)</b> | <b>739</b>   | <b>724</b>   |

# Notes

## Note 1 – Accounting Principles

Lock Lower Holding AS consolidated financial statements for the first quarter of 2016 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 2015).

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 March for income statements and 31 March 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 Net revenue minus direct operating expenses.

### Revenues

Sales between segments are carried out at arm's length. Net 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  | Jan-Mar<br>2016 | Jan-Mar<br>2015 | Jan-Dec<br>2015 |
|---|-----------------|-----------------|-----------------|
| <b>Net revenue from external customers</b>    |                 |                 |                 |
| Debt Purchasing                               | 70              | 60              | 267             |
| Debt Collection                               | 59              | 66              | 248             |
| Other   | 6               | 4               | 19              |
| <b>Total</b>                                  | <b>135</b>      | <b>131</b>      | <b>534</b>      |
| <b>Inter- segment revenue</b>                 |                 |                 |                 |
| Debt Collection                               | 26              | 25              | 110             |
| Elimination                                   | -26             | -25             | -110            |
| <b>Earnings per segment</b>                   |                 |                 |                 |
| Debt Purchasing                               | 39              | 33              | 140             |
| Debt Collection                               | 35              | 37              | 151             |
| Other   | 1               | 1               | 6               |
| <b>Total</b>                                  | <b>76</b>       | <b>71</b>       | <b>297</b>      |
| <b>Unallocated cost</b>                       |                 |                 |                 |
| SG&A  | -15             | -16             | -54             |
| IT  | -9              | -9              | -36             |
| Other not allocated expenses                  | -5              | -6              | -21             |
| <b>EBITDA</b>                                 | <b>46</b>       | <b>39</b>       | <b>186</b>      |
| Depreciation and amortisation                 | -10             | -9              | -37             |
| <b>EBIT</b>                                   | <b>36</b>       | <b>31</b>       | <b>150</b>      |
| Net financial Items                           | -32             | -36             | -172            |
| <b>Profit before tax</b>                      | <b>5</b>        | <b>-6</b>       | <b>-23</b>      |
| <b>Purchased loans and receivables</b>        |                 |                 |                 |
| Beginning value                               | <b>1,070</b>    | <b>809</b>      | <b>809</b>      |
| Amortisation                                  | -38             | -32             | -149            |
| Revaluation                                   | 2               | 1               | 5               |
| Portfolio acquisitions                        | 24              | 42              | 395             |
| Investment in portfolios through acquisitions | 0               | 0               | 21              |
| Divestment and disposals                      | -1              | -0              | -1              |
| Effect of change in FX rates                  | 4               | 6               | -9              |
| <b>Ending value</b>                           | <b>1,061</b>    | <b>826</b>      | <b>1,070</b>    |
| Average carrying value of purchased debt      | <b>1,066</b>    | <b>818</b>      | <b>940</b>      |
| Return in Debt Purchasing (LTM)               | 15.5 %          | 15.7 %          | 14.9 %          |

## Note 3 – Reconciliation of income to Adjusted EBITDA

| EURm  | Jan-Mar<br>2016 | Jan-Mar<br>2015 | Jan-Dec<br>2015 |
|---|-----------------|-----------------|-----------------|
| Net revenue from Debt Purchasing                    | 70              | 60              | 267             |
| Amortisation and revaluation                        | 36              | 31              | 144             |
| <b>Gross revenue from Debt Purchasing</b>           | <b>106</b>      | <b>92</b>       | <b>411</b>      |
| Net revenue from Debt Collection and Other Services | 65              | 70              | 267             |
| Employee benefit expense                            | -50             | -47             | -187            |
| Legal fee cost                                      | -11             | -10             | -43             |
| Phone, postage and packaging                        | -5              | -5              | -18             |
| Other operating costs                               | -23             | -30             | -100            |
| <b>Adjusted EBITDA</b>                              | <b>83</b>       | <b>71</b>       | <b>331</b>      |

## Note 4 – Fair value of financial assets and liabilities

| EURm  | Book value   | Fair value*  |                |
|---|--------------|--------------|----------------|
|   | 31 Mar 2016  | 31 Mar 2016  | FV - hierarchy |
| <b>Financial assets at amortised cost</b>                         |              |              |                |
| Loans and receivables   | 1,061        | 1,061        | 3              |
| Other long-term assets  | 9            | 9            | 3              |
| Trade receivables   | 24           | 24           | 3              |
| Other short-term receivables                                      | 66           | 66           | 3              |
| Cash and cash equivalents   | 51           | 51           |                |
| <b>Financial liabilities at fair value through profit or loss</b> |              |              |                |
| Financial derivatives   | 2            | 2            | 2              |
| <b>Financial liabilities at amortised cost</b>                    |              |              |                |
| Bonds   | 1,864        | 1,954        | 1              |
| Trade payables  | 19           | 19           | 3              |
| Short-term loan   | 213          | 213          | 2              |
| Other short-term liabilities                                      | 40           | 40           | 3              |
| <b>Total</b>  | <b>2,138</b> | <b>2,228</b> |                |

\* See Annual Report Lock Lower Holding AS 2015 for description of calculation of fair value.

## Note 5 – Borrowing

| Revolving Credit Facility (RCF) | Limit* | Security             | Maturity   | Interest | Margin        | Participants          |
|---------------------------------|--------|----------------------|------------|----------|---------------|-----------------------|
| EURm                            | 320    | Super Senior secured | 06.04.2020 | Floating | EURIBOR+3.50% | Nordea, DNB, SEB, NYK |

\* Total RCF limit is EUR 320m, whereof EUR 25m is allocated to guarantees. As at 31 March 2016 EUR 212m was drawn, excluding EUR 21m in 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 |
| <b>Total (EURm)***</b> |              | <b>1,911</b> |                      |            |          |                  |                       |

\* Interest accrued from 06.08.2014

\*\* Interest accrued from 15.08.2015

\*\*\* Total is in EURm equivalent based on closing rates 31 March 2016. 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

Lindorff has signed an agreement to acquire 100% of the shares in Cross Factor S.p.A. Cross Factor is an Italian company providing both Debt Purchasing and Debt Collection services. Closing is expected in Q2 2016.

# 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

**NRIs** – Non-recurring Items

**LTM** – Last Twelve Months

# Other information

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