Registered No. 06250176

# BrightHouse Group plc

## Half Year Report

## as of and for the twenty-six weeks ended 1 October 2016

**BrightHouse Group plc**
5 Hercules Way
Leavesden Park
Watford WD25 7GS
United Kingdom

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**TABLE OF CONTENTS**

**Page**

Operational Highlights for the Half Year 2016 .......... 1

Certain Definitions .......... 2

Presentation of Financial and Other Data .......... 3

Consolidated Financial Statements .......... 5

Management's Discussion and Analysis of Financial Condition and Results of Operations .......... 20

Key Contacts and Calendar .......... 26

## Operational Highlights for the Half Year 2016

BrightHouse Group plc (the "Company"), the leading provider of rent-to-own products in the United Kingdom, today announces interim results of operations for the thirteen weeks and twenty-six weeks ended 1 October 2016.

### Key Highlights

- Generated EBITDA of £10.2 million for the Half Year 2016;
- Generated pre-financing cash flows of £42.8 million for the Half Year 2016 compared to £17.3 million for the Half Year 2015;
- Our Contract Portfolio is valued at £439.3 million as of 1 October 2016 compared to £560.1 million as of 28 September 2015;
- As of 1 October 2016, we had 250,500 customers, representing a decrease of 9.6% compared to 277,100 customers as of 28 September 2015;
- Online applications for the Half Year 2016 increased by 7.2% compared to the Half Year 2015;
- Continued investment in the Microsoft Dynamics platform and other strategic programs;
- Continued progress in relation to our FCA authorisation application; and
- After eleven years of service, at the age of 70, Leo McKee has retired. Hamish Paton, previously our Commercial Managing Director, was appointed as his successor.

Hamish Paton, Chief Executive Officer, said:

"The continued implementation of rigorous affordability processes and tightened credit criteria have impacted significantly on the Group's trading and financial results. However our strategic investment in process simplification, e-commerce and supply chain, coupled with further improvements in operational efficiencies, should provide a firm platform to drive long term growth. FCA authorisation remains our number one priority, with a decision expected in March 2017."

The following table reconciles EBITDA to (loss)/profit for the period for the Second Quarter 2015 and the Second Quarter 2016, as well as the Half Year 2015 and the Half Year 2016.

| (in thousands of £) | For the Second Quarter 2016 | For the Second Quarter 2015 | For the Half Year 2016 | For the Half Year 2015 |
|---|---|---|---|---|
| (Loss) / Profit before tax | (6,993) | 5,646 | (9,017) | 8,185 |
| Financial income and expenses | 5,757 | 5,420 | 11,258 | 11,015 |
| Depreciation of fixtures and equipment and amortisation of software | 3,234 | 3,167 | 6,492 | 6,302 |
| Exceptional items | 792 | – | 1,435 | – |
| EBITDA | 2,790 | 14,233 | 10,168 | 25,502 |

**Certain Definitions**

Definitions of certain terms used in this Half Year Report and certain financial and operating data can be found below.

"APR" refers to the annual percentage interest rate.

"Company" refers to BrightHouse Group plc.

"Contract Portfolio" refers to, collectively, all the hire purchase agreements existing on any given date. For a detailed explanation of Contract Portfolio as a non-IFRS operating measure, see "Presentation of Financial and Other Data—Presentation of non-IFRS operating measures".

"EBT" refers to the Employee Benefit Trust.

"Half Year 2015" refers to the twenty-six weeks ended 28 September 2015.

"Half Year 2016" refers to the twenty-six weeks ended 1 October 2016.

"Half Year Report" refers to this report as of and for the twenty-six weeks ended 1 October 2016.

"IFRS" refers to International Financial Reporting Standards as adopted by the European Union.

"Indenture" refers to the indenture dated 9 May 2013 relating to the $7^7/_8$% senior secured notes due 2018 issued by the Company.

"Insurance Subsidiaries" refers to, collectively, Caversham Insurance (Malta) Limited, Caversham Holdings (Malta) Limited and Caversham Insurance (Isle of Man) Limited.

"Loan Notes" refers to the unsecured loan stock issued by the Company to Haig Luxembourg Holdco S.à r.l. on 9 May 2013 as part of the exchange of the loan stock previously issued by BrightHouse Holdings Ltd to Haig Luxembourg Holdco S.à r.l.; the principal amount outstanding under the Loan Notes on the issue date of the Notes was the balance of amounts owing to Haig Luxembourg Holdco S.à r.l. under the previously issued loan stock instrument less cash paid from the proceeds of the offering of the Notes.

"LTM" refers to any twelve month period as required by the context.

"Notes" refers to the $7^7/_8$ % senior secured notes due 2018 issued by the Company on 9 May 2013.

"SEC" refers to the U.S. Securities and Exchange Commission.

"Second Quarter 2015" refers to the thirteen weeks ended 28 September 2015.

"Second Quarter 2016" refers to the thirteen weeks ended 1 October 2016.

"sterling", "pound sterling" and "£" refer to the lawful currency of the United Kingdom.

"the period" and "this period" refer to the Second Quarter 2016 unless the context otherwise requires.

"we", "us", "our", "Group" and other similar terms refer to the Company and its consolidated subsidiaries unless the context otherwise requires or is clear from context.

## Presentation of Financial and Other Data

For purposes of this Half Year Report we refer to the twenty-six weeks ended 1 October 2016 as "Half Year 2016", and the twenty-six weeks ended 28 September 2015 as "Half Year 2015." We refer to our fiscal year started 1 April 2016 ending 31 March 2017 as "Fiscal 2017."

### *Consolidated financial statements*

The consolidated financial statements of the Company and its subsidiaries for the twenty-six weeks ended 1 October 2016 presented in this Half Year Report have been prepared in accordance with IFRS and in accordance with the accounting policies presented in the offering memorandum relating to the Notes. The consolidated financial statements are unaudited and have been derived from the internal management reporting of the Company. The results of operations for prior periods or interim periods are not necessarily indicative of the results to be expected for the full financial reporting periods or any future reporting periods.

### *Presentation of non-IFRS financial measures*

In this Half Year Report, we present certain non-IFRS financial measures, including EBITDA and certain related ratios. As used in this Half Year Report, the following terms have the following meanings:

We define "EBITDA" as profit for the period before financial charges, tax, depreciation of fixtures and equipment (but not depreciation of hire purchase assets), amortisation of software and exceptional items.

We believe that EBITDA is a useful indicator of our overall financial performance and EBITDA is a useful indicator of our liquidity and our ability to incur and service our indebtedness, and can assist certain investors, securities analysts and other interested parties in evaluating us.

EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA as reported by us to that reported by other companies. EBITDA as presented herein differs from the definition of "Consolidated EBITDA" contained in the Indenture or for purposes of any of our other indebtedness. The information presented as EBITDA is unaudited and has not been prepared in accordance with IFRS or any other accounting standards. In addition, the presentation of these measures is not intended to and does not comply with the reporting requirements of the SEC and will not be subject to review by the SEC; compliance with its requirements would require us to make changes to the presentation of this information.

EBITDA is not a measurement of performance under IFRS and you should not consider EBITDA as an alternative to net income or operating profit or other performance measures determined in accordance with IFRS, or to cash flows from operations, investing activities or financing activities. EBITDA has limitations as an analytical tool, and you should not consider it in isolation.

### *Presentation of non-IFRS operating measures*

This Half Year Report includes information on our "Contract Portfolio" and other related data. Our Contract Portfolio consists of all of the hire purchase agreements we enter into with our customers. The value of our Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming that all contracts are paid in full and not terminated prior to maturity. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of optional product insurance cover taken up by customers since 27 April 2015. These payments also include our previously offered warranty and insurance options, namely, optional service cover and damage liability cover purchased by customers. This Half Year Report also presents information on the performance of our Contract Portfolio. Information relating to the value of our Contract Portfolio and performance of our Contract Portfolio has been produced by Euristix, a specialist analytics and risk management firm, based on the data we provide them. We cannot assure you of the accuracy and completeness of such information, and Euristix does not assume liability for such information.

We present the value of our Contract Portfolio because it represents our best estimate of the undiscounted cash value of the aggregate payments that will come due under our existing hire purchase agreements at certain points in time. The value of our Contract Portfolio is an important supplemental measure by which our board of directors and management assess our performance, as they highlight the cash generation capacity of the assets underlying our business. However, these numbers are not derived from our internal financial systems or management accounts, but are derived from our non-financial operating systems and they have not been audited, reviewed or verified by independent auditors.

The value of the Contract Portfolio and other Contract Portfolio related performance data, as computed by us, may not be comparable to similar metrics used by other companies in our industry. In addition, our computations could differ in the future from the figures included in this Half Year Report. Furthermore, levels of actual recoveries are uncertain and may vary materially due to several factors. Therefore, none of the value of our Contract Portfolio or any other Contract Portfolio related data included herein should be relied on as indicators of future revenue or performance.

***Rounding adjustments***

Certain numerical figures contained in this Half Year Report, including financial information and certain operating data, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or within a table may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

## Consolidated Financial Statements

# Group income statement

**for the thirteen weeks and twenty-six weeks ended 1 October 2016**

| | Notes | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|---|
| ***Revenue*** | 3 | 80,810 | 91,957 | 172,529 | 182,109 |
| Cost of sales | | (40,870) | (43,382) | (85,599) | (84,028) |
| ***Gross profit*** | | 39,940 | 48,575 | 86,930 | 98,081 |
| Operating expenses | | (41,176) | (37,509) | (84,689) | (78,881) |
| ***Operating (loss) / profit*** | | (1,236) | 11,066 | 2,241 | 19,200 |
| Analysed by: | | | | | |
| Depreciation of fixtures and equipment and amortisation of intangible assets | | 3,234 | 3,167 | 6,492 | 6,302 |
| Exceptional items | 2 | 792 | – | 1,435 | – |
| Earnings before interest, tax, depreciation amortisation and exceptional items | | 2,790 | 14,233 | 10,168 | 25,502 |
| Other finance income | 4 | 34 | 81 | 147 | 15 |
| Other finance expenses | 4 | (5,791) | (5,501) | (11,405) | (11,030) |
| ***(Loss) / Profit before taxation*** | | (6,993) | 5,646 | (9,017) | 8,185 |
| Tax credit / (charge) | 5 | 441 | (1,221) | 574 | (1,810) |
| ***(Loss) / Profit for the period*** | | (6,552) | 4,425 | (8,443) | 6,375 |

The results shown above all relate to continuing activities.

# Group statement of comprehensive income

**for the thirteen weeks and twenty-six weeks ended 1 October 2016**

| | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|
| ***(Loss) / Profit for the period*** | (6,552) | 4,425 | (8,443) | 6,375 |
| Other comprehensive income for the period net of tax | – | – | – | – |
| ***Total comprehensive income for the period net of tax*** | (6,552) | 4,425 | (8,443) | 6,375 |

# Group statement of financial position

**as of 1 October 2016**

| | Notes | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|---|
| ***Non-current assets*** | | | |
| Property, plant and equipment | 6 | 129,217 | 164,027 |
| Intangible assets | 7 | 90,879 | 86,117 |
| Trade and other receivables | 10 | 13,417 | 20,769 |
| Deferred tax assets | 8 | 6,456 | 7,058 |
| | | 239,969 | 277,971 |
| ***Current assets*** | | | |
| Inventories | 9 | 18,791 | 17,464 |
| Trade and other receivables | 10 | 44,843 | 55,904 |
| Cash and cash equivalents | 11 | 75,287 | 28,474 |
| | | 138,921 | 101,842 |
| ***Total assets*** | | 378,890 | 379,813 |
| ***Current liabilities*** | | | |
| Trade and other payables | 12 | 52,820 | 60,177 |
| Other provisions | 14 | 3,878 | – |
| Current tax payable | | 1,022 | 1,762 |
| | | 57,720 | 61,939 |
| ***Non-current liabilities*** | | | |
| Financial liabilities | 13 | 253,158 | 248,877 |
| | | 253,158 | 248,877 |
| ***Total liabilities*** | | 310,878 | 310,816 |
| ***Net assets*** | | 68,012 | 68,997 |
| ***Equity attributable to equity holders of the parent*** | | | |
| Share capital | 15 | 50 | 50 |
| Share premium | | 552 | 552 |
| Capital redemption reserve | | 57 | 57 |
| Own shares reserve | | (296) | (304) |
| Retained earnings | | 67,649 | 68,642 |
| ***Total equity*** | | 68,012 | 68,997 |

# Group statement of changes in equity

**for the twenty-six weeks ended 1 October 2016**

| | Share capital (unaudited) £000 | Share premium (unaudited) £000 | Own shares (unaudited) £000 | Retained earnings (unaudited) £000 | Capital redemption reserve (unaudited) £000 | Total Equity (unaudited) £000 |
|---|---|---|---|---|---|---|
| As of 1 April 2015 | 50 | 552 | (296) | 62,267 | 57 | 62,630 |
| Profit for the period | – | – | – | 6,375 | – | 6,375 |
| Issue of shares to employees (net) | – | – | (8) | – | – | (8) |
| As of 28 September 2015 | 50 | 552 | (304) | 68,642 | 57 | 68,997 |
| As of 1 April 2016 | 50 | 552 | (296) | 76,092 | 57 | 76,455 |
| Loss for the period | – | – | – | (8,443) | – | (8,443) |
| As of 1 October 2016 | 50 | 552 | (296) | 67,649 | 57 | 68,012 |

# Group statement of cash flows

**for the thirteen weeks and twenty-six weeks ended 1 October 2016**

| | Notes | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|---|
| ***Cash flows from operating activities*** | | | | | |
| (Loss) / Profit for the period | | (6,552) | 4,425 | (8,443) | 6,375 |
| Adjustments for: | | | | | |
| Sales proceeds from sales of rental assets | | 597 | 773 | 1,277 | 1,526 |
| Depreciation | | 26,076 | 29,481 | 59,220 | 57,384 |
| Amortisation of intangible assets | | 1,748 | 1,507 | 3,486 | 2,857 |
| Financial income | | (34) | (10) | (147) | (15) |
| Financial expense | | 5,791 | 5,430 | 11,405 | 11,030 |
| Loss / (Profit) on rental assets sold to customers | | 59 | (148) | (178) | (279) |
| Rental assets written off as obsolete or not recoverable from defaulting customers | | 6,221 | 5,833 | 12,887 | 12,844 |
| Purchase of rental assets | | (15,920) | (27,892) | (40,068) | (62,699) |
| Taxation | | (441) | 1,221 | (574) | 1,810 |
| ***Operating cash inflow before changes in working capital*** | | 17,545 | 20,620 | 38,865 | 30,833 |
| Decrease / (increase) in trade and other receivables | | 7,951 | 1,116 | 9,045 | (2,321) |
| Decrease / (increase) in inventories | | 1,697 | 2,818 | 292 | (3,100) |
| (Decrease) / increase in trade and other payables | | (2,911) | (17,852) | 1,436 | 488 |
| Increase in provisions | | 529 | – | 778 | – |
| ***Cash generated from operations*** | | 24,811 | 6,702 | 50,416 | 25,900 |
| Tax paid | | (561) | (1) | (817) | (81) |
| ***Net cash flow from operating activities*** | | 24,250 | 6,701 | 49,599 | 25,819 |
| ***Cash flows from investing activities*** | | | | | |
| Interest received | | 18 | 10 | 43 | 15 |
| Purchase of property, plant and equipment | | (722) | (3,042) | (1,286) | (4,900) |
| Payments to acquire intangible assets | | (3,358) | (1,399) | (5,599) | (3,665) |
| ***Net cash from investing activities*** | | (4,062) | (4,431) | (6,842) | (8,550) |
| ***Cash flows from financing activities*** | | | | | |
| Interest paid | | (92) | (85) | (8,839) | (8,846) |
| Proceeds from sale of shares by EBT | | – | (8) | – | (8) |
| ***Net cash flow from financing activities*** | | (92) | (93) | (8,839) | (8,854) |
| ***Net increase in cash and cash equivalents*** | | 20,096 | 2,177 | 33,918 | 8,415 |
| Cash and cash equivalents at the beginning of the period | | 55,191 | 26,297 | 41,369 | 20,059 |
| Cash and cash equivalents at the end of the period | 11 | 75,287 | 28,474 | 75,287 | 28,474 |

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 1. Accounting policies and basis of preparation

This Half Year report contains condensed consolidated financial information of BrightHouse Group plc for the thirteen weeks ended 1 October 2016 and the twenty-six weeks ended 1 October 2016. The unaudited Half Year financial information has been prepared using consistent accounting policies, presentation, and method of computation to those applied in the latest annual financial statements of BrightHouse Group plc for the year ended 31 March 2016. This financial information should be read in conjunction with the consolidated financial statements of BrightHouse Group plc for the year ended 31 March 2016.

***Basis of preparation***

The consolidated financial statements of BrightHouse Group plc and its subsidiaries (the "Group") are approved by the directors and prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("EU") ("Adopted IFRS"). The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated. The financial information contained in this interim statement does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006.

## 2. Exceptional items

Recognised as part of operating profit

| | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|
| Affordability action plan | 592 | – | 1,235 | – |
| Restructuring | 200 | – | 200 | – |
| | 792 | – | 1,435 | – |

Further details on the affordability action plan and the restructuring provision are provided in note 14 of the Half Year report.

## 3. Revenue

Revenue comprises revenue from the provision of home electronic and domestic appliances, technology products, household furniture and other related products to domestic customers through hire purchase agreements and related service insurance and warranty agreements. Customers entering into our hire purchase agreements from 2 September 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. The Group accounts for its revenue on an accruals basis for all domestic hire-purchase and service insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date. Prior to 2 September 2013, the automatic right of return was not provided within the hire purchase agreement, however, the majority of customers also entered into an additional optional insurance arrangement which gave them this benefit.

On this basis the transactions are treated as being operating leases in nature and the directors believe that at the inception of the lease there are no minimum future lease payments as the goods can be returned at any time.

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 4. Finance income and expense

Recognised in the income statement

| | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|
| Interest income | 18 | 9 | 43 | 14 |
| Unwinding of discount re: trade receivables due after more than 1 year | 16 | 72 | 104 | 1 |
| Finance income | 34 | 81 | 147 | 15 |

| | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|
| Interest expense | 5,791 | 5,501 | 11,405 | 11,030 |
| Finance expenses | 5,791 | 5,501 | 11,405 | 11,030 |

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 5. Taxation

Tax on ordinary activities

Recognised in the income statement

| | *13 weeks ended 1 October 2016 (unaudited) £000* | *13 weeks ended 28 September 2015 (unaudited) £000* | *26 weeks ended 1 October 2016 (unaudited) £000* | *26 weeks ended 28 September 2015 (unaudited) £000* |
|---|---|---|---|---|
| *Current tax:* | | | | |
| Corporation tax charge UK | – | 798 | – | 983 |
| Corporation tax charge overseas | 109 | 27 | 230 | 63 |
| Total current income tax | 109 | 825 | 230 | 1,046 |
| *Deferred tax:* | | | | |
| Deferred tax charge | (550) | 396 | (804) | 764 |
| Total deferred tax charge | (550) | 396 | (804) | 764 |
| Total taxation in income statement | (441) | 1,221 | (574) | 1,810 |

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 6. Property, plant and equipment

| | *Rental assets (unaudited) £000* | *Fixtures, equipment and vehicles (unaudited) £000* | *Total (unaudited) £000* |
|---|---|---|---|
| Cost: | | | |
| As of 1 April 2015 | 200,380 | 56,242 | 256,622 |
| Additions | 62,699 | 4,900 | 67,599 |
| Disposals | (65,753) | – | (65,753) |
| As of 28 September 2015 | 197,326 | 61,142 | 258,468 |
| As of 1 April 2016 | 180,795 | 63,066 | 243,861 |
| Additions | 40,068 | 1,286 | 41,354 |
| Disposals | (78,961) | – | (78,961) |
| As of 1 October 2016 | 141,902 | 64,352 | 206,254 |
| Depreciation: | | | |
| As of 1 April 2015 | 47,664 | 41,055 | 88,719 |
| Depreciation charge for the period | 53,939 | 3,445 | 57,384 |
| Disposals | (51,662) | – | (51,662) |
| As of 28 September 2015 | 49,941 | 44,500 | 94,441 |
| As of 1 April 2016 | 35,166 | 47,627 | 82,793 |
| Depreciation charge for the period | 56,214 | 3,006 | 59,220 |
| Disposals | (64,976) | – | (64,976) |
| As of 1 October 2016 | 26,404 | 50,633 | 77,037 |
| Net book value: | | | |
| As of 1 October 2016 | 115,498 | 13,719 | 129,217 |
| As of 1 April 2016 | 145,629 | 15,439 | 161,068 |
| As of 28 September 2015 | 147,385 | 16,642 | 164,027 |
| As of 1 April 2015 | 152,716 | 15,187 | 167,903 |

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 7. Intangible assets

| | *Software (unaudited) £000* | *Goodwill (unaudited) £000* | *Total (unaudited) £000* |
|---|---|---|---|
| Cost: | | | |
| As of 1 April 2015 | 48,826 | 74,978 | 123,804 |
| Additions | 3,665 | – | 3,665 |
| As of 28 September 2015 | 52,491 | 74,978 | 127,469 |
| As of 1 April 2016 | 58,612 | 74,978 | 133,590 |
| Additions | 5,599 | – | 5,599 |
| As of 1 October 2016 | 64,211 | 74,978 | 139,189 |
| Amortisation: | | | |
| As of 1 April 2015 | 38,495 | – | 38,495 |
| Amortisation charge for the period | 2,857 | – | 2,857 |
| As of 28 September 2015 | 41,352 | – | 41,352 |
| As of 1 April 2016 | 44,824 | – | 44,824 |
| Amortisation charge for the period | 3,486 | – | 3,486 |
| As of 1 October 2016 | 48,310 | – | 48,310 |
| Net book value: | | | |
| As of 1 October 2016 | 15,901 | 74,978 | 90,879 |
| As of 1 April 2016 | 13,788 | 74,978 | 88,766 |
| As of 28 September 2015 | 11,139 | 74,978 | 86,117 |
| As of 1 April 2015 | 10,331 | 74,978 | 85,309 |

**Impairment testing**

Goodwill arose from the acquisition of BrightHouse Limited and has been allocated to the Group's one cash generating unit (CGU) of retail sales, hire-purchase agreements and associated premiums for insurance and warranty contracts. The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the board covering a five year period.

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 8. Deferred tax assets

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Assets: | | |
| Tax losses recognised | 963 | 860 |
| Other property, plant and equipment | 5,311 | 5,887 |
| Capital contributions on lease incentives | 182 | 311 |
| Total tax assets | 6,456 | 7,058 |

As of 1 October 2016, there is an unrecognised deferred tax asset within the Group of £753,000 (2015 - £nil).

## 9. Inventories

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Goods held for resale at cost | 18,791 | 17,464 |

During the period assets acquired for resale amounting to £40,068,000 (2015 – £62,699,000) were capitalised within property, plant and equipment as rental assets when issued to stores in advance of being hired to customers pursuant to hire and hire purchase agreements.

## 10. Trade and other receivables

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Current: | | |
| Trade receivables | 899 | 4,169 |
| Other trade receivables and prepayments | 17,140 | 19,200 |
| Other non-trade receivables | 872 | 940 |
| VAT incurred in advance of recovery from customers | 24,303 | 30,466 |
| Other taxes and social security | 1,629 | 1,129 |
| | 44,843 | 55,904 |

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Non-current: | | |
| VAT incurred in advance of recovery from customers | 12,777 | 18,865 |
| Other trade receivables and prepayments | 640 | 1,276 |
| Other non-trade receivables | – | 628 |
| | 13,417 | 20,769 |

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 10. Trade and other receivables (continued)

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade receivables primarily comprise VAT recoverable which is paid on the full value of assets acquired by customers under hire and hire purchase agreements when the contracts commence and are recovered from customers over the full length of these agreements or from HMRC on customer default.

Within trade receivables £12,777,000 (2015 – £18,865,000) is receivable after more than one year and has been discounted to determine its fair value. All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a bad debt provision of £1,437,000 (2015 – £1,560,000) has been recorded accordingly.

In addition, some of the unprovided trade receivables are past due as of the reporting date. The age of financial assets past due but not provided for is as follows:

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| 1-7 days | 86 | 82 |
| 8-14 days | 87 | 87 |
| 15-45 days | 350 | 375 |
| 46-90 days | 10 | 11 |
| | 533 | 555 |

Movements in bad debt provision

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| At beginning of period | 1,437 | 1,387 |
| Amounts written off as uncollectable | (8,977) | (8,770) |
| Increase in bad debt provision | 8,977 | 8,943 |
| At end of period | 1,437 | 1,560 |

The movement in the bad debt provision consists of individually insignificant balances.

## 11. Cash and cash equivalents

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Cash and cash equivalents per balance sheet and cash flow statement | 75,287 | 28,474 |

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £9,197,000 (2015 – £5,276,000). This includes restricted cash of £8,506,000 (2015 – £4,566,000) which represents cash at bank held by entities who supply insurance related services within the Group which is restricted due to certain regulatory and solvency requirements. This also includes restricted cash of £691,000 (2015 – £710,000) which represents cash held by the Group on behalf of customers.

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 12. Trade and other payables

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Trade payables | 13,468 | 22,650 |
| Other taxes and social security | 2,311 | 1,874 |
| Other non-trade payables | 433 | 487 |
| Accrued expenses | 30,017 | 28,663 |
| Accrued interest | 6,591 | 6,503 |
| | 52,820 | 60,177 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 13. Financial liabilities

| | *1 October 2016 (unaudited) £000* | *28 September 2015 (unaudited) £000* |
|---|---|---|
| Non-current liabilities: | | |
| Unsecured 10% loan stock issued to related parties | 35,705 | 33,012 |
| Senior secured notes | 217,453 | 215,865 |
| | 253,158 | 248,877 |

In August 2016, the Group took the decision to cancel the senior credit facility with Lloyds Bank Plc and Sumitomo Mitsui Banking Corporation Europe Limited in advance of the planned repayment date.
As of 28 September 2015, the senior credit facility included a drawdown of £nil, with the carrying value of fees incurred on the debt facility equalling £628,000.
The senior secured notes include an issue of £220 million (2015 – £220 million) less fees incurred on the debt facility of £2,547,000 (2014 - £4,135,000). These fees are amortised over the term of the facilities.

### Terms and debt repayment schedule

The unsecured 10% loan stock is redeemable on 9 May 2040 and forms part of the investment made in the Group by funds advised by Vision Capital LLP. The unsecured 10% loan stock is subordinated and junior in right of payment to the senior secured notes. The amount above includes £9,065,000 (2015 – £6,372,000) of accrued interest. The terms of the unsecured loan stock are such that the maturity date cannot be prior to the maturity date of the senior secured notes.

In 2013/14 the Group issued £220 million senior secured notes due 15 May 2018. Interest is fixed at 7.875% and payable on 15 May and 15 November every year to the date of expiry.

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 14. Other provisions

| | *Affordability Action Plan (unaudited) £000* | *Restructuring (unaudited) £000* | *Total (unaudited) £000* |
|---|---|---|---|
| As of 1 April 2015 and 28 September 2015 | – | – | – |
| As of 1 April 2016 | 3,100 | – | 3,100 |
| Charged to the income statement | 783 | 200 | 983 |
| Utilised during the period | (181) | (24) | (205) |
| As of 1 October 2016 | 3,702 | 176 | 3,878 |

In the latter part of 2015/16, we developed an affordability action plan in relation to customer acceptance policies ahead of FCA authorisation. The estimated costs of implementing this plan were recorded as an exceptional item of £3,100,000 in the annual financial statements of BrightHouse Group plc for the year ended 31 March 2016.

The estimated costs of this plan have increased by £1,235,000 in the Half Year 2016, of which £783,000 is provided for, £124,000 accrued for and £328,000 has been paid. The total of these amounts has been recorded as an exceptional item.

The full cost of the plan is dependent on a number of future events. Further details are not disclosed due to the ongoing nature of the discussions with the FCA. The Group expects the majority of costs to be incurred during 2017.

Additionally, in the Second Quarter 2016, the decision was taken to close the Warrington Local Distribution Centre and restructure the operations of the Manchester Local Distribution Centre. Consequently a restructuring provision of £176,000 has been recorded as an exceptional item. The Warrington Local Distribution Centre is due to close in the fourth quarter of FY16/17.

There was also non-recurring expenditure of £24,000 relating to the closure of overseas insurance operations in the Isle of Man and Guernsey. This amount was paid in the period. All overseas insurance operations are consolidated in Malta from 1 April 2016.

## 15. Share capital

| | *1 October 2016 (unaudited)* | | *28 September 2015 (unaudited)* | |
|---|---|---|---|---|
| *Allotted, called up and fully paid* | *No.* | *£000* | *No.* | *£000* |
| A Ordinary shares of £0.001 each | 4,340,000 | 4 | 4,340,000 | 4 |
| Ordinary shares of £0.001 each | 152,500 | – | 152,500 | – |
| B Ordinary shares of £0.01 each | 200,000 | 2 | 200,000 | 2 |
| C Ordinary shares of £0.01 each | 75,000 | 1 | 75,000 | 1 |
| D Ordinary shares of £0.01 each | 62,500 | 1 | 62,500 | 1 |
| E Ordinary shares of £0.01 each | 62,500 | 1 | 62,500 | 1 |
| F Ordinary shares of £500 each | 1 | 1 | 1 | 1 |
| G Ordinary shares of £0.001 each | 107,499 | – | 107,499 | – |
| H Ordinary shares of £500 each | 1 | 1 | 1 | 1 |
| A Preferred shares of £0.0000001 each | 6,725,639 | – | 6,725,639 | – |
| B Preferred shares of £0.0000001 each | 86,583,475 | – | 86,583,475 | – |
| Deferred shares of £0.0000001 each | 6,993,992,053 | – | 6,993,992,053 | – |
| C Preferred shares of £1.00 each | 40,500 | 41 | 40,500 | 41 |

# Notes to Group financial statements

**as of and for the thirteen weeks and twenty-six weeks ended 1 October 2016**

## 15. Share capital (continued)

On 22 November 2012 new Articles of Association were adopted by the Company which resulted in the sub-division and re-designation of the existing share capital into new classes of both Ordinary and Preferred Shares as set out below.

'A Ordinary Shares' are controlled by VCP VI B. 'B Ordinary Shares', 'C Ordinary Shares', 'D Ordinary Shares', 'E Ordinary Shares', 'F Ordinary Shares', 'G Ordinary Shares' and 'Ordinary Shares' are controlled by management ('Management Shares'). 'A Preferred Shares' are controlled by VCP VI B, 'B Preferred Shares' are controlled by VCP VI B and management and 'Deferred Shares' are controlled by the Employee Benefit Trust. Dividends are distributed first to A Preferred Shares until the maximum hurdle rate, described in the Articles of Association, has been met. Remaining dividend amounts are then distributed to B Preferred Shares until the maximum hurdle rate has been met. Deferred Shares receive no dividend distribution. All other classes of share are treated equally for any remaining distribution. For voting, each class of share holds in aggregate, the % of votes as follows: A Ordinary: 75%, B Ordinary: 5%, C Ordinary 5%, D Ordinary 5%, E Ordinary 5% and F Ordinary 5%. All other classes of share hold no voting rights. In the event of a sale of the business, realisation proceeds are allocated in the following order. To the extent that the hurdle rate exceeds any previous return of capital A Preferred Shares receive proceeds first. Next to the extent that the hurdle rate exceeds any previous return of capital B Preferred Shares receive proceeds. Deferred Shares receive a maximum of 1p on a sale of the business. Finally any remaining proceeds are distributed equally between the remaining share classes. However, in certain circumstances described in the Articles, participation of Management Shares in the proceeds may increase.

On 17 April 2013 two new classes of share were created. The H share is controlled by management and has 5% voting rights. Following the creation of this class of share, the E Shares lost voting rights. C Preferred shares are controlled by both VCP VI B and management and have no voting rights. The H Shares have the same economic rights as the Ordinary Shares and the C Preferred Shares only entitle the holders to an aggregate of £20 on any realisation.

On 28 November 2013 25,000 C Ordinary Shares were converted into 25,000 Ordinary Shares and 2,250,000,000 Deferred Shares.

On 25 July 2014 10,000 A Ordinary Shares were converted into 10,000 Ordinary Shares.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and should be read together with our consolidated financial statements as of and for the twenty-six weeks ended 1 October 2016 and the accompanying notes included elsewhere in this Half Year Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below in "Forward-Looking Statements".*

### Forward-Looking Statements

This Half Year Report includes "forward-looking statements" within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Half Year Report, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things: our future financial conditions, financial performance, performance of our Contract Portfolio, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "project", "should" or "will" or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry, the macroeconomic environment and the regulatory landscape in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Half Year Report. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry and regions in which we operate, are consistent with the forward-looking statements contained in this Half Year Report, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements are only made as of the date of this Half Year Report and, except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Half Year Report.

### Overview

We are the leading player in the rent-to-own market in the United Kingdom measured by revenue, total customers and number of stores. We offer an integrated retail, credit and service proposition attractive to low income and credit impaired consumers who have limited access to traditional financing alternatives. We conduct our operations from our 312 stores which are located across the United Kingdom. Our product offering consists of a well-balanced mix of quality new and refurbished household goods, including essential and aspirational products, from four main categories: (i) televisions and audio products; (ii) domestic appliances, including washers, fridges and cookers; (iii) furniture, including sofas, dining sets and beds; and (iv) consumer technology, including mobile devices, gaming consoles and computers. Each product category includes a choice of leading brands from name-brand manufacturers, as well as entry level products and quality refurbished products, across a wide range of price points, which are carefully selected to appeal to low income customers.

We continue to evolve our proposition to ensure that it meets the needs of our customers. With effect from 27 April 2015, we are offering our product insurance as a separate optional cover. The retail price of the product now comprises a package of benefits incorporating delivery and installation, cover providing for unlimited repair and maintenance of the product over the life of the agreement and a short term replacement product if the product needs to be repaired outside the home. The product must be insured and optional product insurance cover is offered alongside the hire purchase agreement. This provides cover for loss through accidental damage, fire and theft. Optional product insurance cover can be cancelled by the customer at any time. The Group accounts for its revenue on an accruals basis for all domestic hire-purchase and service insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date.

We offer our products on an affordable payment schedule. This enables customers to have the items they want and need while spreading the cost over a number of years. Once a customer has selected a product, we conduct a bespoke credit and affordability verification process and enter into a hire purchase agreement, providing, primarily, weekly instalment payments and no initial deposit. Ownership of the product passes to the customer upon full payment under the hire purchase agreement. Since 27 April 2015, the representative APR offered in our hire purchase agreements is 69.9%. The actual rate offered to individual customers is currently in the range 69.9% – 99.9% based upon the customer's individual credit score, the product taken and the length of the agreement. Included within the credit agreement, we provide the customers, for no additional cost, the right of return and cancellation at any time, typically without penalty, and the ability to take a payment holiday if needed. As a result, customers benefit from a package which provides them with peace of mind by providing a full repair service and also providing them with the flexibility to return the product and terminate the hire purchase at any time should their preferences or circumstances change.

**Key Performance Indicators**

We use certain key operating measures to track the financial and operating performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been audited or reviewed by an auditor, consultant or expert. These numbers are not derived exclusively from our internal financial systems or management accounts, but also from our non-financial operating systems. As they are defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies.

| | **As of and for the twenty-six weeks ended 1 October 2016** | **As of and for the twenty-six weeks ended 28 September 2015** |
|---|---|---|
| **Summary Statistical and Operating Data** | | |
| **Customer Data** | | |
| Total customers[(1)] | 250.5 | 277.1 |
| Average number of contracts per customer[(2)] | 2.67 | 2.86 |
| Average revenue per customer per month[(3)] | £115.47 | £120.00 |
| **Stores** | | |
| Number of stores | 312 | 305 |
| LTM like-for-like revenue growth (%)[(4)] | (2.5) | 5.3 |
| **Contract Portfolio** (in millions of £)[(5)] | 439.3 | 560.1 |

(1) Total customers represents the number of distinct individuals who are party to one or more hire purchase agreements outstanding on the relevant date with us, without regard to the number of hire purchase agreements entered into by each such customer.

(2) Average number of contracts per customer is calculated by dividing the number of total hire purchase agreements outstanding on the relevant date by the number of total customers on such date.

(3) Average revenue per customer per month is calculated by dividing the closing dues base at the period end by the closing customer base at the period end.

(4) LTM like-for-like revenue refers to revenue generated by our stores in any given twelve-month period excluding revenues generated by new stores opened within the twelve-month period under review and the immediately preceding twelve-month period. Therefore, stores are included in this measure only when the results for two complete trading years are available. LTM like-for-like revenue growth is the increase in revenues generated by our stores in any given twelve-month period compared to the revenues generated by such stores in the previous twelve-month period presented as a percentage of such previous twelve-month period revenues. LTM like-for-like revenues are impacted by the growth in our business and trading volumes as well as the maturity profile of our store network. The number of new stores that have completed two trading years and are included in the calculation of LTM like-for-like revenues has an impact on the growth rate as these stores generally increase revenues at a faster rate.

(5) The value of our Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming all contracts are paid in full. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of optional product insurance cover taken up by customers since 27 April 2015. These payments also include our previously offered warranty and insurance options, namely, optional service cover and damage liability cover purchased by customers.

***Total customers***

Revenue is driven by the number of customers and their average spend with BrightHouse. Customer numbers have decreased by 9.6%, from 277,100 as at 28 September 2015 to 250,500 as at 1 October 2016. Customer additions have been impacted by the more demanding regulatory environment and changes made to the application process. Stricter affordability processes and tightened credit criteria have impacted significantly on the Group's acceptance and successful conversion of applications.

***Average number of contracts per customer***

Average number of contracts per customer decreased to 2.67 as of 1 October 2016 compared to 2.86 as of 28 September 2015. The decrease of this metric is primarily due to extended sign-up policies, impacting application volumes and acceptance and conversion rates as existing customers adapt to the new requirements, leading to an impact on new agreement sign ups.

***Number of stores***

As at 1 October 2016, we had a total of 312 stores compared to 305 as at 28 September 2015. There were no new store openings in the Half Year 2016; we opened 7 new stores in the Half Year 2015. Our strategy to expand the customer base is to grow like-for-like revenues through increased customer penetration and retention and to develop multi-channel capabilities.

The E-commerce programme has continued the development of a clicks and mortar strategy. Our commercial website enables potential customers to peruse the features and benefits of different products before completing a full credit check online. The business seeks to launch a fully transactional website in the early part of 2017. Online applications for the Half Year 2016 increased by 7.2% compared to the Half Year 2015.

***LTM like-for-like revenue***

LTM like-for-like revenue for the twelve months ended 1 October 2016 decreased by 2.5% compared to an increase of 5.3% for the twelve months ended 28 September 2015.

***Contract Portfolio***

The value of our Contract Portfolio as of 1 October 2016 was £439.3 million, compared to £560.1 million as of 28 September 2015. This decrease is due to the introduction of new affordability processes and lending criteria reducing sign-up volumes, as described above.

As calculated by an independent analytics firm, the Group has historically achieved a cash collection rate of circa. 70% of the Contract Portfolio. As a result of tightened lending criteria and a lower weighting of new customers in the portfolio our lowest customer risk segment, as a proportion of the customer base, has increased from 50.7% as of 28 September 2015 to 59.5% as of 1 October 2016.

**Regulation and compliance**

BrightHouse has always been a regulated business. On 1 April 2014, regulation for consumer credit passed from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA).

Initially, all firms that wished to continue offering credit were granted interim permission by the FCA. Thereafter, all firms were required to apply for full authorisation, within an allocated three month window. BrightHouse submitted its application in May 2015. We are able to trade under our interim permission during the authorisation process.

Earlier in the year, we appointed an independent Skilled Person, reporting to the FCA, to assess and evaluate our plans to embed improved affordability and collection processes. The scope of the Skilled Person review also includes reporting to the FCA on the implementation of the revised processes. To aid with this, the Group has made a significant investment in its Quality Assurance Monitoring resource, resulting in strong adherence to revised processes.

The final stage is to measure and test whether changes have been fully implemented and embedded across the estate; this phase is expected to commence in December 2016. The FCA authorisation decision is expected to be in March 2017.

## Discussion and Analysis of Our Consolidated Results of Operations

***Results of operations for the Half Year 2016 compared with the results of operations for the Half Year 2015***

The following table sets forth certain information with respect to our consolidated results of operations for the Half Year 2015 and the Half Year 2016, respectively, which have been derived from our unaudited consolidated financial statements included elsewhere herein.

| (in thousands of £, except percentages) | For the Second Quarter 2016 | For the Second Quarter 2015 | For the Half Year 2016 | For the Half Year 2015 |
|---|---|---|---|---|
| | (unaudited) | | (unaudited) | |
| **Revenue** | **80,810** | **91,957** | **172,529** | **182,109** |
| Cost of sales | (40,870) | (43,382) | (85,599) | (84,028) |
| **Gross Profit** | **39,940** | **48,575** | **86,930** | **98,081** |
| Operating expenses | (41,176) | (37,509) | (84,689) | (78,881) |
| **Operating (loss) / profit** | **(1,236)** | **11,066** | **2,241** | **19,200** |
| Finance income | 34 | 81 | 147 | 15 |
| Finance expense | (5,791) | (5,501) | (11,405) | (11,030) |
| **(Loss) / Profit before taxation** | **(6,993)** | **5,646** | **(9,017)** | **8,185** |
| Tax credit / (charge) | 441 | (1,221) | 574 | (1,810) |
| **(Loss) / Profit for the period** | **(6,552)** | **4,425** | **(8,443)** | **6,375** |

*Revenue*

Our revenue decreased by £9.6 million, or 5.3%, to £172.5 million for the Half Year 2016 from £182.1 million for the Half Year 2015. This decrease was primarily due to the impact of stricter affordability processes and tightened credit criteria, which have impacted significantly on the acceptance and successful conversion of customer applications. The decision to temporarily suspend the charging of late fees has also had an adverse impact on revenue in the Half Year 2016.

*Cost of sales*

Our cost of sales increased by £1.6 million, or 1.9%, to £85.6 million (49.6% of revenue) for the Half Year 2016 from £84.0 million (46.1% of revenue) for the Half Year 2015. This increase was primarily due to a higher cost of debt, from 9.7% of revenue for the Half Year 2015 to 10.1% of revenue for the Half Year 2016 and depreciation, offset by reduced expenditure on rental asset maintenance.

*Gross profit and gross profit margin*

Our gross profit decreased by £11.2 million, or 11.4%, to £86.9 million for the Half Year 2016 from £98.1 million for the Half Year 2015. Our gross profit margin (expressed as a percentage of revenue) decreased to 50.4% for the Half Year 2016 from 53.9% for the Half Year 2015. The decrease in gross profit margin was primarily a result of the factors discussed above within the revenue and cost of sales analysis. The decision to temporarily suspend the charging of late fees has also had a detrimental impact on gross margin.

*Operating expenses*

Our operating expenses increased by £5.8 million, or 7.4%, to £84.7 million (49.1% of revenue) for the Half Year 2016 from £78.9 million (43.3% of revenue) for the Half Year 2015. The increase was mainly due to an increase in costs resulting from additional compliance processes, a larger store base and exceptional costs incurred in the Half Year 2016.

*Operating profit*

Our operating profit decreased by £17.0 million, or 88.3%, to £2.2 million for the Half Year 2016, from £19.2 million for the Half Year 2015. This was primarily due to the factors described above. Our operating profit margin (expressed as a percentage of revenue) decreased to 1.3% for the Half Year 2016 from 10.5% for the Half Year 2015 due to the factors discussed above.

*Finance expense (net)*

Our net finance expenses increased by £0.2 million, or 2.2%, to £11.3 million for the Half Year 2016 from £11.0 million for the Half Year 2015. This is predominantly due to the write off of the remaining carrying value of transaction fees incurred on the senior credit facility with Lloyds Bank Plc and Sumitomo Mitsui Banking Corporation Europe Limited, following the cancellation of the facility in August 2016.

*Tax charge*

We have reported a tax credit of £0.6 million for the Half Year 2016 compared to a tax charge of £1.8 million for the Half Year 2015. The tax credit recognised in the Half Year 2016 was driven by the loss reported in the period. Our effective tax rate for the Half Year 2016 was (6.4%) compared to 22.1% for the Half Year 2015.

*Loss for the period*

We reported a loss for the Half Year 2016 of £8.4 million, compared to a profit £6.4 million for the Half Year 2015 as a result of the factors described above.

**Cash Flows**

| **(in thousands of £)** | **For the Second Quarter 2016** | **For the Second Quarter 2015** | **For the Half Year 2016** | **For the Half Year 2015** |
|---|---|---|---|---|
| Cash and cash equivalents at beginning of period | 55,191 | 26,297 | 41,369 | 20,059 |
| Net cash flow from operating activities | 24,250 | 6,701 | 49,599 | 25,819 |
| Net cash from investing activities | (4,062) | (4,431) | (6,842) | (8,550) |
| Net cash flow from financing activities | (92) | (93) | (8,839) | (8,854) |
| Net increase in cash and cash equivalents | 20,096 | 2,177 | 33,918 | 8,415 |
| **Cash and cash equivalents at end of period** | **75,287** | **28,474** | **75,287** | **28,474** |

***Net cash flow from operating activities***

Net cash flow from operating activities increased to an inflow of £49.6 million for the Half Year 2016 from an inflow of £25.8 million for the Half Year 2015, primarily as a result of reduced purchases of hire purchase assets.

***Net cash flow from investing activities***

Net cash used in investing activities decreased from an outflow of £8.6 million for the Half Year 2015 to an outflow of £6.8 million for the Half Year 2016. This has been analysed in the Capital Expenditure section.

***Net cash flow from financing activities***

Net cash flow from financing activities of £8.8 million remained consistent with the prior period.

***Restricted cash***

We are required by regulation to maintain cash reserves at our Insurance Subsidiaries relating to our insurance operations. In addition, we hold cash received as a result of voluntary overpayments by customers (generally for the purpose of application towards future payments) in segregated accounts. As of 1 October 2016 our total restricted cash was £9.2 million compared to £5.3 million as of 28 September 2015.

**Capital Expenditures**

Our capital expenditures (excluding purchase of hire purchase assets) are primarily comprised of new store fit-out expenditures, investments in our information technology systems and internal software development, and capital expenditure relating to refurbishment of existing stores and service centres. The following table sets out our capital expenditures for the Half Year 2015 and the Half Year 2016:

| (in millions of £) | For the Second Quarter 2016 | For the Second Quarter 2015 | For the Half Year 2016 | For the Half Year 2015 |
|---|---|---|---|---|
| Capital expenditure on new stores[1] | – | 0.7 | – | 1.3 |
| Capital expenditure on information technology hardware | – | 0.2 | 0.1 | 0.4 |
| Capital expenditure on software development[2] | 3.4 | 1.5 | 5.6 | 3.7 |
| Others[3] | 0.7 | 2.1 | 1.2 | 3.2 |
| **Total capital expenditure** | **4.1** | **4.5** | **6.9** | **8.6** |

(1) Includes expenditure relating to fixtures, fittings and equipment.

(2) Includes expenditure relating to the ERP project and other strategic programmes.

(3) Primarily includes capital expenditure relating to our stores and service centres, including refurbishment, new signage and similar improvements.

Total capital expenditure incurred in the Half Year 2016 decreased by £1.7 million to £6.9 million compared to the Half Year 2015. We opened no new stores in the Half Year 2016, compared to seven new stores in the Half Year 2015.

Capital expenditure on software development increased from £3.7 million in the Half Year 2015 to £5.6 million in the Half Year 2016 predominantly due to the continued investment in the new ERP system and e-commerce.

Other capital expenditure decreased from £3.2 million in the Half Year 2015 to £1.2 million in the Half Year 2016 due to non-recurring expenditure in the Half Year 2015, including security improvements made across the service estate, additional facilities at three local distribution centres and the relocation of several stores.

**Off-Balance Sheet Arrangements**

We do not currently have any off-balance sheet financing arrangements other than operating leases for stores, vehicles and office equipment. As of 1 October 2016, the value of our Contract Portfolio, which is unrecognized and maintained off-balance sheet until instalment payments are due, was £439.3 million. This was supported by hire purchase assets, recognized on our balance sheet, underpinning our Contract Portfolio, having a net book value of £115.5 million as of 1 October 2016.

## Key Contacts and Calendar

### *Key Contacts*

David Harwood – Company Secretary

Email:  investor.relations@brighthouse.co.uk

Website:  http://www.brighthousegroup.co.uk/

Telephone:  +44 (0) 1923 488222

### *Finance Calendar*

Details of future results releases will be made available on our website.