Registered No. 06250176

BrightHouse Group plc

Quarterly Report

for the thirteen weeks ended 1 July 2017

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

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Operational Highlights for the First Quarter 2017

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 ended 1 July 2017.

Key Summary

- Generated EBITDA of £0.7 million for the First Quarter 2017;
- Our Contract Portfolio is valued at £401.8 million as of 1 July 2017 compared to £497.3 million as of 2 July 2016;
- As of 1 July 2017, we had 221,900 customers representing a decrease of 15.5% compared to 262,600 customers as of 2 July 2016;
- As announced on 6 April 2017, BrightHouse has received notification from the FCA that they are minded to authorise BrightHouse's business subject to a number of conditions being met;
- Advisors continue to evaluate the options available in respect of refinancing the current capital structure;
- Continued development of our automated affordability processing;
- Our fully transactional website launched on 1 August 2017 for new customers; and
- Late fees were reintroduced on 19 August 2017.

Hamish Paton, Chief Executive Officer, said:

"Our business has begun on the road to recovery. We have momentum in sign-ups and anticipated full year EBITDA is in line with our expectations when we set out our business outlook in June.

"The reintroduction of late fees in August, in conjunction with the launch of a fully transactional website and the careful management of our costs, is important to enable us to deliver on our business plan and lay the foundations for a return to earnings growth in FY 2019/20.

"BrightHouse is the clear market leader in a sector where consumer demand remains strong."

The following table reconciles EBITDA to loss before tax for the period for the First Quarter 2017 and the First Quarter 2016.

(in thousands of £)	For the First Quarter 2017	For the First Quarter 2016
Loss before tax	(8,126)	(2,024)
Financial income and expense	5,534	5,501
Depreciation of fixtures and equipment and amortization of software	3,195	3,258
Exceptional items	55	643
EBITDA	658	7,378

Certain Definitions

Definitions of certain terms used in this Quarterly 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 "Introduction—Presentation of Financial and Other Data—Presentation of non-IFRS operating measures".

"EBT" refers to the Employee Benefit Trust.

"FCA" refers to the Financial Conduct Authority

"First Quarter 2016" refers to the thirteen weeks ended 2 July 2016.

"First Quarter 2017" refers to the thirteen weeks ended 1 July 2017.

"First Quarter Report" refers to this report as of and for the thirteen weeks ended 1 July 2017.

"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 and Caversham Holdings (Malta) 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.

"OFT" refers to the Office of Fair Trading

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

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

"the period" and "this period" refer to the First Quarter 2017 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 Quarterly Report we refer to the thirteen weeks ended 1 July 2017 as “First Quarter 2017”, and the thirteen weeks ended 2 July 2016 as “First Quarter 2016”. We refer to our fiscal year started 1 April 2017 and ending 31 March 2018 as “Fiscal 2018”.

Consolidated financial statements

The consolidated financial statements of the Company and its subsidiaries for the thirteen weeks ended 1 July 2017 presented in this Quarterly 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 Quarterly Report, we present certain non-IFRS financial measures, including EBITDA and certain related ratios. As used in this Quarterly Report, the following terms have the following meanings:

We define “EBITDA” as profit for the period before financial charges, tax, depreciation of fixtures, equipment and vehicles (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 Quarterly 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 our optional insurance and warranty products. This Quarterly 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 Quarterly 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 Quarterly 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 ended 1 July 2017

	Notes	*13 weeks ended 01 July 2017 (unaudited) £000*	*13 weeks ended 02 July 2016 (unaudited) £000*
Revenue	3	72,160	91,719
Cost of sales		(35,590)	(44,729)
Gross profit		36,570	46,990
Operating expenses		(39,162)	(43,513)
Operating (loss) / profit		(2,592)	3,477
Analysed by:			
Depreciation of fixtures and equipment and amortisation of intangible assets		3,195	3,258
Exceptional items	2	55	643
Earnings before interest, tax, depreciation, amortisation and exceptional items		658	7,378
Other finance income	4	3	113
Other finance expense	4	(5,537)	(5,614)
Loss before taxation		(8,126)	(2,024)
Tax credit	5	866	133
Loss for the period		(7,260)	(1,891)

The results shown above all relate to continuing activities.

Group statement of comprehensive income

for the thirteen weeks ended 1 July 2017

	13 weeks ended 1 July 2017 (unaudited) £000	*13 weeks ended 2 July 2016 (unaudited) £000*
Loss for the period	(7,260)	(1,891)
Other comprehensive income for the period net of tax	–	–
Total comprehensive income for the period net of tax	(7,260)	(1,891)

Group statement of financial position

as of 1 July 2017

	Notes	*01 July 2017 (unaudited) £000*	*02 July 2016 (unaudited) £000*
Non-current assets			
Property, plant and equipment	6	113,679	145,526
Intangible assets	7	20,013	89,269
Trade and other receivables	10	12,342	16,331
Deferred tax assets	8	11,529	5,905
		157,563	257,031
Current assets			
Inventories	9	19,918	20,488
Trade and other receivables	10	41,740	50,270
Cash and cash equivalents	11	66,787	55,191
		128,445	125,949
Total assets		286,008	382,980
Current liabilities			
Trade and other payables	12	49,531	51,497
Financial liabilities	13	218,644	–
Other provisions	14	15,029	3,349
Current tax payable		870	1,473
		284,074	56,319
Non-current liabilities			
Financial liabilities	13	37,698	252,097
Total Liabilities		321,772	308,416
		(35,764)	74,564
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)	(296)
Retained earnings		(36,127)	74,201
Total equity		(35,764)	74,564

Group statement of changes in equity

as of and for the thirteen weeks ended 1 July 2017

	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 2016	50	552	(296)	76,092	57	76,455
Loss for the period	–	–	–	(1,891)	–	(1,891)
As of 2 July 2016	50	552	(296)	74,201	57	74,564
As of 1 April 2017	50	552	(296)	(28,867)	57	(28,504)
Loss for the period	–	–	–	(7,260)	–	(7,260)
As of 1 July 2017	50	552	(296)	(36,127)	57	(35,764)

Group statement of cash flows

for the thirteen weeks ended 1 July 2017

	Notes	*13 weeks ended 1 July 2017 (unaudited)* £000	*13 weeks ended 2 July 2016 (unaudited)* £000
Cash flows from operating activities			
Loss for the period		(7,260)	(1,891)
Adjustments for:			
Sales proceeds from sales of rental assets		614	680
Depreciation		23,804	33,144
Amortisation of intangible assets		2,186	1,738
Financial income		(3)	(113)
Financial expense		5,537	5,614
Profit on rental assets sold to customers		(683)	(237)
Rental assets written off as obsolete or not recoverable from defaulting customers		5,593	6,666
Purchase of rental assets		(25,759)	(24,148)
Taxation		(866)	(133)
Operating cash inflow before changes in working capital		3,163	21,320
(Increase) / Decrease in trade and other receivables		(5,327)	1,094
Increase in inventories		(6,628)	(1,405)
Increase in trade and other payables		11,634	4,347
(Decrease) / Increase in provisions		(1,364)	249
Cash generated from operations		1,478	25,605
Tax paid		-	(256)
Net cash flow from operating activities		1,478	25,349
Cash flows from investing activities			
Interest received		3	25
Purchase of property, plant and equipment		(218)	(564)
Payments to acquire intangible assets		(3,610)	(2,241)
Net cash from investing activities		(3,825)	(2,780)
Cash flows from financing activities			
Interest paid		(8,662)	(8,747)
Net cash flow from financing activities		(8,662)	(8,747)
Net (Decrease) / Increase in cash and cash equivalents		(11,009)	13,822
Cash and cash equivalents at the beginning of the period		77,796	41,369
Cash and cash equivalents at the end of the period	11	66,787	55,191

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

1. Accounting policies and basis of preparation

This Quarterly report contains condensed consolidated financial information of BrightHouse Group plc for the thirteen weeks ended 1 July 2017. The unaudited Quarterly 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 2017. This financial information should be read in conjunction with the consolidated financial statements of BrightHouse Group plc for the year ended 31 March 2017.

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 01 July 2017 (unaudited) £000	*13 weeks ended 02 July 2016 (unaudited) £000*
Affordability action plan	–	643
Vacant and onerous lease provision	47	–
Restructuring provision	8	–
	55	643

Vacant and Onerous lease provision

During the First Quarter 2017 £47,000 was incurred as additional incremental costs in relation to the store closure programme.

Restructuring

A business-wide cost reduction programme was undertaken during the year ended 31 March 2017 which led to store and head office redundancy costs.

There was an additional £8,000 of incremental redundancy costs to conclude the programme during the First Quarter 2017. This has been explained in detail in note 14 of these financial statements.

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. With effect from 26 February 2017, when we unbundled warranty cover, the automatic right of return remains included within the hire purchase agreement. The Group accounts for its revenue on an accruals basis for all domestic hire-purchase, 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.

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 the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

4. Finance income and expense

Recognised in the income statement

	13 weeks ended 01 July 2017 (unaudited) £000	*13 weeks ended 02 July 2016 (unaudited) £000*
Interest income	3	25
Unwinding of discount on VAT incurred in advance (note 10)	–	88
Finance income	3	113

	13 weeks ended 01 July 2017 (unaudited) £000	*13 weeks ended 02 July 2016 (unaudited) £000*
Interest expense	5,427	5,614
Unwinding of discount on VAT incurred in advance (note 10)	24	–
Unwinding of discount on provision (note 14)	86	–
Finance expense	5,537	5,614

5. Taxation

Tax on loss on ordinary activities

Recognised in the income statement

	13 weeks ended 01 July 2017 (unaudited) £000	*13 weeks ended 02 July 2016 (unaudited) £000*
Current tax:		
Corporation tax charge UK	–	–
Corporation tax charge overseas	13	121
Total current tax	13	121
Deferred tax:		
Deferred tax credit	(879)	(254)
Total taxation in income statement	(866)	(133)

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

6. Property, plant and equipment

	Rental assets (unaudited) £000	*Fixtures, equipment and vehicles (unaudited) £000*	*Total (unaudited) £000*
Cost:			
As of 1 April 2016	180,795	63,066	243,861
Additions	24,148	564	24,712
Disposals	(36,665)	–	(36,665)
As of 2 July 2016	168,278	63,630	231,908
As of 1 April 2017	112,955	62,250	175,205
Additions	25,759	218	25,977
Disposals	(39,893)	–	(39,893)
As of 1 July 2017	98,821	62,468	161,289
Depreciation:			
As of 1 April 2016	35,166	47,627	82,793
Depreciation charge for the period	31,624	1,520	33,144
Disposals	(29,555)	–	(29,555)
As of 2 July 2016	37,235	49,147	86,382
As of 1 April 2017	6,120	52,056	58,176
Depreciation charge for the period	22,795	1,009	23,804
Disposals	(34,370)	–	(34,370)
As of 1 July 2017	(5,455)	53,065	47,610
Net book value:			
As of 1 July 2017	104,276	9,403	113,679
As of 1 April 2017	106,835	10,194	117,029
As of 2 July 2016	131,043	14,483	145,526
As of 1 April 2016	145,629	15,439	161,068

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

7. Intangible assets

	Software (unaudited) £000	*Goodwill (unaudited) £000*	*Total (unaudited) £000*
Cost:			
As of 1 April 2016	58,612	74,978	133,590
Additions	2,241	–	2,241
As of 2 July 2016	60,853	74,978	135,831
As of 1 April 2017	70,117	74,978	145,095
Additions	3,610	–	3,610
As of 1 July 2017	73,727	74,978	148,705
Amortisation:			
As of 1 April 2016	44,824	–	44,824
Amortisation charge for the period	1,738	–	1,738
As of 2 July 2016	46,562	–	46,562
As of 1 April 2017	51,528	74,978	126,506
Amortisation charge for the period	2,186	–	2,186
As of 1 July 2017	53,714	74,978	128,692
Net book value:			
As of 1 July 2017	20,013	–	20,013
As of 1 April 2017	18,589	–	18,589
As of 2 July 2016	14,291	74,978	89,269
As of 1 April 2016	13,788	74,978	88,766

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 Group performed its annual impairment test as at 31 March 2017. The recoverable amount of the CGU was determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a five year period. An impairment loss of £74,978,000 was recognised in the prior year as a result of the decline in the trading performance.

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

8. Deferred tax assets

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Assets:		
Tax losses recognised	4,714	687
Other property, plant and equipment	6,695	5,036
Capital contributions on lease incentives	120	182
Total tax assets	11,529	5,905

9. Inventories

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Goods held for resale at cost	19,918	20,488

During the period assets acquired for resale amounting to £25,759,000 (2016 – £24,148,000) 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

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Current:		
Trade receivables	1,264	928
Other trade receivables and prepayments	17,098	18,618
Other non-trade receivables	973	527
VAT incurred in advance of recovery from customers	21,015	26,971
Other taxes and social security	1,390	3,226
	41,740	50,270

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Non-current:		
VAT incurred in advance of recovery from customers	11,349	15,040
Other trade receivables and prepayments	993	887
Other non-trade receivables	–	404
	12,342	16,331

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

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 £11,349,000 (2016 – £15,040,000) 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 £1,452,000 (2016 – £1,416,000) 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:

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
1-7 days	97	93
8-14 days	107	94
15-45 days	398	356
45-90 days	10	10
	612	553

Movements in bad debt provision

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
At beginning of period	1,335	1,437
Amounts written off as uncollectable	(4,249)	(4,268)
Increase in bad debt provision	4,366	4,247
At end of period	1,452	1,416

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

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

11. Cash and cash equivalents

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Cash and cash equivalents per balance sheet and cash flow statement	66,787	55,191

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £6,354,000 (2016 – £9,955,000). This includes restricted cash of £6,004,000 (2016 - £9,246,000) 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 £350,000 (2016 – £709,000) 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.

12. Trade and other payables

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Trade payables	20,116	15,801
Other taxes and social security	2,369	3,812
Other non-trade payables	361	462
Accrued expenses	24,391	29,065
Accrued interest	2,294	2,357
	49,531	51,497

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

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Current liabilities:		
Senior secured notes	218,644	–
	218,644	–

On 9 May 2013 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.

The senior secured notes include an issue of £220 million (2016 - £220 million) less fees incurred on the debt facility of £1,356,000 (2016 - £2,944,000). These fees are amortised over the term of the facilities.

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

13. Financial liabilities (continued)

	01 July 2017 (unaudited) £000	*02 July 2016 (unaudited) £000*
Non-current liabilities:		
Unsecured 10% loan stock issued to related parties	37,698	35,041
Senior secured notes	–	217,056
	37,698	252,097

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 terms of the unsecured loan stock are such that the maturity date cannot be prior to the maturity date of senior secured notes.

The amount above includes £11,057,000 (2016: £8,401,000) of accrued interest.

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

14. Other provisions

	Dilapidation Provision (unaudited) £000	*Affordability Action Plan (unaudited) £000*	*Restructuring (unaudited) £000*	*Onerous Lease Provision (unaudited) £000*	*Total (unaudited) £000*
As of 1 April 2016	–	3,100	–	–	3,100
Charged to the income statement	–	300	–	–	300
Utilised during the period	–	(51)	–	–	(51)
As of 2 July 2016	–	3,349	–	–	3,349
As of 1 April 2017	3,807	8,246	154	4,100	16,307
Unwind of discount	–	–	–	86	86
Charged to the income statement	–	–	8	189	197
Released to the income statement	–	–	–	(142)	(142)
Utilised during the period	(192)	(68)	(162)	(997)	(1,419)
As of 1 July 2017	3,615	8,178	–	3,236	15,029

Dilapidation provision
The brought forward dilapidation provision was reclassified from trade and other payables at 31 March 2017. The business-wide cost reduction programme announced in the Fourth Quarter 2017 triggered the reassessment of the dilapidation provision across the whole of the retail and supply chain estate.

£192,000 has been utilised during the period for work completed on a number of stores.

Affordability action plan
We have developed an affordability action plan with the FCA. The estimated costs of implementing this plan were recorded as a provision of £8,246,000 as at 31 March 2017 in the annual financial statements of BrightHouse Group plc. 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.

£68,000 of the provision has been utilised during the period. The Group expects the majority of costs to be incurred during 2017/18.

Restructuring
The brought forward provision covers the non-property related costs resulting from the business wide cost reduction programme announced in March 2017. During the First Quarter 2017 the provision was increased by £8,000 and was then fully utilised against costs incurred during the period.

Notes to the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

14. Other provisions (continued)

Vacant and Onerous lease provision

This provision covers both leases on unprofitable stores and vacant properties.

On 31 January 2017 the Group announced plans to close 29 stores across the UK, as part of a business-wide cost reduction programme, aligned to a new business strategy. The closures took place throughout March 2017. Stores were selected based on their commercial performance with details of property leases and the ability to transfer customers to nearby stores also taken into account. Customers of the impacted stores were automatically transferred to another local BrightHouse store.

During the period £997,000 of the provision was utilised against costs incurred in relation to the vacant and onerous leases. £142,000 was released and £189,000 charged to the income statement as a result of our assessment of the provision as at 1 July 2017 and the latest estimate of the future costs of the leases. The provision was also unwound causing an increase of £86,000.

15. Share capital

	01 July 2017 (unaudited)		*02 July 2016 (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 the Group financial statements

as of and for the thirteen weeks ended 1 July 2017

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 (see note 24 Related parties). '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 thirteen weeks ended 1 July 2017 and the accompanying notes included elsewhere in this Quarterly 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 Quarterly 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 Quarterly 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. Forward-looking statements appear in various locations of this Quarterly Report, including, without limitation, in the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

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. Although we believe that the expectations reflected in the forward looking statements contained herein were reasonable at the time they were made, 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 Quarterly 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 Quarterly 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 Quarterly 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 Quarterly 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 283 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 26 February 2017, the proposition was improved to allow greater flexibility and choice for the customer. Our customers are able to choose the length of the agreement they use to purchase products from us. This gives the customer choice over the amount of the weekly payment, and the total amount payable under the agreement. They also have choice about whether to purchase a service package from us, and how to insure the product. If taken, our optional product service and insurance covers 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 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. Prior to entering into an agreement with a customer, we conduct bespoke creditworthiness and affordability assessments. If these are passed, we will enter into a hire purchase agreement with the customer, 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. 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 customers, for no additional cost, the right of return and cancellation at any time, typically without penalty. As a result, customers benefit from 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 thirteen weeks ended 1 July 2017	As of and for the thirteen weeks ended 2 July 2016
Summary Statistical and Operating Data		
Customer Data		
Total customers (thousands)(1)	221.9	262.6
Total Gross Dues (in millions of £)(2)	4.91	3.54
Closing Dues base (in millions of £)(2)	25.83	31.17
Average number of contracts per customer(3)	2.58	2.74
Average revenue per customer per month(4)	£116.40	£118.69
Stores		
Number of stores	283	312
Contract Portfolio (in millions of £)(5)	401.8	497.3

(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) Dues is the expected amount of receipts from customer agreement instalments in an average month. An average month is assumed to have 4.333 weeks. Total Gross Dues is the Dues value for new agreements signed in the relevant period. Closing Dues Base is the closing dues at the end of the relevant period.

(3) 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.

(4) 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.

(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 our optional insurance and warranty products.

Total customers

Revenue is driven by the number of customers and their average spend with BrightHouse. Customer numbers have decreased by 15.5% from 262,600 as at 2 July 2016 to 221,900 as at 1 July 2017. Customer additions have been impacted in the past year 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 however we have put in place new processes to reduce the effect of these changes. Over the past year and in the First Quarter 2017, we have developed automated processes which simplify and shorten the process of affordability assessment for some of our customers. This significantly reduces the amount of time taken to complete the assessment, without changing the expected outcome.

Total Gross Dues

Total Gross Dues increased by 38.7% to £4.91 million for the First Quarter 2017 from £3.54 million for the First Quarter 2016. The increase is due to the development of new automated affordability processes, as discussed above, and the change in customer proposition, allowing greater flexibility, shorter terms and choice for the customer.

Closing Dues base

The Closing Dues base decreased by 17.1% to £25.83 million as at 1 July 2017 from £31.17 million as at 2 July 2016. The decrease is due to a reduction in Gross Dues over the past year combined with the termination of existing contracts.

Average number of contracts per customer

Average number of contracts per customer decreased to 2.58 as at 1 July 2017 compared to 2.74 as at 2 July 2016. The decrease of this metric is primarily due to extended sign-up policies, adversely impacting application volumes and acceptance and conversion rates as existing customers adapt to the new affordability requirements.

Number of stores

As of 1 July 2017, we had a total of 283 stores, and as of 2 July 2016, we had a total of 312 stores. There were no new store openings in the First Quarter 2017 or the First Quarter 2016. The Group closed 29 of its stores across the UK in the fourth quarter of FY16/17, as part of a business-wide cost reduction programme, aligned to a new business strategy. Our strategy to expand the customer base is to grow like-for-like revenues through further simplification of the sign-up processes, the development of our E-Commerce capabilities for new customers and improved customer retention.

The E-commerce programme has continued the development of a clicks and mortar strategy. The business launched its fully transactional website on 1 August 2017.

Contract Portfolio

The value of our Contract Portfolio as at 1 July 2017 was £401.8 million compared to £497.3 million as at 2 July 2016. This decrease is due to the introduction of new affordability processes and lending criteria as described above.

As calculated by an independent analytics firm, the Group has historically achieved a cash collection rate of circa. 69% - 70% of its Contract Portfolio.

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”. BrightHouse and all other firms that wished to continue offering credit were granted interim permission by the FCA. Thereafter, all firms were required to apply for full authorisation to a published timeline. For BrightHouse this meant submitting an application in May 2015. We are able to trade under our interim permission during the authorisation process.

In the latter part of 2015/16, we developed an affordability action plan with the FCA. The full cost of implementing the plan is dependent on a number of future events. Further details are not disclosed due to the ongoing nature of the confidential discussions with the FCA. The Group expects the majority of costs to be incurred during 2017/18.

On 5 April 2017 the FCA confirmed to BrightHouse that they were minded to authorise the business subject to a number of conditions, including a refinancing or restructuring of the Company’s corporate bond and adherence to BrightHouse’s regulatory business plan which is required to be suitable for a firm that is complying with the threshold conditions and treating customers fairly.

We have reached agreement with the FCA to reintroduce late fees from 19 August 2017.

On 31 July 2017, the FCA published the outcome of its review into high-cost credit. The FCA stated that they were not considering new rules for RTO products at the current time.

The report identified a number of issues which had the potential to cause consumer harm. These included: a lack of alternative options; the high costs; the particular vulnerability of the customers; and concern that there are harmful consequences of borrowing for a significant number of consumers. The FCA has decided to investigate these further, with the aim of issuing a Consultation Paper on proposed solutions in Spring 2018. They also said that they consider price-capping would be a very difficult tool to use in the RTO market.

Strategic Review

The Board is continuing its evaluation of the strategic options available to address the May 2018 maturity of the £220 million senior secured notes (the "Notes"), and as previously disclosed is being advised by Rothschild and Freshfields Bruckhaus Deringer LLP on this. The process has included discussions with interested parties, including PJT Partners as adviser to an ad hoc group of noteholders, and separately and directly with one of the Group's largest noteholders. For a number of months, both PJT Partners and the noteholder have had access to a dataroom containing business information, received management presentations and had access to management for diligence Q&A. Vision Capital has also been engaged with during the strategic options review as the majority shareholder. The Directors note that the Group has not yet received any proposals from any party.

The Directors have also produced and considered alternative business plans including a run-off of the loanbook. The Directors believe the outcome most likely to maximize value for all the relevant stakeholders is for the Group to continue to operate to its business plan as set out in the 14 June 2017 Business Update.

Discussion and Analysis of Our Consolidated Results of Operations

Results of operations for the First Quarter 2017 compared with the results of operations for the First Quarter 2016

The following table sets forth certain information with respect to our consolidated results of operations for the First Quarter 2017 and the First Quarter 2016, respectively, which have been derived from our unaudited consolidated financial statements included elsewhere herein, as well as the period on period changes (expressed in absolute terms and percentages) for the period under review.

(in thousands of £, except percentages)	For the First Quarter 2017	For the First Quarter 2016	Change	
			Amount	%
	(unaudited)			
Revenue	72,160	91,719	(19,559)	(21.3)
Cost of sales	(35,590)	(44,729)	9,139	20.4
Gross profit	**36,570**	**46,990**	**(10,420)**	**(22.2)**
Operating expenses	(39,162)	(43,513)	4,351	10.0
Operating (loss) / profit	**(2,592)**	**3,477**	**(6,069)**	**(174.5)**
Finance income	3	113	(110)	(97.3)
Finance expense	(5,537)	(5,614)	77	1.4
Loss before taxation	**(8,126)**	**(2,024)**	**(6,102)**	**301.5**
Tax credit	866	133	733	551.1
Loss for the period	**(7,260)**	**(1,891)**	**(5,369)**	**283.9**

Revenue

Our revenue decreased by £19.6 million, or 21.3%, to £72.2 million for the First Quarter 2017 from £91.7 million for the First Quarter 2016. 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 over the past year.

Cost of sales

Cost of sales decreased by £9.1 million, or 20.4%, to £35.6 million (49.3% of revenue) for the First Quarter 2017 from £44.7 million (48.8% of revenue) for the First Quarter 2016 which is primarily due to the quarter-on-quarter reduction in rental asset depreciation, a decrease in the carrying value of rental assets written off and reduced expenditure on rental asset maintenance.

Gross profit and gross profit margin

Our gross profit reduced by £10.4 million, or 22.2%, to £36.6 million for the First Quarter 2017 from £47.0 million for the First Quarter 2016. Our gross profit margin (expressed as a percentage of revenue) decreased to 50.7% for the First Quarter 2017 from 51.2% for the First Quarter 2016. This reduction in gross profit margin was primarily due to the rise in cost of debt as a proportion of revenue from 10.0% for the First Quarter 2016 to 11.5% for the First Quarter 2017.

Operating expenses

Our operating expenses decreased by £4.4 million, or 10.0%, to £39.2 million (54.3% of revenue) for the First Quarter 2017 from £43.5 million (47.4% of revenue) for the First Quarter 2016, primarily due to the reduced store base year-on-year.

Operating (loss) / profit

We reported an operating loss of £2.6 million for the First Quarter 2017 compared to an operating profit of £3.5 million for the First Quarter 2016. This decrease was primarily due to the factors discussed above within the cost of sales analysis.

Finance expenses (net)

Our net finance expenses remained consistent, increasing marginally by 0.6% in the First Quarter 2017. The interest saving generated from cancelling the senior credit facility has been offset by the non-cash interest expense in the First Quarter 2017 of unwinding the onerous contract provisions and the provision against the VAT debtor.

Tax credit

We have reported a tax credit of £0.9 million for the First Quarter 2017 compared to a tax credit of £0.1 million for the First Quarter 2016. Both have been driven by the respective losses reported in each period. Our effective tax rate for the First Quarter 2017 was (10.7%) compared to (6.6%) for the First Quarter 2016.

Loss for the period

We have reported a loss of £7.3 million for the First Quarter 2017 compared to a loss of £1.9 million for the First Quarter 2016 as a result of the factors described above.

Cash Flows

(in thousands of £)	**For the First Quarter 2017**	**For the First Quarter 2016**
Cash and cash equivalents at beginning of period	77,796	41,369
Net cash flow from operating activities	1,478	25,349
Net cash from investing activities	(3,825)	(2,780)
Net cash flow from financing activities	(8,662)	(8,747)
Net increase in cash and cash equivalents	(11,009)	13,822
Cash and cash equivalents at end of period	**66,787**	**55,191**

Net cash flow from operating activities

Net cash flow from operating activities reduced by £23.9 million to an inflow of £1.5 million for the First Quarter 2017 from an inflow of £25.3 million for the First Quarter 2016, primarily as a result of the trading performance during the period.

Net cash flow from investing activities

Net cash used in investing activities increased by £1.0 million to an outflow of £3.8 million for the First Quarter 2017 from an outflow of £2.8 million for the First Quarter 2016. This has been analysed in the capital expenditure section.

Net cash flow from financing activities

Net cash used in financing activities remained consistent quarter-on-quarter at £8.7 million. Net cash used in financing activities primarily comprise, in both quarters, interest payments on the senior secured notes. 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. Consequently a non-utilisation interest fee attached to the previous facility is not payable in the First Quarter 2017.

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 July 2017 our total restricted cash was £6.4 million compared to £10.0 million as of 2 July 2016.

Capital Expenditures

Our capital expenditures (excluding purchases of hire purchase assets) comprise investments in our information technology systems and capital expenditure relating to the refurbishment of existing stores and service centres. The following table sets out our capital expenditures for the First Quarter 2017 and the First Quarter 2016:

(in millions of £)	For the First Quarter 2017	For the First Quarter 2016
Capital expenditure on information technology hardware	-	0.1
Capital expenditure on software development[(1)]	3.6	2.2
Others[(2)]	0.2	0.5
Total capital expenditure	**3.8**	**2.8**

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

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

Total capital expenditure incurred in the First Quarter 2017 increased by £1.0 million to £3.8 million compared to the First Quarter 2016. We have continued to invest in our fully transactional website throughout the quarter.

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 July 2017, the value of our Contract Portfolio, which is unrecognized and maintained off-balance sheet until instalment payments are due, was £401.8 million. This was supported by hire purchase assets, recognized on our balance sheet, underpinning our Contract Portfolio, having a net book value of £104.3 million as of 1 July 2017.

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.