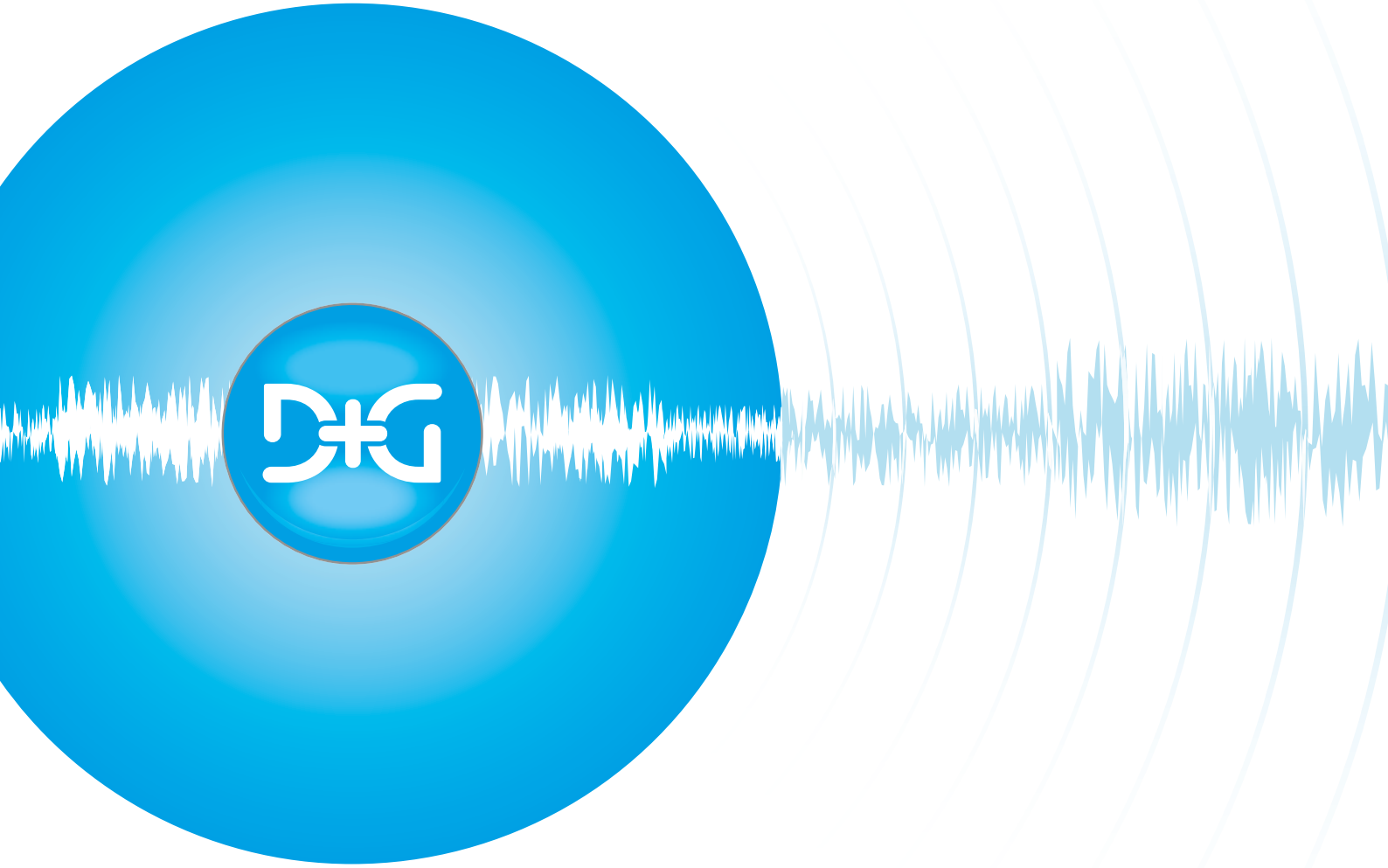
Domestic & General

keeping your world running



# Annual Report & Accounts 2018

# Domestic & General ('D&G') is the leading domestic appliance care specialist in the UK with a growing presence in several international markets.

## Strategic Report



## Governance



## Financial Statements



**www.domesticandgeneral.com**

# Chairman's Statement

Over the last 18 months we have focused on key measures to improve customer service and have significantly enhanced the culture of the business.

These measures have been implemented and are delivering results in a year when the business has also risen to the challenges of launching our Customer First transformation strategy, delivered operational improvements and financial value and secured long term partner contracts. I am pleased to report therefore that we have delivered another year of growth in sales (10%) and underlying EBITDA (4%).

At the same time, we have modestly reduced leverage (Net Debt/Underlying EBITDA 4.2x) and maintained prudent capital in our insurance business (Solvency Capital Ratio 213%).

The UK business continued to demonstrate its resilience with sales growth of 10% driven by the strength of our embedded renewals book (renewal sales grew by just under 10%). We also saw strong growth in new business (+9%), supported by a new partnership win with ScottishPower and an encouraging response to new products.

UK contribution was level year-on-year, reflecting our investment in enhancing the product proposition and improving customer service.

The International business grew sales by 13%, driven by strong performances in Spain and Portugal. International contribution improved by 4%, benefiting from lower claims and acquisition costs, with the latter reflecting our strategic move towards subscription business.

I would like to congratulate our colleagues right across the business on improving the quality of our operation this year. Our clear strategy for value creation is underpinned by their relentless focus on delivering excellent customer service. On behalf of the Board, I wish to express my thanks to all of them.

David Tyler
Non-executive Chairman
1 August 2018

# D&G at a glance

The leading domestic appliance care specialist in the UK with an established and growing presence in Europe and Australia.

## Markets

Leading position and growing in large and underpenetrated UK market

•

Established in 10 international markets of over 2 billion protectable appliances

## Products

Protecting customers from the cost and inconvenience of appliance breakdown by repairing or replacing key household items such as washing machines, boilers, TVs and consumer electronics

## Customers

High quality service, subscription-based business serving 16 million customers and 24 million appliances

•

High levels of customer satisfaction, loyalty and revenue recurrence

## People

Employ over 2,900 people directly

•

Network of over 8,500 manufacturer-approved engineers

## Partners

Exclusive long term partnerships with leading OEMs and retailers

•

Highly differentiated distribution model and mutually beneficial eco-system with partners

# Highlights

**£819m**
Sales

**£99m**
Underlying EBITDA

**£778m**
Underlying revenue

**78%**
UK revenue renewal rate

**4.2x**
Net leverage

# D&G by numbers

Protecting

**16.4m**
Customers

**24m**
Appliances protected

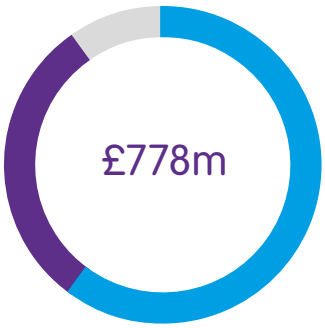
**1 in 3**
UK households

**2.8m**
Repairs p.a.

**270k**
Replacements p.a.

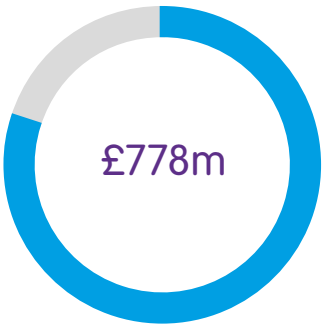
**96%+**
Claims approved

**98%**
Resolved on first or second visit




White goods 60%
Electronic equipment 30%
Boilers 10%

Underlying revenue by appliance type




UK £624.6m
International £152.9m

Underlying revenue across 11 countries

D&G provides a reliable high quality service to over 16m customers

# A strong start to our five-year change programme

## Customer First: Our 2017 Promise

In FY17 we launched a five-year change programme focused on putting the customer at the centre of Domestic & General. We set out a plan to improve all customer journeys by simplifying our product suite to meet customers' evolving expectations, further improving the service customers receive and introducing state-of-the-art systems to help us deliver on our service promise. Our contact centres are central to our transformation and are heavily invested in, ensuring the delivery of the service standards we want to deliver. Underpinning all of this is a shift in our culture to a business that truly puts customers at the heart of everything we do and delivers exceptional service.

Ian Mason
Chief Executive Officer

In the first year of our Customer First transformation programme, we have launched new and simplified products, improved key elements of our customers' experience and begun the process of digitalising customer journeys. We also launched a wide-reaching cultural shift within the business that will embed customers at the heart of everything we do. At the same time, we have delivered strong financial results.


### 15th consecutive year of growth in sales and profits

Our financial performance during the year highlights the long term resilience of our highly differentiated business model, delivering the 15th consecutive year of sales and profit growth. Group sales grew by 10% (UK: +10%, International +13%) – taking the compound annual growth rate over fifteen years to 11%. Underlying EBITDA grew by 4%, as we invested in new products and customer service enhancements, resulting in a compound annual growth rate over fifteen years of 16%.

These results demonstrate the impact of the high proportion of repeat business which underpins our model: 78% of FY17 UK revenues renewed during FY18. The business also remained strongly cash generative and we redeemed £25m of debt as part of our Q4 re-financing exercise, whilst also maintaining a strong regulatory capital position in our insurance business.

### Successful launch of simplified new products…

In response to evolving customer expectations and our own focus on delivering ever better customer service levels, we announced plans to offer existing (on renewal) and new customers a range of simplified new products. These

We have invested heavily in our call centre infrastructure and staff training

products take the form of Insurance (primarily intended for brown goods) and Maintenance (primarily intended for white goods) propositions. They provide greater clarity, enhanced benefits and better value. We began implementing the process of migrating customers to these new products and our retail and OEM partners to selling and administering them in controlled steps. The migration has included rigorous pilot testing and comprehensive training for all our call centre colleagues.

The results from pilots (which we began in January) have been encouraging with very positive agent and customer feedback. As a result we have rolled out our insurance proposition for new customers across the Argos store network and have recently begun offering it to new customers through other partners and our own contact centres. Early advocacy results from new customers have been positive.

## …and digitalisation of the customer journey

In November 2017 we launched digital Product Replacement, allowing customers with a written off appliance to choose a new replacement and set up their delivery and installation digitally. We also scaled our Digital Claims capability by adding new functionality to increase the reach of this service across more of our customer base, leading to over 70,000 claims being booked or tracked digitally during the period. These improvements helped drive a 12 point increase in customer satisfaction for digital claims in the final quarter of FY18.

## Living up to our customer charter

Our Customer Charter is a guiding principle for all of our proposition development and this year we have made significant progress in improving our customers' experience of interacting with us, with re-designed online journeys and timely communications (e.g. through text messaging). Also, in response to customers' feedback on critical pain points, we removed delivery charges on replacement appliances and the collection of outstanding premium balances on replacement claims. We have also improved our core service offering with new services from our partners, meaning that customers can now book up to 2m repairs a year online. Fixing and replacing appliances is a fundamental moment of truth for our customers and we are now doing that in a more efficient way, continuing our longstanding policy of no quibbles to ensure we satisfy our customer needs. While there has been a short term impact on margins from this investment these innovations are driving benefits in renewals activity and significant improvements in Net Promoter Score (NPS) and reduction in complaint volumes.

## Key partner/client contracts renewed with extended terms

As part of migrating our partners' sales and service operations to align with our new products and customer service agenda, we have successfully renewed contracts with our key partners. New contracts have been agreed with Whirlpool, Hoover Candy, Electrolux, AO, Beko, and Sky amongst others. In addition, we have agreed improved repair and replacement service levels with those of our partners who carry out repairs and service customers on our behalf.

## Progressing international strategy

Our International business is making progress, underpinned by a change in our operating model, from a country led to a functional led approach. This helped us deliver significantly higher registration volumes in FY18 and critically, retain key clients through contract extensions. In FY19, we will be investing significantly in upgrading our contact centre infrastructure for France, Italy and Germany to drive improved customer service and conversion rates, while continuing to deliver subscription volumes through our Retail and OEM channels.

## Driving a cultural shift

We have worked hard during the year to deliver our Customer First culture. This has required every employee across the business to change how we operate and how we behave. We implemented a Mission and Vision Statement, supported by five new values and underpinned with a set of behaviours. We have asked all our employees to role model our values and behaviours and put the customer at the heart of everything we do. We created a Momentum Plan which sets out the actions that demonstrate our commitment to culture change, including a new behaviour rating for every employee (in addition to their usual performance ratings), a new employee engagement programme, a leadership behaviour framework and supporting learning academy, and a focus on enhancing our people manager capabilities.

## Board and executive committee changes

Following the retirement of our CFO Andrew Crossley last summer we welcomed Tom Hinton to the Board as our new CFO. We also welcomed to the Executive Committee, Mike Sturrock as Chief Information Officer and Richard Barlow (replacing Niamh Grogan) as Group General Counsel. In addition to the changes above, Tom Hughes has been appointed as the new Chief Risk Officer who will be reporting directly into me.

## Strongly positioned to deliver sustainable growth and value

We have made significant progress in implementing our strategic priorities whilst maintaining financial discipline and delivering sales and profit growth. Our strong partner relationships and distribution model place us at the centre of a virtuous ecosystem and underpin our confidence in the prospects for the business. We expect to deliver further progress in FY19 as we drive forward our Customer First transformation programme and build upon the promising early results that we have seen from the introduction of our new products, and further optimise our digital capability. In the medium term there remains considerable opportunity to grow both the UK and International businesses.

**Ian Mason**
**Chief Executive Officer**
1 August 2018

# D&G is a customer focused business

We have a well defined customer-centric growth strategy. By embedding customers at the heart of everything we do, we will leverage our existing strengths to further improve customer outcomes, drive increased loyalty and grow household penetration of our products.

| Strategic drivers | | |
|---|---|---|
| Grow from core strength | Improve customer service | Personalise our customer offers |
| Focus on core product categories<br>•<br>Build customer loyalty<br>•<br>Increase household penetration | Invest in transforming journeys<br>•<br>Creating great customer experiences<br>•<br>Digitise customer journeys | Build insight and data capability<br>•<br>Deploy tailored offers and experiences<br>•<br>Real time risk-based pricing |

Embedded customer focus drives customer loyalty and long-term value

## D&G Customer Charter

1. It's **easy** and **convenient** to deal with us and get a solution
2. We **listen**, **care** and **value you** as a customer
3. We recognise you as **an individual** and engage with you in a **clear and relevant way**
4. We take **ownership of your problem** and **put it right** if we get it wrong
5. Our products and services **meet your needs** and offer **value for money**

# Customer First programme is transforming the business

In FY17 we launched a five-year change programme focused on putting the customer at the centre of Domestic & General. We set out a plan to improve all customer journeys by simplifying and enhancing our product suite to meet customers' evolving expectations; further improving the service customers receive; and investing in agent training and systems to help us deliver on our service promise.

## Substantial investment has been made in support of Customer First

**c.£120m**
Total investment spanning five years

- Partner transition support
- Working capital investment in transition to subscription products
- Systems, digitalisation and customer experience platform
- New product development and business transformation
- Remove customer pain points

## Customer First will drive significant benefits

- Product upgrade programme providing greater regulatory clarity
- Improved customer experience via fully enabled online journeys resulting in higher NPS and reduced complaints
- Increased customer satisfaction and loyalty
- Improved efficiency and reduced costs
- Increased renewal rate
- New business uplift

## We are undertaking a comprehensive product upgrade with enhanced service

### Product enhancements

New Maintenance and Insurance products

Simplified product range (>300 products to 24)

Removed customer pain points

Migrating to shorter term, recurring subscription products

### Service enhancements

Improved Service Level Agreements negotiated with partners

Enabling full online journey

Maintenance library of content created

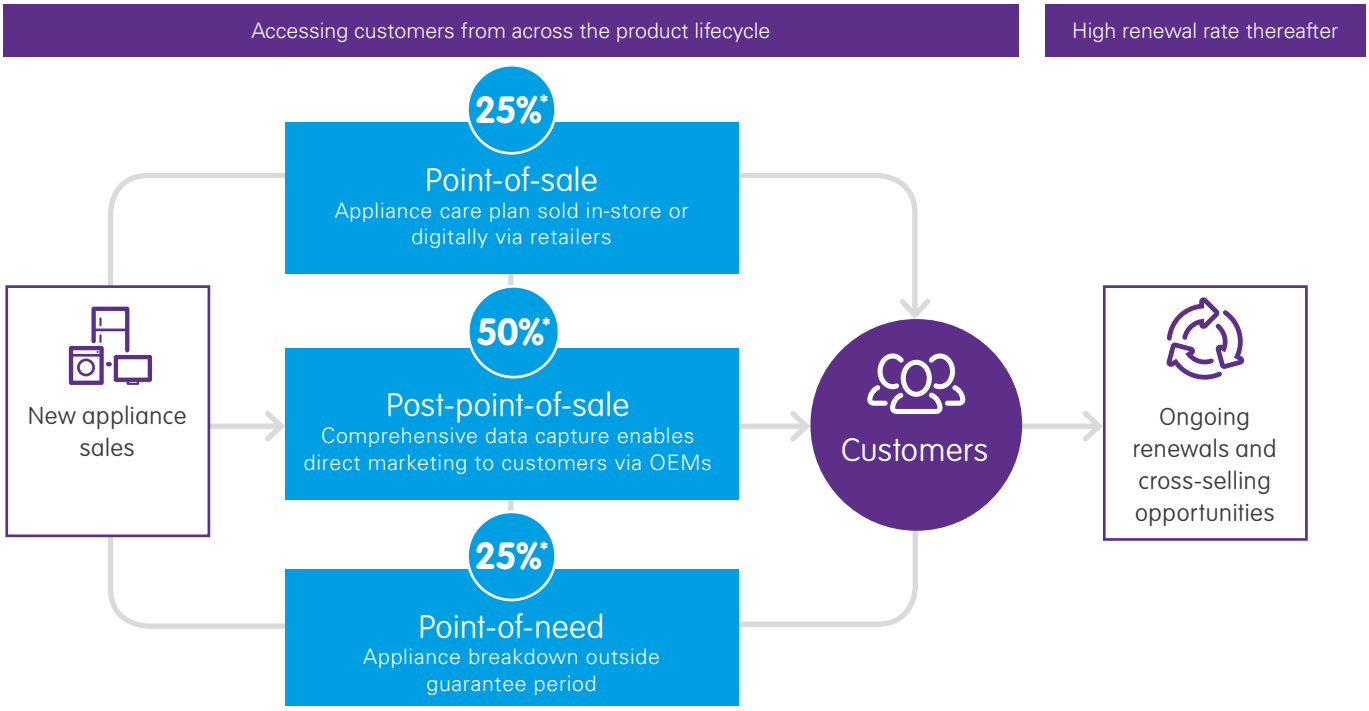
Self-serve maintenance portal deployed

## Investment to enhance business and accelerate growth

- One-off investments over a five year period including committed spend
- Customer First programme comprises c.£75m of this investment
- Developed change management capabilities to ensure successful service delivery and benefit tracking
- Business is well invested for the future including digitalisation and GDPR

# A unique distribution model serving the full appliance life-cycle

Our distribution model reaches customers across the full life-cycle of their product ownership from point of sale to registration on product delivery to the point of breakdown and if required, replacement. Our long standing relationships with major retail and OEM partners allows us to maximise our channel reach and deliver a seamless customer experience that delivers mutual benefits for all.




* Proportion of FY18 UK new business sales generated.

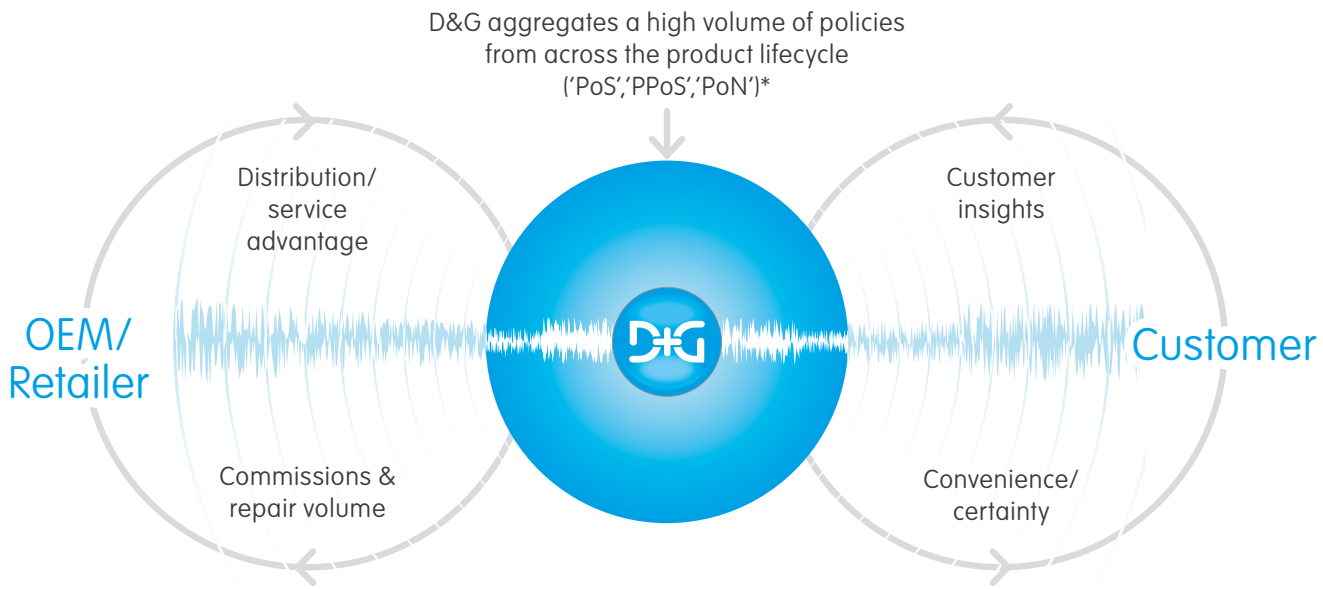
## Long standing and trusted partnerships with OEMs and retailers

| Partners | OEMs | Retailers |
|---|---|---|
| Highly differentiated and value added service proposition creates strong partnerships<br>+<br>Long lasting customer relationships<br>=<br>**Exclusive and long term mutually beneficial relationships** | Electrolux, BAXI, GlenDimplex, Miele, Hoover, INDESIT, BOSCH, CANDY, Whirlpool, sky, SAMSUNG, beko, WORCESTER, Vaillant, ideal, SCOTTISHPOWER | MEDIMAX, euronics, ao.com, MEDIA-SATURN, THE GOOD GUYS, Argos |

# D&G is at the centre of a virtuous ecosystem with partners

D&G benefits from high policy volumes through our own direct and partner distribution channels across the entire product lifecycle. Our business model is centred on consolidating repair and replacement volumes across this ecosystem of OEM and retail partners. Through aggregating purchase, product registration and repair data, we and our partners are able to deliver better and more cost efficient customer service through shared economies of scale. This data also allows us to build deep and enduring customer relationships that allow us to tailor service delivery and drive sustained renewal activity.

## Consolidating volumes across our partners




* PoS – Point-of-Sale, PPoS – Post-Point-of-Sale, PoN – Point-of-Need.

# D&G has built durable competitive differentiation

Our partner ecosystem, repair network and customer relationships have been built over many years and are a durable source of competitive differentiation. Combined with our deep underwriting experience and pricing expertise, we are able to leverage this differentiation to drive sustained profitable growth in our core markets and develop new sources of growth internationally.

## Unique combination of assets

**Customer and service**

**Data**

Proprietary rich customer database
•
50% of UK appliance sales captured
•
GDPR compliant

**Intellectual property**

Regulatory knowledge and understanding
•
Underwriting and pricing expertise
•
Marketing and product experience

**Routes and brands**

Exclusive marketing access to customers after appliance purchase
•
Use of trusted consumer brands
•
Access to connected appliances

**Repair networks**

Largest network in the UK
•
High quality repairs via OEMs
•
Digitally integrated

**Partners and ecosystem**

Strategy in Action

# D&G has successfully started to digitalise the business

We are building a fully digital capability to deliver an end-to-end digital experience for our customers. Digitalising the business will create significant opportunities to drive increased customer satisfaction and loyalty, revenue growth and streamline our costs.

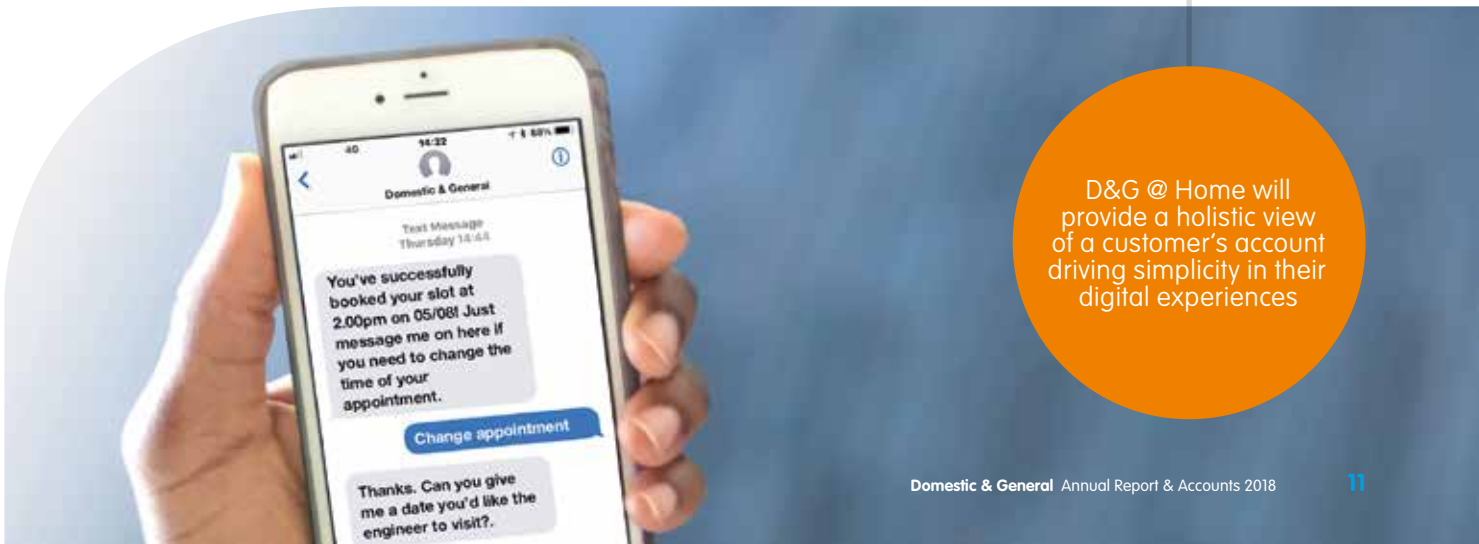
## Delivery of D&G @ Home will allow a full digital experience

| Breakdown | Maintenance | MyAccount |
|---|---|---|
| End-to-end digital repair experience<br>•<br>Select, upgrade and order replacement<br>•<br>Shop and purchase additional accessories | Self help: useful maintenance content, hints and tips<br>•<br>User manuals<br>•<br>Ability to purchase consumables | Utilise loyalty rewards<br>•<br>Access to discounted appliances<br>•<br>Smart appliance registration and remote connectivity |

## Significant opportunities to drive value

| Item | Potential value driver |
|---|---|
| More targeted pricing capabilities | Increase in renewals |
| Customer satisfaction | Personalised and relevant marketing |
| Reduced customer acquisition costs | Saving on direct acquisition costs |
| Cross-sell | Increased penetration |

Enabling much greater customer targeting and personalisation with our marketing proposition




D&G @ Home will provide a holistic view of a customer's account driving simplicity in their digital experiences

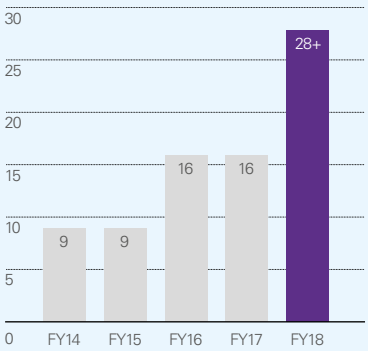
# Measuring performance against our objectives

We use a variety of KPIs and metrics to measure performance against our strategic objectives. Our performance on four of the most important indicators is shown below.

## KPIs

**28+**

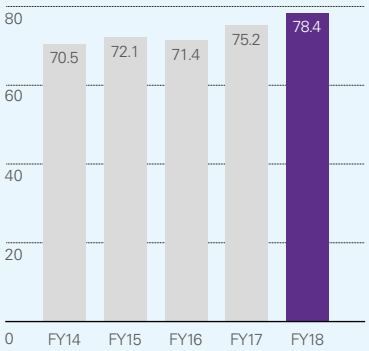
D&G Net Promoter Score*




* Number of Promoters less number of Detractors. Based on circa 9,000 replies to the general survey question: 'How likely are you to recommend D&G to a friend or colleague?' We attribute this rise to the continued better understanding of our customers, delivering key initiatives which have improved advocacy.

**78.4%**

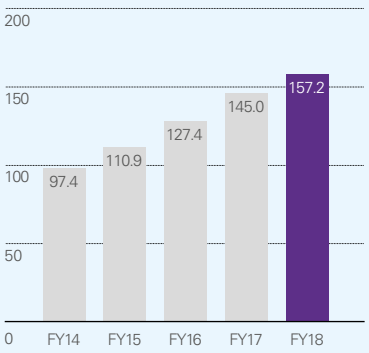
UK revenue renewal rate %*




* % of current year revenue from renewals/ total prior year revenue. An indicator of customer loyalty and the embedded nature of our revenue base.

# 8.3%

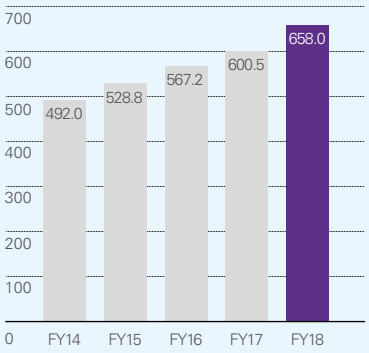
International sales growth %†




† At constant currency.

# 9.6%

UK sales growth %



# Chief Financial Officer's Statement

FY18 has been another year of strong performance, continuing our track record of delivering growth:

- **Group sales +10.2% to £818.7m**
  - underpinned by highly resilient subscription model and embedded growth from high renewal ratios, and new business growth
- **Underlying EBITDA +£3.5m to £98.5m**
  - stable cost ratios driven by expense control and predictable claims and acquisition costs embedded in long-term contracts with partners
- **Underlying Cash Flow Available for Debt Service £56.3m**
  - impacted by planned investment in capex to deliver enhancements to customer service, accelerate growth and transition to insurance products
- **Net leverage reduced from 4.3x to 4.2x following successful refinancing of Floating Rate Notes and £25m redemption**

The Group uses certain alternative performance measures ('APMs') to monitor financial performance. Underlying measures exclude items which are non-trading or non-recurring and are not defined terms under IFRS and may not be comparable with similarly titled profit or performance measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures but they are more indicative of actual trading performance of the Group. All APMs relate to the current year results and comparative periods where provided.

The following APMs are used by the Group:
- Underlying revenue;
- Underlying operating costs;
- Contribution;
- Underlying EBITDA; and
- Underlying Cash Flow Available for Debt Service.

Reconciliation between these underlying measures and the annual report and accounts is provided on page 16.

Underlying measures exclude significant items and certain fair value and amortisation charges arising from the acquisition of Domestic & General Group Holdings Limited.

## Group performance

Group sales increased by 10.2% year-on-year to £818.7m (2017: £742.6m) driven principally by the continuing strong organic growth of our renewal book in the UK, and a new client win during the year. On an underlying basis, revenue grew 5.7% to £777.5m (2017: £735.8m).

Underlying operating costs grew by 6.0% year-on-year. Claims and repair costs grew by 7.5% driven principally by our investment in the level of cover provided to our customers and the impact of a weaker Sterling on imported parts and replacements, while expenses grew 4.6% reflecting our focus on improving levels of customer service.

Contribution increased marginally year on year by 1.1% as a result of underlying revenue growing by 5.7% and claims and repair costs, as well as third party commission and marketing expenses increasing by 7.5% and 8.9% respectively.

As a result, underlying EBITDA increased by 3.7% year-on-year to £98.5m (2017: £95.0m).

**Summary financial information**

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m | % Change |
|---|---|---|---|
| **Sales** | | | |
| UK | **658.0** | 600.5 | 9.6% |
| International | **160.7** | 142.1 | 13.1% |
| | **818.7** | 742.6 | 10.2% |
| **Underlying Revenue**[1,2,3] | | | |
| UK | **624.6** | 589.1 | 6.0% |
| International | **152.9** | 146.7 | 4.2% |
| | **777.5** | 735.8 | 5.7% |
| **Underlying Operating Costs**[1,2,3] | | | |
| Claims and repair costs | **(335.2)** | (311.9) | (7.5%) |
| Expenses | **(355.3)** | (339.6) | (4.6%) |
| | **(690.5)** | (651.5) | (6.0%) |
| **Contribution**[3] | | | |
| UK | **215.6** | 214.1 | 0.7% |
| International | **35.4** | 34.1 | 3.8% |
| | **251.0** | 248.2 | 1.1% |

| | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m | % Change |
|---|---|---|---|
| **Underlying EBITDA[2,3]** | **98.5** | 95.0 | 3.7% |
| Net debt | **413.1** | 406.0 | 1.7% |
| Underlying Cash Flow Available for Debt Service[3] | **56.3** | 75.5 | (25.4%) |
| Net debt/underlying EBITDA | **4.2** | 4.3 | |
| Underlying EBITDA margin | **12.7%** | 12.9% | |

1 Underlying revenue and underlying operating costs differ from that within the income statement by £7m in the current year (2017: £19.8m) due to fair value adjustments.
2 Underlying revenue, underlying operating costs, and underlying EBITDA are reconciled to their GAAP and GAAP derived equivalents on page 16.
3 See glossary of terms for definitions of contribution, underlying revenue, underlying operating costs, underlying EBITDA, and underlying Cash Flow Available for Debt Service.

## Regional performance

**UK**

UK sales grew by 9.6% year-on-year to £658.0m (2017: £600.5m), driven by the strength of our renewals book. Renewals sales increased 9.9% to £481.8m (2017: £438.5m), reflecting the ongoing organic growth that is embedded in our subscription model, and retention and pricing initiatives. New business grew by 8.8% year-on-year supported by a new client win and our new product launch. Underlying revenue increased by 6.0% to £624.6m (2017: £589.1m).

Underlying operating costs grew by 7.2% year-on-year reflecting the impact of weaker Sterling on parts and replacements and our investment in the Customer First programme and related customer service improvements.

**International**

International sales grew by 13.1% year-on-year to £160.7m (2017: £142.1m), and by 8.3% on a constant currency basis, reflecting continuing growth in retail sales in Spain and Portugal.

## Significant items

Costs of £41.2m (2017: £4.2m) have been excluded from underlying EBITDA to better assist understanding of the financial performance of the Group. This includes £37.3m (2017: £nil) relating to costs incurred as part of our Customer First programme and transition to our enhanced product offering, and £3.9m (2017: £4.2m) of restructuring and other costs.

## Loans and borrowings

Loans and borrowings consist of the following:

| | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m |
|---|---|---|
| **Third party debt** | | |
| 6.375% Senior Secured Notes due 2020 | **200.0** | 200.0 |
| Senior Secured Floating Rate Notes due 2019 | **–** | 175.0 |
| Senior Secured Floating Rate Notes due 2020 | **150.1** | – |
| 7.875% Senior Notes due 2021 | **125.0** | 125.0 |
| **Shareholder debt** | | |
| 10% Loan due to Parent Company | **170.5** | 156.4 |
| Financing costs | **(6.4)** | (6.7) |
| Total loans and borrowings | **639.2** | 649.7 |

The Group successfully refinanced the Senior Secured Floating Rate Notes due 2019 with the issuance of £150.1m of new notes due 2020 and the redemption of £24.9m from cash reserves. The revolving bank facility has also been increased to £100.0m (2017: £80.0m) with the maturity date extended to 1 November 2020, of which £23.0m (2017: £25.0m) is allocated to a letter of credit. £77.0m of the facility (2017: £55.0m) was unutilised at year end, and of this £3.0m (2017: £3.0m) is currently available as a same day drawdown money market facility. During the year, £0.8m (2017: £1.6m) has been repaid to the Parent Company. The external debt is secured on the assets of certain Group companies (see note 21).

## Loans and borrowings continued

The net debt position of the Group is presented below:

**Net debt**

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m |
|---|---|---|
| Third party debt | **475.1** | 500.0 |
| Unrestricted cash reserves | **(62.0)** | (94.0) |
| Total net debt | **413.1** | 406.0 |
| Net debt/underlying EBITDA | **4.2** | 4.3 |

Total net debt has remained stable year-on-year with the partial redemption of the Senior Secured Floating Rate Notes due 2019 of £24.9m reducing both third party debt and unrestricted cash reserves.

## Finance costs

Finance costs of £52.9m (2017: £51.7m) relate to the servicing of the Group's debt and can be broken down as follows:

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m |
|---|---|---|
| **Current Debt Structure** | | |
| 6.375% Senior Secured Notes due 2020# | **12.8** | 12.8 |
| Senior Secured Floating Rate Notes due 2019# | **10.2** | 10.5 |
| Senior Secured Floating Rate Notes due 2020# | **0.2** | – |
| 7.875% Senior Notes due 2021# | **9.8** | 9.9 |
| Finance charges – amortisation of deferred financing costs | **3.8** | 3.9 |
| 10% Loan due to Parent Company | **16.1** | 14.6 |
| Total finance costs | **52.9** | 51.7 |

# Includes £9.8m (2017: £9.8m) of accrued interest.

## Non-GAAP alternative performance measures reconciliation

The table below provides a reconciliation between GAAP and non-GAAP underlying performance measures.

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m | % Change |
|---|---|---|---|
| Revenue | **770.5** | 716.0 | 7.6% |
| Fair value adjustment arising from acquisition | **7.0** | 19.8 | (64.6%) |
| **Underlying revenue** | **777.5** | 735.8 | 5.7% |
| | | | |
| Operating costs | **755.6** | 698.4 | 8.2% |
| Fair value adjustment arising from acquisition | **7.0** | 19.8 | (64.6%) |
| Amortisation of acquisition intangibles | **(30.9)** | (62.5) | (50.6%) |
| Significant items | **(41.2)** | (4.2) | 881.0% |
| **Underlying operating costs** | **690.5** | 651.5 | 6.0% |
| | | | |
| Underlying revenue | **777.5** | 735.8 | 5.7% |
| Claims and repair costs | **(335.2)** | (311.9) | (7.5%) |
| Third party commission and marketing expenses | **(191.3)** | (175.7) | (8.9%) |
| **Contribution** | **251.0** | 248.2 | 1.1% |
| | | | |
| Operating profit | **14.9** | 17.6 | (15.3%) |
| Amortisation of acquisition intangibles | **30.9** | 62.5 | (50.6%) |
| Depreciation and amortisation | **9.5** | 8.3 | 14.5% |
| EBITDA | **55.3** | 88.4 | (37.4%) |
| Investment income | **2.0** | 2.4 | (16.7%) |
| Significant items | **41.2** | 4.2 | 881.0% |
| **Underlying EBITDA** | **98.5** | 95.0 | 3.7% |

## Capital structure and solvency

Sufficient capital is retained to finance growth of the Group and to meet regulatory requirements. As at 31 March 2018, the Group is in a net liability position as a result of annual amortisation charges relating to acquired intangible assets at acquisition and which total £304.5m (2017: £273.6m) cumulatively. The underlying capital structure is kept under review to ensure these requirements are met and to maintain an efficient balance sheet. The Group's insurance company, D&G Insurance PLC ('DGI'), is regulated by the UK Prudential Regulation Authority ('PRA'). The Board regularly reviews the capital position of DGI under the European Solvency II directive.

As part of the Solvency II regime DGI has implemented an Own Risk and Solvency Assessment ('ORSA') process which is used to assess the level of capital that should be retained by the Company. This process considers all the risks faced by DGI and includes stress tests applied to financial projections by varying assumptions for future experience. DGI is well capitalised under the Solvency II standard model (with Undertaking Specific Parameters ('USPs')) and on the basis of its ORSA. DGI has a branch in Australia which is regulated by the Australian Prudential Regulation Authority ('APRA') and required to hold capital to cover its Australian liabilities.

The capital and solvency position of the Regulated business is presented below:

**Capital structure and solvency**

| | **Year ended 31 March 2018* £m** | Year ended 31 March 2017* £m |
|---|---|---|
| Solvency II capital resources | **114.6** | 112.4 |
| Solvency II capital requirement | **53.7** | 46.4 |
| Solvency ratio | **213.4%** | 242.5% |

* Year ended 31 March 2017 numbers have been updated to reflect audited numbers.

The qualifying capital resources of £114.6m (2017: £112.4m) held by DGI at the year-end comfortably exceeded its capital requirements of £53.7m (2017: £46.4m), a regulatory solvency ratio of 213.4% (2017: 242.5%).

Management adheres to a voluntary policy of paying dividends out of DGI's distributable reserves only to the extent that a prudential buffer of approximately 30% of capital requirements continues to be maintained after giving effect to the proposed distribution.

Brexit: While there is a strong likelihood of transitional arrangements, we are preparing for a 'hard' Brexit to enable us to continue writing insurance business in Europe and meet our European contractual obligations. We have a dedicated team and detailed process focused on establishing an insurance entity in Germany where we have a good regulatory relationship and existing substance, into which we expect to migrate EU customers through a Part VII transfer. An exceptional one-off capitalisation of the new entity may be required, dependent upon the length of transitional arrangements but we do not expect aggregate capital requirements to increase significantly.

## Cash flow and underlying Cash Flow Available for Debt Service

Cash balances are managed in line with financing requirements and foreign exchange exposures. Further details are included in note 29 to the financial statements. Detailed cash flow information is presented in the consolidated cash flow statement.

The Group's ability to service debt depends primarily on two separate streams of cash flow: (a) free cash flow from the Non-Regulated business and (b) distributable earnings of the Regulated business, representing after-tax earnings that can be distributed following any capital retention necessary to ensure continued compliance with the applicable capital requirements and the Group's policy of retaining an additional prudential solvency buffer of 30%.

Underlying Cash Flow Available for Debt Service ('CFADS') is defined as the sum of: (i) Free Cash Flow of the Non-Regulated Business, plus (ii) dividends that can be distributed by the Regulated Business over the amount of capital to be held for regulatory purposes determined in accordance with Solvency II principles, plus (iii) certain payments from the Regulated Business to the Non-Regulated Business not included in (i) and (ii) above.

The underlying CFADS is presented below:

**Underlying Cash Flow Available for Debt Service ('CFADS')**

| | **Year ended 31 March 2018* £m** | Year ended 31 March 2017* £m |
|---|---|---|
| **Free cash flow from unregulated business** | | |
| Underlying EBITDA | **45.8** | 40.5 |
| Working capital movements | **(9.7)** | (14.3) |
| Capital expenditure | **(19.3)** | (10.0) |
| | **16.8** | 16.2 |
| **Distributable earnings from regulated business** | | |
| Regulated profit after tax | **45.8** | 44.0 |
| Change in capital requirement | **(10.9)** | (3.7) |
| Change in capital resources | **(1.5)** | 8.3 |
| | **33.4** | 48.6 |
| Other cash flows between regulated and unregulated | **6.1** | 10.7 |
| **Underlying Cash Flow Available for Debt Service** | **56.3** | 75.5 |

* CFADS for the year ended 31 March 2017 has been updated to reflect audited numbers.

Underlying CFADS and cash conversion have decreased on the prior year, primarily driven by increased capital investment in technology infrastructure to support customer service enhancements and accelerate growth, and the transition to insurance as part of our new product strategy.

**The Group**

Galaxy Finco Limited was formed in August 2013 by funds advised by CVC Capital Partners, a leading global private equity investor, to acquire D&G Group Holdings Limited and its subsidiary companies, and to manage the business of the Group.

The Group is a portfolio company of CVC Capital Partners as defined by the 'Guidelines for Disclosure and Transparency in Private Equity' published by David Walker in November 2007 (the 'Walker Report').

# Principal Risks and Uncertainties

## Risk management and control

The primary objective of our risk management and control framework is to protect the Group from events that hinder achievement of our objectives and financial performance, including failure to exploit opportunities. The Group has in place a risk management framework and assessment programme that seeks to limit the adverse effects of financial and other risks on the financial performance of the Group and which is overseen by the Chief Risk Officer. A combined Audit & Risk Committee at both the Group and insurance subsidiary level is in place, chaired by Non-Executive Directors.

The Group has a comprehensive risk management framework with risk registers, risk appetite statements approved by the Board and Key Risk Indicators. The Galaxy Finco Limited Board has identified the following principal risks and uncertainties that could have a material impact on the Group's performance, and has put in place internal processes and controls designed to mitigate each risk.

A summary of the principal risks and uncertainties facing the Group is shown below.

| Risk | Risk description | Risk mitigation |
|---|---|---|
| Changes in market dynamics | Risks associated with changes in the wider economy or commercial environment. | • Resilient business model<br>• Significant experience and expertise in chosen markets<br>• Product development and innovation<br>• Frequent review of competition<br>• Market intelligence<br>• Brexit planning |
| Strategic risk | Risks associated with developing the strategy for the organisation; the business model, developing new business and partnerships and delivering to customers. | • Formal development of strategy and review of progress by the Board<br>• Clear internal and external communication of strategy<br>• Frequent planning and monitoring of activity |
| Regulatory and legal landscape | Risk that changes to the legal or regulatory landscape could adversely impact on financial performance. | • Ongoing monitoring and awareness<br>• Experienced compliance and risk teams<br>• Independent internal audit function<br>• Experienced in-house legal function<br>• Engagement and relationship with UK and overseas regulators<br>• Regular contact with UK regulators<br>• Advice and support from external advisors |
| Conduct risk | Risk of failure to comply with relevant laws, regulations and standards in the UK and overseas. | • Active monitoring and development of products and processes to meet applicable regulations<br>• Conduct Standards governance structure focusing on good customer outcomes<br>• Appropriate policies and procedures<br>• Strong product design, sales and customer marketing standards<br>• Training and competence programmes for staff<br>• Monitoring of call handling processes (call verification)<br>• Monitoring of publications by external bodies (regulatory, governmental)<br>• Dedicated legal, compliance and risk teams<br>• Annual risk-based compliance monitoring programmes |
| Underwriting and pricing | The risk that underwriting does not accurately reflect all the perils being insured, or that the pricing is not commercially viable. | • Competitive pricing with realistic margins<br>• Experienced staff and specialised systems<br>• Statistical models developed over time<br>• Performance monitoring<br>• Dedicated department to manage repairers' costs and quality<br>• Market intelligence |
| Technology | The risks associated with delivery and future-proofing of our technology, including the potential impact of business interruption through systems and facilities. | • Investment in appropriate technology and staff<br>• Project management and expert support in developing and maintaining information systems<br>• IT governance structure<br>• Outsourced duplicated data centres<br>• Business continuity plans |

| Risk | Risk description | Risk mitigation |
|---|---|---|
| Data security and protection | The risk that our data is not securely held and compliant with legal requirements (including GDPR). | • Data security policy and procedures<br>• Regular review and assessment by management<br>• ISO 27001 – Information Security accreditation. (ISO 27001 is a formal specification for an Information Security Management System)<br>• Payment Card Industry Data Security Standard ('PCI DSS') certification<br>• Disclosure statements of customer consent<br>• Access controls<br>• Compliance with the European Union's new General Data Protection Regulation on the processing of personal data and on the free movement of such data, applicable from 25/05/2018 |
| Reputation risk | Risk of damage to brand name or reputation either through our people or our behaviours or by third parties acting on our behalf. | • Strong product governance, sales and customer marketing standards<br>• Continual, proactive review of processes both internally and externally<br>• Monitoring of Management Information, quality control and service levels<br>• Monitoring and responding to customer complaints and feedback<br>• Root cause analysis of complaints to ensure continuous improvement<br>• Media and horizon scanning |
| Key client relationships | The risks associated to the dependency on key client relationships for distribution or services. | • Client relationships management team<br>• Regular review of performance with key clients<br>• Management of service levels<br>• Dedicated client services team and regular contact with clients<br>• Business strategy and planning<br>• Development of new business pipeline<br>• Long-term agreements with key clients |
| People risk | The risk that we have insufficient staff, inadequate talent pipeline and our people have insufficient skills or engagement to support the business strategy. | • Review and development process for all employees<br>• Appropriate rewards programme in place<br>• Succession and HR planning reviewed at Board level<br>• Recruitment policy and staff vetting<br>• Performance management process<br>• Implementation of culture programme |
| Financial management | The risk of failure to maintain appropriate financial controls throughout the business, including the management of capital and ensuing capital advisory, credit risk, investments and forecasting. | • Experienced finance team<br>• Financial control environment<br>• Embedded capital requirement review procedures<br>• Close monitoring of financial performance, debt covenants and credit risk by senior management |
| Outsourcing | The risk that services being delivered by third parties on behalf of Domestic & General fall below the required standards, resulting in business interruption, poor customer outcomes, data breaches, or financial loss. | • Due diligence and on-boarding<br>• Procurement process in place<br>• Monitoring of Management Information to identify early warning signs<br>• Regular meetings with outsourced providers to track performance and agree actions for areas of under performance<br>• Appropriate policies and procedures |

The Group is also exposed to financial risk through its financial assets and financial liabilities. A summary of the Group's financial risk management framework is included in note 28 to the financial statements.

# Our People

## We have c.2,900 colleagues who each play a role in serving our customers and successfully delivering our strategy.

Our three-year People Strategy was developed in 2017 to complement our business plan and sets out the key actions that will improve the way we recruit, train and develop our people.

Our People Strategy has four pillars: culture & values, building talent, capability for performance and great people experience. Together they aspire to achieve outstanding customer service with inspired and fulfilled people.


### Culture & Values

From our frontline to the boardroom, we have worked together to deliver a set of values and behaviours that resonate with all our people and drive individual and business performance. IGNITE, our new culture & values programme, helps us to focus on our strategic priorities, live our values and ultimately put the customer first. Through IGNITE, we will become the world-class organisation we envision, ready and able to serve our customers in a smart future.

IGNITE is already changing the way the business operates. Many key customer service improvements have been driven by our values, such as the removal of delivery and depreciation charges.

We have introduced a cohort of culture ambassadors called Firelighters and Sparks, who are passionate about our business and customers. Our Firelighters and Sparks advocate change and embed our new values and behaviours.

IGNITE is also improving the way we engage our employees – we have introduced reverse mentoring for all our Executive Committee members to help improve empathy, communication and collaboration.


### Great People Experience

We know that engaging our people is fundamental to the successful delivery of our business strategy, which is why we chose to collaborate with Gallup in 2017 – employee engagement experts who helped us deliver a new world-class employee survey that has provided us with a benchmark and identified opportunities for improvement.

80% of our people completed the survey in 2017, giving us a score of 3.5 out of 5 – significantly better than the overall UK working population, but we know there is plenty of room for improvement. We now have meaningful action plans in place that will address our gaps, drive higher engagement and enhance our people's experience.

Communication throughout our transformation is key, which is why every year we hold a people managers townhall. The event is designed to tell the story of our business as we evolve into a world-class service organisation, ensuring our 400 people managers understand where we're going and the role they play.

Last year we invested in a new digital communication platform that encourages collaboration and sharing of success from senior leaders to our call centre teams. It hosts our recognition website and our new employee benefits site, where our people can access discounts and cashback for over 3,000 brands, as well as a bespoke concierge service.

### Building Talent

A key focus of our People Strategy is to identify talented people and provide them with clear career paths, as well as ensure we respond to the development needs of our diverse workforce.

In 2017 we introduced the Develop & Grow Academy, which provides our people with a suite of development programmes to enhance their skills and drive performance.

Over 50 colleagues are on their way to securing an externally accredited qualification that not only supports their performance, but helps them shape a rich and fulfilling career.

Our senior leadership teams have defined what talent means at D&G and have created clear succession plans for future senior management roles to extend our legacy and evolve careers.

## Capability for Performance

This is designed to offer developmental support for our people managers so they can successfully lead high performing teams. As well as support for our people managers, our values and behaviours are aligned to our performance framework to ensure 'how' we do things is equally as important as 'what' we do.

Our reward offering reflects the performance and behaviours of our people, and our discretionary bonus payments are made on merit. We believe this approach encourages fairness and drives our people to want to do a great job ultimately for our customers.

In early 2018, we launched World Class Manager, an accredited programme designed to improve the personal development needs of our people managers and equip them with the skills and tools they need to lead their teams. More than 300 people managers have already taken part.

## Diversity and Inclusion

During 2018, the monthly average number of persons employed in the business was 2,823 (2017: 2,940).

The table opposite sets out the gender diversity of Executive Committee members, senior managers and employees as a percentage of headcount as at 31 March:

As a company that aspires to be a world-class service organisation enabled for a smart future, we believe this can only be achieved by being truly inclusive. We have a diverse workforce across the UK, and we value the difference that every employee brings.

| | **2018** | 2017 | Change from 2017 |
|---|---|---|---|
| Executive Committee Members | | | |
| – Female | **2** | 1 | 1 |
| – Male | **6** | 7 | (1) |
| Employees as a percentage of headcount at 31 March: | | | |
| Senior Managers | | | |
| – Female | **26.1%** | 23.4% | 2.7% |
| – Male | **73.9%** | 76.6% | (2.7%) |
| All employees | | | |
| – Female | **49.0%** | 49.3% | (0.3%) |
| – Male | **51.0%** | 50.7% | 0.3% |

Transparency of gender pay is an important part of ensuring inclusiveness. In 2017 our UK Gender Pay Report showed a 20.5% mean pay gap, which is significantly below the indicative average for the financial services industry. However, it is still above the overall UK average, and we understand we have further work to do. A key focus in addressing our gaps is a commitment to increase female representation at a senior level.

To achieve this, the recruitment and development of our existing employees is critical, and we have already taken a number of steps to support our efforts:

1. We have changed our recruitment processes to require a diversified shortlist for all senior leadership positions. This means aspiring for a gender balanced candidate pool for these roles.
2. Our skills development and succession plans are gender balanced, designed to be inclusive and encourage the development and promotion of all our people.
3. We will continue to review our policies and processes to ensure all our people can progress and develop within our organisation, with an emphasis on those who are underrepresented at more senior levels.

This year we celebrated International Women's Day, in conjunction with the release of our gender pay report.

## Corporate Social Responsibility

We have a presence in 11 countries, so it's important to us that we support the communities and countries we operate in.

Every year we ask our colleagues which charities they want to support – last year they chose Worldwide Cancer Research, which funds lifesaving research into every type of cancer.

In addition, we also supported a number of local charities, including the Parents Association for Seriously ill Children ('PASIC') in Nottingham; in Brighton we continued to support Rockinghorse, which provides key support services for unwell children and their families; and in Bedworth we supported Mary Ann Evans Hospice.

In 2018, we helped Sport Relief raise over £38m by taking donation calls from the public through our Brighton call centre. During the annual telethon, over 100 colleagues donated their time to take calls and process donations.

Our colleagues take impressive steps to raise awareness and generate donations, including skydives, raffles and football matches. This year we have raised over £54,000 for our chosen charities and our efforts will continue over the coming months.

## Good governance is central to operations at Domestic & General ('D&G'), with priority given to treating its customers fairly.

D&G have various internal committees to oversee governance, including the following:

(i) UK and International Conduct Standards Committees: These committees are charged with the responsibility for monitoring and strengthening its approach to treating customers fairly.

(ii) UK and International Product Development Committees: Their role is to oversee the activity of designing new products or modifying or developing existing products within D&G and ensuring that its standards are understood and applied when carrying out product development, with the goal of ensuring that its products represent good value for customers.

Recently D&G have incorporated a Risk Committee to oversee and monitor risk and compliance matters within the business. The Risk Committee supports the objectives set by the Group Audit and Risk Committee and reports into the Executive Committee on a monthly basis.

Our employees play a critical role in serving our customers and successfully delivering our strategy. A comprehensive three-year People Strategy was launched in 2017 which sets out our cultural aspirations and the key actions that we will take to enhance how we recruit, train and develop our people.

Underpinning the People Strategy is a culture and values programme that inspires employee engagement, drives the right outcomes for customers and creates an environment of diversity and inclusion.

In the past year, D&G has introduced reverse mentoring for all Executive Committee members to help improve empathy, communication and collaboration, and has adapted its recruitment strategy to require a diversified shortlist for all senior leadership positions; this means aspiring for a gender balanced candidate pool for these roles.

D&G is committed to supporting the health of its employees through regular initiatives that promote mental, emotional and physical wellbeing, such as health awareness weeks, complementary fruit every week and the introduction of mental health advocates across the UK.

D&G firmly believes in supporting the local communities in which it operates, which is why it runs many local volunteering and fundraising initiatives every year in support of national and local charities chosen by its employees, with the company donating over £50,000 in the past year.

D&G is committed to providing products and services that can help to reduce the use of energy and natural resources. We believe that our products and services contribute towards longer product life and reduced waste through effective repairs. Our use of long-established local and nationwide manufacturer repair networks helps to minimise the environmental consequences of transportation. When we replace products, we aim to offer only A or B grade energy efficiency rated appliances. We also work closely with our service networks white good manufacturer clients to ensure end of life products are disposed of in an environmentally conscious manner.

# Board of Directors

The Directors set out here are Directors of Galaxy Midco 1 Limited. Galaxy Midco 1 Limited is the statutory entity at which the Group's operational board sits. The Directors of Galaxy Finco Limited are set out in the Directors' Report on page 26.

## David Tyler
Group Chairman

David became Chairman of the Group on 24 September 2015. David has over 40 years of experience in both executive and non-executive roles at a variety of businesses across the consumer, retail, business services and financial services sectors. David has extensive experience as chairman at a number of the UK's largest and most established public companies. He is currently Chairman of J Sainsbury plc, a position he has held since 2009, and of Hammerson plc, which he has chaired since 2013.

## Ian Mason
Chief Executive Officer

Ian was appointed Chief Executive Officer on 4 July 2016. Previously, Ian was CEO of Electrocomponents PLC. During his 14-year tenure as CEO he led the business through a period of significant change and has extensive experience of the strategic, systems and service challenges of growing and transforming a business. He also has significant non-executive experience, and is currently a non-executive Director of Qinetiq Group PLC.

## Tom Hinton
Chief Financial Officer

Tom joined Domestic & General in September 2017 and is an experienced Group CFO. Most recently he was CFO at Infinis PLC, one of the UK's largest listed independent renewable energy businesses. Prior to this, Tom spent 12 years with Centrica where he held a number of finance and strategy roles, including CFO of Centrica Energy Canada and Financial Controller of British Gas. Tom has been a trustee on the Christian Aid board since 2010 and chairs its Finance and Fundraising committee.

## Debbie Hewitt MBE
Independent Non-Executive Director

Debbie became a Director on 17 December 2013 having been a Director of D&G Group Holdings Limited since 2008. She is a former managing director of RAC plc and is currently non-executive chairman of Moss Bros Group plc, The Restaurant Group plc and White Stuff and is a non-executive director of Redrow plc, Visa Europe and BGL Group. Debbie holds an MBA (distinction) from Bath University, is a Fellow of the Chartered Institute of Personnel Development ('FCIPD') and was awarded an MBE for services to Business and the Public Sector in the New Year Honours list in 2011.

## Peter Rutland
Non-Executive Director

Peter became a Director of the Group on 12 August 2013 in preparation for the acquisition of D&G Group Holdings Limited by funds managed by CVC Capital Partners. Peter is a partner of CVC and joined them in 2007. Prior to joining CVC, he worked for Advent International and Goldman Sachs in their Investment Banking Division.

## David Wells
Non-Executive Director

David became a Director of the Group on 24 September 2015. David is an investment professional at CVC and joined them in 2009. Prior to joining CVC, David worked for OC&C Strategy Consultants.

## Robin (Pev) Hooper
Non-Executive Director

Pev became a Director of the Group on 12 August 2013 in preparation for the acquisition of D&G Group Holdings Limited by funds managed by CVC Capital Partners. Pev is a Partner of CVC and joined them in 2004. Prior to joining CVC, Pev worked for Citigroup and Schroders in their M&A departments.

**Board key actions FY18**

- Reviewed the strategy and approved a five year strategic plan
- Approved the Customer First Programme
- Board Effectiveness Review

# Executive Committee

The Board delegate the day to day operations of the business to the Executive Committee, which along with Ian Mason and Tom Hinton, is made up of the following key management personnel.*

## Joe Fitzgerald
Managing Director – Customer Strategy

Joe joined the Domestic & General graduate scheme in November 1998 and has worked in a variety of roles across the business. He was appointed Underwriting Director in 2007 and now leads our Marketing, Commercial, Underwriting & Pricing functions. Joe is a qualified management accountant.

## Jo Hale
Customer Contact Director

Jo has led our call centre operation since October 2016. Prior to this, Jo has worked with high-growth SMEs in the South West on their people and customer strategies. Jo also worked for 17 years at RAC, where she led the sales and services membership areas.

## Steve Purser
Managing Director – Client Management & New Business Sales

Steve joined in March 2008 and previously held the Marketing Director and the Sales & Marketing Director roles. His 15-year career in the industry has included UK and international roles, including senior positions at Homeserve and Allianz insurance.

## Nick Ulycz
Group HR Director

Nick was appointed in December 2016 and leads the HR and Communications function. Prior to joining D&G, Nick was Head of HR for HSBC in the UK, before which he worked at FirstData as HR Director. Nick studied HR and is a Fellow of the Chartered Institute of Personnel and Development.

## Mike Sturrock
Chief Information Officer

Mike joined in November 2017 to lead the Technology & Change function. Mike previously held senior roles at Three, BskyB, and more recently, director roles at EasyJet and the DX Group. Mike is also a member of the Board of Trustees that governs the RNLI.

* Richard Barlow appointed to join the Executive Committee (replacing Niamh Grogan) effective 11 June 2018.

# Board Committees

## Galaxy Midco 1 Limited has an Audit & Risk Committee and a Remuneration Committee with responsibilities for ensuring that the Group, including Galaxy Finco Limited, continues to conduct its business in accordance with applicable United Kingdom corporate governance standards.

Details of the membership and terms of reference of each of these committees are provided in more detail below.

Galaxy Midco 1 Limited is the statutory entity at which the operational board sits, and through its subsidiaries provides appliance care for domestic appliances and consumer electronic products to consumers.

Galaxy Finco Limited is a subsidiary of Galaxy Midco 1 Limited and is a holding company within the Domestic & General Group. This annual report and accounts are presented for Galaxy Finco Limited and is the largest group of companies for which the results of the Domestic & General Group are consolidated.

Galaxy Midco 1 Limited

Galaxy Finco Limited

### Audit and Risk Committee

Members:
David Tyler (as Chairman),
Tom Hinton,
David Wells,
Peter Rutland and
Debbie Hewitt MBE.

Terms of Reference:
Meet at least three times a year and in the current year met four times. Responsibilities include: the review of the annual and quarterly financial statements (including the reasonableness of areas of judgement); review of the appropriateness of the Group's accounting policies and procedures; review of the effectiveness of the audit process and the relationship of the Group with its external auditors including the level and nature of non-audit services; review of the effectiveness of the internal audit function; and review of the effectiveness of the Group's internal controls, risk management and compliance processes.

### Remuneration Committee

Members:
Pev Hooper (as Chairman),
David Tyler,
Peter Rutland,
Debbie Hewitt MBE and
Ian Mason.

Terms of Reference:
Meet at least once a year and in the current year met seven times. Responsibilities include: determining the overall framework and policy for remuneration of the Chairman, the independent Non-Executive Directors, the Executive Directors and senior executives of the Group. The remuneration policy for executive directors and senior management is to provide packages that are intended to attract, motivate and retain high-calibre individuals, to develop the Group further and enhance its value.

# Directors' Report of Galaxy Finco Limited

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's Report, for the year ended 31 March 2018.

## Principal activity

The principal activity of the Group is the provision of appliance care for domestic appliances and consumer electronic products to consumers.

## Board of Directors

The names of the Directors who served through the year are set out below:
Robin (Pev) Hooper
Peter William James Rutland
David William Wells
Thomas Edward Hinton – appointed 25 September 2017
Andrew Crossley – resigned 26 September 2017

## Share capital

Details of share capital are to be found in note 23 to the financial statements.

## Dividends

The Directors do not recommend the payment of a dividend on ordinary shares at this time (2017: £nil).

## Supplier payment policy

The Company's policy is to settle terms of payment with suppliers by agreeing the terms of each transaction, ensuring the suppliers are made aware of the terms of payment and abiding by the terms of the payment. Trade payables of the Group at 31 March 2018 were equivalent to 23 days' purchases (2017: 25), based on the average daily amount invoiced by suppliers during the period.

## Directors and officers, insurance and Directors' indemnities

The Company has purchased, and maintained throughout the period, Directors and officers liability insurance in respect of the Company and its Directors. The Directors are also entitled under the Articles of Association to be indemnified by the Company against costs, charges, losses, expenses and liability incurred in the discharge of their duties, unless prohibited by statute.

## Going concern

The Group's business activities and strategy, including a review of future plans, are included in the Strategic Report on pages 6 to 13. The Strategic Report on pages 14 to 17 includes details of the Group's financial position as well as details of the Group's loans and borrowings, cash flow and liquidity.

The Group is exposed to financial risk through its financial assets and financial liabilities and, to a limited extent, its insurance contracts. The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group; this is discussed in note 28 to the financial statements.

Details of the Group's loans and borrowings are given in note 21 to the financial statements. The regulated business also continues to meet its capital requirements and we have a capital management process in place as discussed in note 29 to the financial statements.

We have considered the key factors in the business that could have an impact on trading and whether an adverse change in these could affect our ability to meet our liabilities. These include a potential increase in repair costs, potential loss of a key client given the economic climate and potential increases in cancellation rates. We have considered reasonable changes in these areas when setting our forecasts and projections which show that the Group should be able to meet its debt obligations.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis in preparing the Annual Report and Accounts.

## Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Auditors

In accordance with section 109 of the Companies (Jersey) Law 1991 the shareholders approved the reappointment of KPMG LLP as auditors to the Company, who are deemed to continue in office until such resolution is revoked.

By order of the Board

SJ Secretaries Limited
Company Secretary
1 August 2018

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under Companies (Jersey) Law 1991 the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies (Jersey) Law, 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Independent Auditor's Report
## To the Members of Galaxy Finco Limited

### Opinion
We have audited the Group financial statements of Galaxy Finco Limited ('the Company') for the year ended 31 March 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

In our opinion:
- the Group financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU and as applied in accordance with the provisions of the Companies (Jersey) Law 1991.

### Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern
We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Directors' Report
The Directors are responsible for the Directors' Report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:
- we have not identified material misstatements in the Directors' Report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies (Jersey) Law 1991.

### Matters on which we are required to report by exception
Under the Companies (Jersey) Law 1991, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### Directors' responsibilities
As explained more fully in their statement set out on page 27, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an Auditor's Report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**
This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Kushan Tikkoo
for and on behalf of KPMG LLP,
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

1 August 2018

# Consolidated Income Statement
## For the year ended 31 March 2018

| | Note | Year ended 31 March 2018 Before significant items and amortisation £m | Year ended 31 March 2018 Significant items and amortisation £m | Year ended 31 March 2018 After significant items and amortisation £m | Year ended 31 March 2017 Before significant items and amortisation £m | Year ended 31 March 2017 Significant items and amortisation £m | Year ended 31 March 2017 After significant items and amortisation £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 2 | **770.5** | **–** | **770.5** | 716.0 | – | 716.0 |
| Operating costs | | | | | | | |
| – Amortisation | 3 | **–** | **(30.9)** | **(30.9)** | – | (62.5) | (62.5) |
| – Other operating costs | 3 | **(683.5)** | **(41.2)** | **(724.7)** | (631.7) | (4.2) | (635.9) |
| **Operating profit/(loss)** | | **87.0** | **(72.1)** | **14.9** | 84.3 | (66.7) | 17.6 |
| Investment income | 4 | **2.0** | **–** | **2.0** | 2.4 | – | 2.4 |
| Finance costs | 5 | **(52.9)** | **–** | **(52.9)** | (51.7) | – | (51.7) |
| **Profit/(loss) before taxation** | 6 | **36.1** | **(72.1)** | **(36.0)** | 35.0 | (66.7) | (31.7) |
| Income tax (charge)/credit | 9 | **(2.2)** | **5.9** | **3.7** | (9.2) | 15.0 | 5.8 |
| Loss for the year | | | | **(32.3)** | | | (25.9) |

The total loss for the year is attributable to the equity shareholders of the Company.

All business above is from continuing operations.

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Comprehensive Income
## For the year ended 31 March 2018

| | Note | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m |
|---|---|---|---|
| Loss for the year | | **(32.3)** | (25.9) |
| Currency translation differences | | **(0.3)** | 0.2 |
| (Loss)/gain on available for sale financial assets | | **(0.6)** | 0.6 |
| Effective portion of changes in fair value of cash flow hedges – hedging reserve | | **0.6** | 0.6 |
| **Total comprehensive loss for the year** | 23 | **(32.6)** | (24.5) |

The total comprehensive loss for the year is attributable to the equity shareholders of the Company.

All components of other comprehensive income may be subsequently reclassified to profit or loss.

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Balance Sheet
## At 31 March 2018

| | Note | 31 March 2018 £m | 31 March 2017 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill and intangible assets | 11 | **517.9** | 539.9 |
| Property, plant and equipment | 10 | **12.4** | 10.9 |
| Deferred acquisition costs | 12 | **242.5** | 220.4 |
| Investments | 14 | **155.0** | 210.4 |
| Trade and other receivables | 17 | **504.1** | 426.1 |
| Cash and cash equivalents | 18 | **40.9** | 30.1 |
| **Total assets** | | **1,472.8** | 1,437.8 |
| **Liabilities** | | | |
| Loans and borrowings | 21 | **639.2** | 649.7 |
| Deferred tax liabilities | 13 | **36.2** | 42.0 |
| Deferred income | 19 | **661.9** | 614.5 |
| Claims and repair costs provision | 20 | **24.3** | 24.1 |
| Current tax liability | | **0.7** | 6.0 |
| Derivative liabilities | 15 | **–** | 0.6 |
| Trade and other payables | 22 | **206.4** | 164.2 |
| **Total liabilities** | | **1,568.7** | 1,501.1 |
| **Shareholders equity** | | | |
| Share capital | | **89.9** | 89.9 |
| Other reserves | | **0.2** | 0.5 |
| Retained earnings | | **(186.0)** | (153.7) |
| **Total shareholders equity** | 23 | **(95.9)** | (63.3) |
| **Total shareholders equity and liabilities** | | **1,472.8** | 1,437.8 |

*The accompanying notes form an integral part of these financial statements.*

These financial statements were approved by the Board of Directors on 1 August 2018 and were signed on its behalf by:

T Hinton
Chief Financial Officer

# Consolidated Statement of Changes in Equity
## At 31 March 2018

| | Ordinary share capital £m | Share premium £m | Hedging reserves £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| **At 1 April 2017** | **0.9** | **89.0** | **(0.6)** | **1.1** | **(153.7)** | **(63.3)** |
| **Loss for the year** | **–** | **–** | **–** | **–** | **(32.3)** | **(32.3)** |
| **Other comprehensive income for the year** | **–** | **–** | **0.6** | **(0.9)** | **–** | **(0.3)** |
| **Balance as at 31 March 2018** | **0.9** | **89.0** | **–** | **0.2** | **(186.0)** | **(95.9)** |

| | Ordinary share capital £m | Share premium £m | Hedging reserves £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 April 2016 | 0.9 | 89.0 | (1.2) | 0.3 | (127.8) | (38.8) |
| Loss for the year | – | – | – | – | (25.9) | (25.9) |
| Other comprehensive income for the year | – | – | 0.6 | 0.8 | – | 1.4 |
| Balance as at 31 March 2017 | 0.9 | 89.0 | (0.6) | 1.1 | (153.7) | (63.3) |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Cash Flow Statement
## For the year ended 31 March 2018

| | Note | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m |
|---|---|---|---|
| **Loss before tax** | | **(36.0)** | (31.7) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **3.4** | 4.1 |
| Amortisation of software | | **6.1** | 4.2 |
| Amortisation of acquired intangible assets | | **30.9** | 62.5 |
| Revaluation of land and buildings | | **–** | (0.3) |
| Interest expense | | **52.9** | 51.7 |
| Interest income | | **(2.0)** | (2.4) |
| Significant items – other operating and finance costs | | **41.2** | 4.2 |
| | | **96.5** | 92.3 |
| **Changes in working capital** | | | |
| Increase in deferred acquisition costs | | **(20.1)** | (27.3) |
| Increase in trade and other receivables | | **(80.1)** | (35.3) |
| Increase in deferred income | | **47.7** | 26.8 |
| Increase in claims and repair costs provision | | **0.1** | 3.2 |
| Increase in trade and other payables | | **11.5** | 6.8 |
| **Cash flows from operating activities** | | **55.6** | 66.5 |
| Significant items | | **(9.5)** | (1.9) |
| Interest received from cash and cash equivalents | | **0.4** | 0.3 |
| Interest paid | | **(34.5)** | (35.0) |
| Income taxes paid | | **(7.4)** | (5.1) |
| **Net cash from operating activities** | | **4.6** | 24.8 |
| **Cash flows from investing activities** | | | |
| Interest received on investments | | **1.8** | 2.1 |
| Acquisition of property, plant and equipment | | **(6.0)** | (1.5) |
| Acquisition of software | | **(14.1)** | (8.9) |
| Withdrawal from/(deposit with) credit institutions | | **11.7** | (0.9) |
| Withdrawal from/(deposit with) money market funds | | **39.4** | (19.0) |
| Financial instrument investments | | **1.9** | 4.1 |
| **Net cash from/(used in) investing activities** | | **34.7** | (24.1) |
| **Cash flows from financing activities** | | | |
| Redemption and refinancing of Secured Floating Rate Notes | | **(26.3)** | – |
| Amounts paid to group undertakings | | **(0.8)** | (1.6) |
| **Net cash used in financing activities** | | **(27.1)** | (1.6) |
| **Net increase/(decrease) in cash and cash equivalents** | | **12.2** | (0.9) |
| Effects of exchange rates | | **(1.4)** | 1.4 |
| **Cash and cash equivalents at beginning of the year** | | **30.1** | 29.6 |
| **Cash and cash equivalents at the end of the year** | 18 | **40.9** | 30.1 |

*The accompanying notes form an integral part of these financial statements.*

# Notes to the Financial Statements

## 1 Significant accounting policies

Galaxy Finco Limited is a private Company incorporated in Jersey and the Company's registered office address is 1 Waverley Place, Union Street, St Helier, Jersey, JE1 1SG. These consolidated financial statements of the Company are for the year to 31 March 2018 and comprise the Company and its subsidiaries (together referred to as the 'Group'). The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

**A Statement of compliance**

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as endorsed by the EU ('Adopted IFRSs').

**B Basis of preparation**

The financial statements are presented in pounds Sterling, and are rounded to the nearest one hundred thousand pounds. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, available for sale financial assets and financial instruments held at fair value through profit or loss.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The preparation of financial statements in accordance with endorsed IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 11 – measurement of recoverable amount of goodwill contained in cash-generating units
Note 12 – measurement of deferred acquisition costs
Note 19 – measurement of deferred income
Note 20 – claims and repair costs provision

The nature of debt within the Group does not meet the requirements of listed debt as per IFRS 8 Operating Segments and as a result the requirements do not apply to the Group.

**C New, amended and revised Standards and Interpretations**

The following amendments to accounting standards have been adopted in the year:

| | |
|---|---|
| Amendments to IAS 7 | Disclosure Initiative |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |

None of the amendments listed above have had any material impact on the amounts reported in this consolidated set of financial statements.

At the date of authorisation of these financial statements the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (not all of which have been endorsed by the EU):

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |
| IFRS 17 | Insurance Contracts |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS 2 | Classification and Measurements of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 40 | Transfers of Investment Property |
| Annual improvements to IFRSs | 2014-2016 Cycle – IFRS 1 and IAS 28 Amendments |
| Annual improvements to IFRSs | 2014-2016 Cycle – IFRS 12 Amendments |
| Annual improvements to IFRSs | 2015-2017 Cycle |
| Clarifications to IFRS 15 | Revenue from Contracts with Customers |
| Conceptual Framework | Amendments to References to the Conceptual Framework in IFRS Standards |

## 1 Significant accounting policies continued

**C New, amended and revised Standards and Interpretations** continued

At 31 March 2018 the status of the Group's analysis as to the impact that IFRSs 9, 15, 16 and 17 will have on the financial statements for future reporting periods has concluded the following:

***IFRS 15 Revenue from Contracts with Customers effective for periods beginning on or after 1 January 2018***

IFRS 15 establishes principles that an entity should apply to report information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Appliance care service plans from the Group are insurance contracts for accounting purposes, as such IFRS 4 applies and IFRS 15 does not have an impact on the financial statements of the Group in future periods.

***IFRS 9 Financial Instruments effective for periods beginning on or after 1 January 2018***

IFRS 9 addresses the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. No material impact is expected for the Group in both the classification and measurement of financial instruments, including hedging instruments (interest rate swaps).

***IFRS 16 Leases effective for periods beginning on or after 1 January 2019***

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will result in almost all leases being recognised on the balance sheet for lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Buildings for the Group shown as operating leases in the financial statements for the year ended 31 March 2018 will be recognised on the balance sheet with the resulting depreciation charge and financial interest to the income statement. IFRS 16 is not expected to have a material impact on the financial statements of the Group in future periods.

***IFRS 17 Insurance Contracts effective for periods beginning on or after 1 January 2021***

IFRS 17 applies to all types of insurance contracts as well as certain guarantees and financial instruments with discretionary participating features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short term duration contracts.

The standard is currently being reviewed by the Company and is expected to have a material impact on the financial statements of the Group in future periods, although this impact is yet to be quantified. The expected changes include:

- insurance contracts to be accounted for under defined approaches – General Measurement Model and Premium Allocation Approach;
- additional disclosures relating to the risks and amounts reported in financial statements; and
- different performance measures.

**D Basis of consolidation**

The consolidated financial statements include the results of the Company and its subsidiaries. Subsidiaries are those entities over which the investor controls an investee when it is exposed, or has rights to variable returns from its involvement.

In preparing the consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**E Sales, revenue and deferred income**

Sales consists of amounts invoiced in respect of appliance care service plans, gross premium income in respect of insurance business, commissions receivable and sales invoiced in respect of other support services, net of cancellations and exclusive of VAT or IPT (insurance premium tax) as applicable.

Deferred income on appliance care service plans and insurance business comprises the deferral of revenue to cover the service or other obligation under the contract as the period of unexpired risk 'earns' accordingly and is computed separately for each contract. The provision is calculated on the 24ths basis for contracts up to one year. For contracts in excess of one year, the time apportionment basis is suitably modified so that the revenue recognition pattern matches the risk profile.

For contracts of an indeterminate length, expectation of average policy term based on historical and ongoing experience is used to determine a suitable recognition pattern and revenue is recognised on a straight-line basis over that period.

Revenue represents the amounts recognised in the current year relating to appliance care service plans and insurance business, net of cancellations, in accordance with the earnings patterns described above. Revenue recognition commences 'when cover starts'.

**F Significant items**

Significant items are those items that are material and non-recurring in nature that the Group believes should be disclosed separately to assist in the understanding of the financial performance of the Group.

## 1 Significant accounting policies continued

### G Acquisition costs

Acquisition costs comprise commission and other expenses incurred on acquiring service plan and insurance business.

Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the proportion of sales which have not been recognised as revenue at the balance sheet date. Acquisition costs are charged to the income statement in line with the earnings profiles of the related plans and policies.

### H Provisions

The claims and repair costs provision comprises provisions for the estimated costs of paying all claims and repairs incurred up to but not paid at the balance sheet date, whether reported or not, together with related claims and repairs handling expenses. Estimation techniques and assumptions are periodically reviewed with any changes in estimates reflected in the income statement as they occur.

Provision is also made, where necessary, when the expected value of claims, repairs and administrative expenses attributable to the unexpired periods of service plans and policies in force at the balance sheet date exceeds the provision for deferred income in relation to such service plans and policies after deduction of deferred acquisition costs. Any provision is calculated separately for each category of business but surpluses and deficits between categories that are managed together are offset and disclosed as an unexpired risk reserve if in respect of insurance.

### I Investment income

Investment income comprises interest income and realised and unrealised gains and losses on financial instruments at fair value through profit or loss. Interest is accrued up to the balance sheet date.

Fair value realised gains and losses are calculated as the difference between the net sales proceeds of the instrument and its fair value at acquisition or, if acquired prior to the last balance sheet date, its fair value at the last balance sheet date.

Fair value unrealised gains and losses are calculated as the difference between the current fair value of the instrument at the balance sheet date and its fair value at acquisition or, if acquired prior to the last balance sheet date, the fair value at the last balance sheet date.

Interest income on assets carried at amortised cost is recognised in the income statement as it accrues using the effective interest rate method.

### J Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss if the derivative is not a designated hedge. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are recycled into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

### K Available for sale financial instruments

Available for sale ('AFS') financial assets are non-derivatives that are either designated as AFS or are not classified as: (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group are classified as being AFS and are stated at fair value. Fair value is determined in a manner consistent with note 16. Gains and losses arising from changes in fair value are recognised in the consolidated statement of comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in the consolidated statement of comprehensive income.

## 1 Significant accounting policies continued

**L Property, plant and equipment**

Items of plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised in the income statement on a straight-line basis over the estimated useful economic lives of each item of plant and equipment.

The estimated useful economic lives are as follows:

| | |
|---|---|
| Computer equipment | 3–4 years |
| Motor vehicles | 4 years |
| Fixtures, fittings and equipment | 4–7 years |

Properties are held at open market value, as determined by independent professionally qualified valuers. These valuations are undertaken with sufficient regularity to ensure that the carrying amount at the end of a reporting period does not differ materially from its fair value. In the intervening years, these valuations are reviewed by the Directors and are adjusted if the valuation differs materially from its carrying amount.

A revaluation surplus is credited directly to equity under the heading of revaluation reserve, unless it reverses a revaluation decrease on the same asset previously recognised as an expense, when it is credited to the income statement to that extent. Revaluation decreases are charged against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any balance on the revaluation decrease is then recognised as an expense in the income statement. Revaluation surpluses are transferred to retained earnings on disposal of the asset.

The gain or loss arising on disposal of assets is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement. The useful economic lives and residual values of plant and equipment are reassessed annually.

**M Intangible assets**

**(a) Goodwill**

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the consideration transferred over the Group's interest in the net fair values of the net identifiable assets.

All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries and is the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

**Subsequent measurement**

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

**(b) Intangible assets acquired in a business combination**

Business combinations are reviewed to identify any additional assets that meet the definition prescribed by IAS 38 Intangible Assets. Specifically, any value identified in customer and client relationships is capitalised as an intangible asset. The fair value of customer and client relationships is determined on the basis of the present value of expected future cash flows. Intangible assets acquired in a business combination are subsequently stated at cost less accumulated amortisation and impairment losses.

**(c) Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

**(d) Subsequent expenditure**

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

**(e) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, from the date they are available for use. Goodwill is not subject to amortisation. The estimated useful lives are as follows:

| | |
|---|---|
| Software costs and licences | 4–10 years |
| Customer relationships and other | 3–7 years |
| Original equipment manufacturer ('OEM') relationships | 15 years |

**N Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If such an indication exists, the asset's recoverable amount is estimated, and where this falls below carrying value, an impairment is booked.

**(a) Non-financial assets**

Goodwill is tested for impairment annually even if no indication of impairment exists.

An impairment loss is recognised in the income statement if the carrying amount of an asset or its cash generating unit ('CGU') exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

## 1 Significant accounting policies continued

**N Impairment** continued

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(b) Financial assets**

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

**O Investments**

All financial assets are designated either as at fair value through profit or loss or as loans and receivables.

Deposits with credit institutions comprise term deposits with a maturity of greater than three months. At initial recognition deposits with credit institutions and loans are initially recognised at fair value which typically equals the consideration paid. Subsequent to initial recognition deposits with credit institutions and interest bearing loans are stated at amortised cost using the effective interest rate method, less any impairment losses.

**P Trade and other receivables**

Trade and other receivables are classified as loans and receivables and recognised at amortised cost less any provision for impairment. An impairment of a receivable will be recognised if there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

**Q Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, call deposits and term deposits with an original term date of less than three months.

**R Foreign currencies**

**(a) Foreign operations**

The results of overseas branches and subsidiaries are translated into Sterling at the average rate of exchange during the year. Assets and liabilities of overseas branches and subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on the translation of the results and balance sheets are recognised in other comprehensive income.

**(b) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

**S Taxation**

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case the applicable taxation on that item is also recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, and where the Group has control of the timing of any disposal. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 1 Significant accounting policies continued

**T Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

**U Finance costs**

Finance costs comprise the interest expense on loans and borrowings and deferred financing costs which are calculated using the effective interest rate method.

**V Employee benefits**

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

**W Operating leases**

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives received are recognised as a reduction of the rental expense over the lease term on a straight-line basis.

## 2 Revenue

| | **Year ended 31 March 2018** | | |
|---|---|---|---|
| | **Service plans £m** | **Insurance £m** | **Total £m** |
| **Sales** | **507.8** | **310.9** | **818.7** |
| **Deferred income movement** | **(25.7)** | **(15.5)** | **(41.2)** |
| | **482.1** | **295.4** | **777.5** |
| **Fair value adjustment** | | | **(7.0)** |
| **Revenue** | | | **770.5** |

| | Year ended 31 March 2017 | | |
|---|---|---|---|
| | Service plans £m | Insurance £m | Total £m |
| Sales | 452.2 | 290.4 | 742.6 |
| Deferred income movement | (7.7) | 0.9 | (6.8) |
| | 444.5 | 291.3 | 735.8 |
| Fair value adjustment | | | (19.8) |
| Revenue | | | 716.0 |

Deferred acquisition costs ('DAC') totalling £208.8m were not recognised in the fair value balance sheet at the date the Group was formed as they had no fair value at that date. Deferred income was reduced by the DAC amount since the fair value of the deferred income liability excludes any margin for the effort of selling the appliance care contract.

The fair value adjustment to DAC and deferred income reverses in line with the Group's earnings patterns for recognising such items meaning that the net impact to profit is nil and is expected to be fully run-off by December 2018.

In addition to the fair value adjustments to revenue, operating costs are stated net of the fair value adjustment to DAC of £7.0m (2017: £19.8m).

## 3 Significant items and amortisation

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m |
|---|---|---|
| **Operating costs** | | |
| Amortisation of intangible assets acquired in a business combination | **(30.9)** | (62.5) |
| Revaluation of land and buildings | **–** | 0.2 |
| Restructuring costs | **(3.9)** | (4.4) |
| Product transition costs | **(37.3)** | – |
| | **(72.1)** | (66.7) |

The amortisation charge relates to intangible assets recognised on acquiring Domestic & General Group Holdings Limited.

Product transition costs relate to the one-off costs incurred in transitioning our discretionary service plan business to maintenance service plans and insurance based warranties.

Other costs relate to costs incurred during the restructuring of elements of our business.

## 4 Investment income

| | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m |
|---|---|---|
| Interest income on loans and receivables | **2.0** | 2.4 |

## 5 Finance costs

| | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m |
|---|---|---|
| Interest payable on loans and borrowings | **49.1** | 47.8 |
| Finance charges – amortisation of deferred financing costs | **3.8** | 3.9 |
| | **52.9** | 51.7 |

## 6 Loss before taxation

| | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m |
|---|---|---|
| The following items have been included in arriving at the loss before taxation: | | |
| Employee costs (note 8) | **101.2** | 99.7 |
| Auditor's remuneration (note 7) | **0.4** | 0.3 |
| Depreciation of property, plant and equipment (note 10) | **3.4** | 4.1 |
| Amortisation of intangible assets (note 11) | **37.0** | 66.7 |
| Operating lease rental payments (note 24) | **4.2** | 4.4 |
| Sub-lease income (note 24) | **(0.5)** | (0.7) |
| Repairs and maintenance expenditure on property, plant and equipment | **9.0** | 8.7 |
| Repairs and claims costs | **335.2** | 311.9 |
| Acquisition costs (excluding employee costs) | **194.6** | 168.0 |
| Research and development costs | **3.1** | 2.2 |

## 7 Services provided by the Group's auditor and its network firms

The following table gives an analysis of the total fees (excluding VAT) in respect of services provided to the Group by KPMG LLP and its network firms:

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|---|---|---|
| Audit of the Group's financial statements | **39** | 32 |
| Audit of the subsidiary financial statements | **242** | 241 |
| Audit related assurance | **106** | 108 |
| Total audit and audit related assurance fees | **387** | 381 |
| Other services relating to taxation | **–** | 34 |
| | **387** | 415 |

## 8 Employee costs

| | Year ended 31 March 2018 £m | Year ended 31 March 2017 £m |
|---|---|---|
| **(a) Staff costs for the Group during the year** | | |
| Wages and salaries | **87.6** | 86.5 |
| Social security costs | **9.5** | 9.1 |
| Other pension costs | **4.1** | 4.1 |
| | **101.2** | 99.7 |

## 8 Employee costs continued

Included in staff costs is £5.3m (2017: £4.8m) that is treated as acquisition costs.

| | **Number** | Number |
|---|---|---|
| **(b) Average number of employees during the year** | | |
| Directors | **4** | 4 |
| Sales and marketing | **233** | 287 |
| Commercial finance and claims | **295** | 275 |
| Finance and administration | **480** | 470 |
| Contact, IT centres | **1,811** | 1,904 |
| | **2,823** | 2,940 |

## 9 Taxation

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m |
|---|---|---|
| Current tax expense | | |
| Current tax on profit for the year | **(2.1)** | (8.0) |
| Adjustment to tax charge in respect of prior years | **(0.1)** | (1.2) |
| Total current tax | **(2.2)** | (9.2) |
| Deferred tax credit | | |
| (Reversal)/Origination of temporary differences | **(0.2)** | 0.9 |
| Tax effect of amortisation of intangible assets | **5.5** | 11.7 |
| Impact of rate change | **0.6** | 2.4 |
| Total deferred tax | **5.9** | 15.0 |
| Total income tax credit | **3.7** | 5.8 |

The tax credit for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

| | **Year ended 31 March 2018 £m** | Year ended 31 March 2017 £m |
|---|---|---|
| Loss on ordinary activities before tax | **(36.0)** | (31.7) |
| Standard rate of corporation tax in the UK | **19%** | 20% |
| | **£m** | £m |
| Loss on ordinary activities multiplied by the standard rate of corporation tax | **(6.8)** | (6.3) |
| Effects of: | | |
| Change in UK corporation tax rate on timing differences | **(0.6)** | (2.4) |
| Items disallowable for tax purposes | **1.8** | 0.1 |
| Adjustment to tax charge in respect of prior years | **0.1** | 1.2 |
| Tax rate differences in branches | **1.4** | 1.3 |
| Tax rate differences in non-UK subsidiaries | **0.2** | 0.1 |
| Other | **0.2** | 0.2 |
| Total income tax credit | **(3.7)** | (5.8) |

**Factors that may affect future tax charges**

Reductions in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) were enacted on 15 September 2016. This will reduce the Company's future current tax charge accordingly.

## 10 Property, plant and equipment

| | Land and buildings £m | Computer equipment £m | Fixtures, fittings and equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 April 2017** | **2.2** | **14.3** | **7.5** | **24.0** |
| **Reclassification** | **–** | **0.2** | **(1.1)** | **(0.9)** |
| | **2.2** | **14.5** | **6.4** | **23.1** |
| **Revaluation** | **–** | **–** | **–** | **–** |
| **Additions** | **–** | **1.3** | **4.4** | **5.7** |
| **Disposals** | **–** | **–** | **–** | **–** |
| **Balance as at 31 March 2018** | **2.2** | **15.8** | **10.8** | **28.8** |
| **Depreciation** | | | | |
| **At 1 April 2017** | **–** | **9.6** | **3.5** | **13.1** |
| **Reclassification** | **–** | **0.4** | **(0.5)** | **(0.1)** |
| | **–** | **10.0** | **3.0** | **13.0** |
| **Charge for the year** | **–** | **2.1** | **1.3** | **3.4** |
| **On disposals** | **–** | **–** | **–** | **–** |
| **Balance as at 31 March 2018** | **–** | **12.1** | **4.3** | **16.4** |
| **Carrying amount at 31 March 2018** | **2.2** | **3.7** | **6.5** | **12.4** |

| | Land and buildings £m | Computer equipment £m | Fixtures, fittings and equipment £m | Total £m |
|---|---|---|---|---|
| Cost | | | | |
| At 1 April 2016 | 1.7 | 13.3 | 6.0 | 21.0 |
| Revaluations | 0.5 | – | – | 0.5 |
| Additions | – | 1.0 | 1.5 | 2.5 |
| Disposals | – | – | – | – |
| Balance as at 31 March 2017 | 2.2 | 14.3 | 7.5 | 24.0 |
| Depreciation | | | | |
| At 1 April 2016 | – | 6.7 | 2.3 | 9.0 |
| Charge for the year | – | 2.9 | 1.2 | 4.1 |
| On disposals | – | – | – | – |
| Balance as at 31 March 2017 | – | 9.6 | 3.5 | 13.1 |
| Carrying amount at 31 March 2017 | 2.2 | 4.7 | 4.0 | 10.9 |

The Company's freehold property was valued at 31 March 2016 by Colliers International Valuation UK LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Valuation standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom.

The Directors consider the carrying value to be reflective of that valuation as at 31 March 2018.

## 11 Goodwill and intangible assets

| | Goodwill £m | OEM relationships £m | Customer relationships & other £m | Software £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 April 2017** | **278.5** | **260.9** | **251.3** | **33.2** | **823.9** |
| **Reclassification** | **–** | **–** | **–** | **0.9** | **0.9** |
| | **278.5** | **260.9** | **251.3** | **34.1** | **824.8** |
| **Additions** | **–** | **–** | **–** | **14.2** | **14.2** |
| **Disposals** | **–** | **–** | **–** | **(0.2)** | **(0.2)** |
| **Balance as at 31 March 2018** | **278.5** | **260.9** | **251.3** | **48.1** | **838.8** |
| **Amortisation and impairment losses** | | | | | |
| **At 1 April 2017** | **–** | **57.2** | **216.4** | **10.4** | **284.0** |
| **Reclassification** | **–** | **–** | **–** | **0.1** | **0.1** |
| | **–** | **57.2** | **216.4** | **10.5** | **284.1** |
| **Charge for the year** | **–** | **17.4** | **13.5** | **6.1** | **37.0** |
| **On disposals** | **–** | **–** | **–** | **(0.2)** | **(0.2)** |
| **Balance as at 31 March 2018** | **–** | **74.6** | **229.9** | **16.4** | **320.9** |
| **Carrying amount at 31 March 2018** | **278.5** | **186.3** | **21.4** | **31.7** | **517.9** |

| | Goodwill £m | OEM relationships £m | Customer relationships & other £m | Software £m | Total £m |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 April 2016 | 278.5 | 260.9 | 251.3 | 24.3 | 815.0 |
| Additions | – | – | – | 8.9 | 8.9 |
| Balance as at 31 March 2017 | 278.5 | 260.9 | 251.3 | 33.2 | 823.9 |
| Amortisation and impairment losses | | | | | |
| At 1 April 2016 | – | 39.8 | 171.3 | 6.2 | 217.3 |
| Charge for the year | – | 17.4 | 45.1 | 4.2 | 66.7 |
| Balance as at 31 March 2017 | – | 57.2 | 216.4 | 10.4 | 284.0 |
| Carrying amount at 31 March 2017 | 278.5 | 203.7 | 34.9 | 22.8 | 539.9 |

All amortisation charges in the year have been charged through operating expenses.

The goodwill acquired through a business combination is as a result of the acquisition on 19 December 2013 by Galaxy Bidco Limited, a wholly owned subsidiary of Galaxy Finco Limited.

The Group annually tests goodwill for impairment, or more frequently if there are indications that goodwill might be impaired. Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

| | **2018 £m** | 2017 £m |
|---|---|---|
| UK – Non-regulated business | **161.0** | 161.0 |
| UK – Regulated business | **104.6** | 104.6 |
| International | **12.9** | 12.9 |
| | **278.5** | 278.5 |

## 11 Goodwill and intangible assets continued

The recoverable amounts of the CGUs are determined from value in use calculations based on the net present value of future cash flows of each CGU. The key assumptions for the value in use calculations are those regarding discount and growth rates. The Group prepares cash flow forecasts derived from its most recent business plans over a five year period. The main assumptions upon which the cash flow projections are based include service plan and insurance policy sales volumes and prices, claims costs, revenue growth, operating margins, retention rates and cancellation rates.

The projected cash flows are discounted using a pre-tax discount rate of 8% (2017: 8%) (UK – Non-Regulated) and 9% (2017: 9%) (UK-Regulated and International), which reflects current market assessments of the time value of money and the risks specific to the CGUs.

Management has used a long-term growth rate of 3% (2017: 2%) in extrapolating the forecasts beyond the period covered in the business plan model, reflecting the current economic environment prevailing in the relevant markets. The growth rate in the forecast does not exceed the long-term average growth rate for the markets in which the UK and International CGUs operate. Ten year swap rates have been used as the basis for estimating the future cost of debt for the Group after applying Company specific adjustments.

The outcome of the impairment assessment is that goodwill in respect of the Regulated, Unregulated and International businesses is not impaired, and that the value in use is higher than the carrying value.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. A cut in the growth rate by a further percentage point would still result in a value in use which is higher than the carrying value of the CGU.

Reasonable changes to other underlying assumptions will not cause the carrying value of the CGUs to exceed their recoverable amount.

## 12 Deferred acquisition costs

| | **2018 £m** | 2017 £m |
|---|---|---|
| Balance at the start of the year | **220.4** | 187.0 |
| Arising in the year | **222.0** | 206.2 |
| Amortisation for the year | **(197.9)** | (166.7) |
| Foreign exchange | **(2.0)** | (6.1) |
| Balance as at 31 March | **242.5** | 220.4 |
| | | |
| Split between: | | |
| Amounts expected to be amortised in 12 months | **178.2** | 160.2 |
| Amounts expected to be amortised after 12 months | **64.3** | 60.2 |
| | **242.5** | 220.4 |

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of sales that have not been recognised in revenue at the balance sheet date.

See note 2 for details on the fair value adjustment arising on acquisition.

## 13 Deferred tax assets and liabilities

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| | Assets 2018 £m | Liabilities 2018 £m | Net 2018 £m |
|---|---|---|---|
| **Intangible assets** | **–** | **(36.1)** | **(36.1)** |
| **Capital allowances** | **0.3** | **–** | **0.3** |
| **Other temporary differences** | **0.8** | **(1.2)** | **(0.4)** |
| | **1.1** | **(37.3)** | **(36.2)** |

| | Assets 2017 £m | Liabilities 2017 £m | Net 2017 £m |
|---|---|---|---|
| Intangible assets | – | (42.2) | (42.2) |
| Capital allowances | 0.6 | – | 0.6 |
| Other temporary differences | – | (0.4) | (0.4) |
| | 0.6 | (42.6) | (42.0) |

**Movement in temporary differences during the year**

The standard corporation tax rate for the UK in 2018 is 19% (2017: 20%). Reductions in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) were enacted on 15 September 2016.

## 14 Investments

| | AFS** 2018 £m | FVTPL* 2018 £m | Loans and receivables 2018 £m | Total 2018 £m |
|---|---|---|---|---|
| **Money market funds** | **–** | **18.8** | **–** | **18.8** |
| **Available for sale investments carried at fair value** | **100.5** | **–** | **–** | **100.5** |
| **Deposits with credit institutions** | **–** | **–** | **35.7** | **35.7** |
| | **100.5** | **18.8** | **35.7** | **155.0** |

| | AFS** 2017 £m | FVTPL* 2017 £m | Loans and receivables 2017 £m | Total 2017 £m |
|---|---|---|---|---|
| Money market funds | – | 59.7 | – | 59.7 |
| Available for sale investments carried at fair value | 101.6 | – | – | 101.6 |
| Deposits with credit institutions | – | – | 49.1 | 49.1 |
| | 101.6 | 59.7 | 49.1 | 210.4 |

* FVTPL – fair value through profit or loss.
** AFS – available for sale financial assets.

Available for sale investments relate to fixed income related securities which are managed by an external fund manager within investment management terms that specify, amongst other things, minimum credit ratings and maximum duration. The fair values of which are based on quoted market prices.

The value of financial assets which are expected to be recovered in less than one year is £85.5m (2017: £132.9m) and those greater than one year is £69.5m (2017: £77.5m).

The Group's maximum exposure to credit risk for loans and receivables and other assets designated as fair value through profit or loss at the reporting date was equal to the carrying value of the asset.

The carrying value of loans and receivables closely approximates fair value.

## 15 Derivative financial instruments and hedge accounting

### (a) Derivative financial instruments

The Group holds a derivative financial instrument for the purpose of managing the Group's exposure to adverse movements in interest rates.

The carrying value of the Group's derivative financial instruments is:

| | **Derivative liability 2018 £m** | Derivative liability 2017 £m |
|---|---|---|
| Interest rate swaps | **–** | (0.6) |

The fair value of the derivative financial instruments is based on market quotations. As at 31 March 2018, the fair value is £32k and the instrument is due to mature in May 2018.

### (b) Hedge accounting

The Group has elected to apply hedge accounting for those derivative instruments entered into for the purpose of managing the Group's exposure to interest rate movements on its debt.

The Group has entered into the following cash flow hedge arrangements:

| Hedged item | Notional £m | Term (years) | Maturity date |
|---|---|---|---|
| £31m of Senior Secured Floating Rate Notes | 31 | 3 | 15 May 2018 |

| Hedging instrument | **Derivative liability 2018 £m** | Derivative liability 2017 £m |
|---|---|---|
| £31m of Senior Secured Floating Rate Notes | **–** | (0.6) |

The above hedge is intended to minimise the Group's exposure to adverse fluctuations in interest rates and the hedging instrument reduces to £14.5m by 2018. Elements of the Group's loans and borrowings, as set out in note 21, are variable rate borrowings.

The interest rate swaps' interest was fixed on a quarterly basis.

The following table sets out movements in the Group's cash-flow hedge reserve:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Balance at the start of the year | **(0.6)** | (1.2) |
| Amount recognised in equity in the year | **0.6** | 0.6 |
| **Cash flow hedge reserve as at 31 March** | **–** | (0.6) |

## 16 Categories of financial instruments

| | AFS** designated on initial recognition 2018 £m | FVTPL* designated on initial recognition 2018 £m | Loans and receivables 2018 £m | Financial liabilities held at amortised cost 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|
| **Investments** | **100.5** | **18.8** | **35.7** | **–** | **155.0** |
| **Trade and other receivables** | **–** | **–** | **504.1** | **–** | **504.1** |
| **Cash and cash equivalents** | **–** | **–** | **40.9** | **–** | **40.9** |
| **Derivative liabilities** | **–** | **–** | **–** | **–** | **–** |
| **Loans and borrowings** | **–** | **–** | **–** | **(639.2)** | **(639.2)** |
| **Trade and other payables** | **–** | **–** | **–** | **(206.4)** | **(206.4)** |
| | **100.5** | **18.8** | **580.7** | **(845.6)** | **(145.6)** |

| | AFS** designated on initial recognition 2017 £m | FVTPL* designated on initial recognition 2017 £m | Loans and receivables 2017 £m | Financial liabilities held at amortised cost 2017 £m | Total 2017 £m |
|---|---|---|---|---|---|
| Investments | 101.6 | 59.7 | 49.1 | – | 210.4 |
| Trade and other receivables | – | – | 426.1 | – | 426.1 |
| Cash and cash equivalents | – | – | 30.1 | – | 30.1 |
| Derivative liabilities | – | (0.6) | – | – | (0.6) |
| Loans and borrowings | – | – | – | (649.7) | (649.7) |
| Trade and other payables | – | – | – | (164.2) | (164.2) |
| | 101.6 | 59.1 | 505.3 | (813.9) | (147.9) |

* FVTPL – fair value through profit or loss.
** AFS – Available for sale financial assets.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

**Valuation techniques and assumptions applied for the purpose of measuring fair value**
The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market are determined with reference to quoted market prices.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable from the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

| | 2018 Level 1 £m | 2018 Level 2 £m | 2018 Total £m |
|---|---|---|---|
| **Non-derivative financial assets held for trading** | **–** | **18.8** | **18.8** |
| **Derivative financial liabilities** | **–** | **–** | **–** |
| **Available for sale investments carried at fair value** | **35.1** | **65.4** | **100.5** |

| | 2017 Level 1 £m | 2017 Level 2 £m | 2017 Total £m |
|---|---|---|---|
| Non-derivative financial assets held for trading | – | 59.7 | 59.7 |
| Derivative financial liabilities | – | (0.6) | (0.6) |
| Available for sale investments carried at fair value | – | 101.6 | 101.6 |

## 17 Trade and other receivables

| | 2018 £m | 2017 £m |
|---|---|---|
| Trade receivables | **420.5** | 366.4 |
| Other receivables | **5.2** | 6.4 |
| Bad debt provision | **(1.0)** | (0.6) |
| Prepayments and accrued income | **79.4** | 53.9 |
| | **504.1** | 426.1 |

All trade and other receivables are current.

The directors consider that the fair value of trade and other receivable is equivalent to their book value.

## 18 Cash and cash equivalents

| | 2018 £m | 2017 £m |
|---|---|---|
| Bank and cash balances | **12.0** | 6.7 |
| Call deposits and short term bank deposits | **28.9** | 23.4 |
| | **40.9** | 30.1 |

## 19 Deferred income

| | 2018 £m | 2017 £m |
|---|---|---|
| Balance at the start of the year | **614.5** | 569.2 |
| Amounts deferred during the year | **816.9** | 740.3 |
| Amounts recognised as revenue during the year | **(769.0)** | (713.5) |
| Foreign exchange | **(0.5)** | 18.5 |
| Balance as at 31 March | **661.9** | 614.5 |
| | | |
| Split between: | | |
| Amounts expected to be recognised in 12 months | **486.5** | 446.7 |
| Amounts expected to be recognised after 12 months | **175.4** | 167.8 |
| | **661.9** | 614.5 |

Deferred income represents that part of sales which it is estimated will be recognised as revenue in the following or subsequent financial years.

For contracts in excess of one year, the time apportionment basis is suitably modified so that the earnings patterns reflect management's expectations of expected timings of claims.

For contracts of an indeterminate length, expectation of average policy term based on historical and ongoing experience is used to determine a suitable recognition pattern and revenue is recognised on a straight line basis over that period.

See note 2 for details on the fair value adjustment arising on acquisition.

## 20 Claims and repair costs provision

| | 2018 £m | 2017 £m |
|---|---|---|
| Balance at the start of the year | **24.1** | 20.2 |
| Amounts incurred during the year | **335.2** | 312.0 |
| Amounts paid during the year | **(335.0)** | (308.1) |
| Balance as at 31 March | **24.3** | 24.1 |

All claims and repair cost provisions are expected to be settled within the next 12 months.

**Assumptions and sensitivities for businesses**

**(a) Process used to determine the assumptions for measuring provisions**

The assumptions used to produce provisions are sufficient to cover any liabilities arising so far as they can be reasonably foreseen.

## 20 Claims and repair costs provision continued

Provision is made at the balance sheet date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses. Up to date information is used to produce best estimates of the expected outcome. The sources of the data used as inputs for the assumptions are primarily internal, using regularly monitored statistics. There is a strong emphasis on current trends, and where, for new products, there is limited information to make a reliable best estimate of claims development, additional margins are included within assumptions used.

Outstanding claims and repair costs, estimation techniques and assumptions are reviewed at least quarterly with any changes reflected in the income statement as they occur. The key methods are:

- Detailed review of claim incident data;
- Use of historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- Expected claims ratio compared to actual performance; and
- Monitoring of the performance of repairers.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case and, insofar as it can be identified, this has been allowed for in calculating the final provision. The claims and repairs cost provision for liabilities reported in the balance sheet is considered adequate. However, the process of estimation is based upon certain variables and assumptions which will differ from the actual outturn.

**(b) Change in assumptions and sensitivity analysis**

The Group's activities are high volume, low unit cost business. Any change in the assumption used for any particular plan on a particular product will not result in a material change to the performance of the Group. The majority of claims incurred by the Group have a short tail and are usually settled within six months, hence the Group's claims and repair costs provision is significantly smaller than for types of business that have longer settlement tails. The assumptions that have the greatest effect on the measurement of provisions are the expected claims frequency and cost of each repair or treatment.

A 10% change in outturn of the claims and repair costs provision would result in a change in the provision at March 2018 of £2.4m (2017: £2.4m) which represents 0.7% (2017: 0.8%) of the total claims and repair costs for the year ended 31 March 2018, and is 2.8% (2017: 2.9%) of profit before investment return and finance costs, significant items and tax for the year ended 31 March 2018.

## 21 Loans and borrowings

The Group's interest-bearing borrowings, which are measured at amortised cost, are as follows:

| | **2018 £m** | 2017 £m |
|---|---|---|
| 6.375% Senior Secured Notes due 2020 | **200.0** | 200.0 |
| Senior Secured Floating Rate Notes due 2019 | **–** | 175.0 |
| Senior Secured Floating Rate Notes due 2020 | **150.1** | – |
| 7.875% Senior Notes due 2021 | **125.0** | 125.0 |
| 10% Loan Due to Parent Company | **170.5** | 156.4 |
| Financing costs | **(6.4)** | (6.7) |
| | **639.2** | 649.7 |

For more information about the Group's exposure to interest rate risk see Note 28.

During the year the Company redeemed £24.9m of the Senior Secured Floating Rate Notes 2019, and refinanced the balance with Senior Secured Floating Rate Notes which are due in 2020. The Company also repaid £0.8m (2017: £1.6m) to the Parent Company.

**Terms and debt repayment schedule**

| | Nominal interest rate | Year of maturity | Principal £m | Carrying amount £m |
|---|---|---|---|---|
| 6.375% Senior Secured Notes due 2020 | 6.375% | 2020 | 200.0 | 198.1 |
| Senior Secured Floating Rate Notes due 2020 | LIBOR + 4.5% | 2020 | 150.1 | 147.2 |
| 7.875% Senior Notes due 2021 | 7.875% | 2021 | 125.0 | 123.4 |
| 10% Due to Parent Company | 10% | 2033 | 125.0 | 170.5 |

The entire balance of loans and borrowings is considered to be non-current, on the basis that repayment is not required until periods greater than 12 months from the balance sheet date. The principal component of the Group's loans and borrowings is repayable entirely on maturity date.

The Group did not have any defaults of principal or interest or other breaches with respect to its loans and borrowings during the years ended 31 March 2018 and 31 March 2017.

Certain Group companies have pledged collateral as security in respect of the loan notes in the form of a general charge over their assets. The book value of collateral as at 31 March 2018 is £731.2m (2017: £674.1m).

The Group has a revolving bank facility of £100.0m (2017: £80.0m) with a final maturity date of 1 November 2020, of which £23.0m (2017: £25.0m) is allocated to a letter of credit pledged as an asset to a trust for UK service plan customers in line with British Retail Consortium guidelines. £77.0m (2017: £55.0m) was undrawn at year end, and of this £3.0m (2017: £3.0m) is currently available as a same day drawdown money market facility.

## 22 Trade and other payables

| | 2018 £m | 2017 £m |
|---|---|---|
| Trade payables | **137.4** | 124.1 |
| Accrued expenses | **69.0** | 40.1 |
| | **206.4** | 164.2 |

Of the total payables, £14.8m (2017: £1.9m) is expected to be settled more than 12 months after the reporting date.

## 23 Shareholders equity

| | Capital £m | Hedging reserve £m | Other reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| **At 1 April 2017** | **89.9** | **(0.6)** | **1.1** | **(153.7)** | **(63.3)** |
| **Total comprehensive income for the year** | **–** | **0.6** | **(0.9)** | **(32.3)** | **(32.6)** |
| **Balance as at 31 March 2018** | **89.9** | **–** | **0.2** | **(186.0)** | **(95.9)** |

| | Capital £m | Hedging reserve £m | Other reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2016 | 89.9 | (1.2) | 0.3 | (127.8) | (38.8) |
| Total comprehensive income for the period | – | 0.6 | 0.8 | (25.9) | (24.5) |
| Balance as at 31 March 2017 | 89.9 | (0.6) | 1.1 | (153.7) | (63.3) |

### Capital

| | 2018 £m | 2017 £m |
|---|---|---|
| Called-up share capital | **0.9** | 0.9 |
| Share premium account | **89.0** | 89.0 |
| | **89.9** | 89.9 |

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

The particulars of the share classes are as follows:

| Allotted, called up and fully paid | Par value | 2018 | 2017 |
|---|---|---|---|
| Class | | | |
| A ordinary | £0.01 | **89,871,070** | 89,871,070 |

### Called up share capital

Allotted, called up and fully paid

| | 2018 No. | £m | 2017 No. | £m |
|---|---|---|---|---|
| Ordinary shares paid at £0.01p each | **89,871,070** | **0.9** | 89,871,070 | 0.9 |

### Share premium account

| | 2018 £m | 2017 £m |
|---|---|---|
| Balance as at 1 April and 31 March | **89.0** | 89.0 |

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### Other reserve

The other reserve relates to available for sale financial instruments recognised at fair value and foreign exchange differences on consolidation of foreign subsidiaries and branches.

## 24 Commitments

**(a) Operating lease commitments**

Non-cancellable operating lease rentals on properties are payable as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Within one year | **3.8** | 3.8 |
| Between two and five years | **8.0** | 10.5 |
| More than five years | **0.2** | 0.8 |
| | **12.0** | 15.1 |

The main component of operating leases is the Group's Head Office building which is on a 14 year lease ending in 2021. Space not required is sublet on a short term basis. The remaining lease liabilities cover a number of Group sites with leases due to expire between 2019 and 2026.

During the year ended 31 March 2018, £4.2m (2017: £4.4m) was recognised as an expense in the income statement in respect of operating leases. £0.5m (2017: £0.7m) was recognised as income in the income statement in respect of subleases.

Sublease income on non-cancellable property operating leases is receivable as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Within one year | **0.3** | – |
| Between two and five years | **0.6** | – |
| | **0.9** | – |

**(b) Capital commitments**

At 31 March 2018 the Group had capital commitments contracted for but not provided of £2.7m (2017: £1.2m).

## 25 Subsidiary companies

| Principal subsidiaries: | Country of incorporation | Nature of business |
|---|---|---|
| Galaxy Bidco Limited* | Jersey | Holding company |
| Domestic & General Group Holdings Limited | Jersey | Holding company |
| Domestic & General Finance 1 Limited | Jersey | Holding company |
| Domestic & General Finance 2 Limited | Jersey | Holding company |
| Domestic & General Acquisitions Holdings Limited | Jersey | Holding company |
| Domestic & General Acquisitions Limited | Jersey | Holding company |
| Domestic & General Acquisitions 1 Limited | England & Wales | Holding company |
| Domestic & General Group Limited | England & Wales | Holding company |
| Domestic & General Insurance plc | England & Wales | General insurance |
| Domestic & General Services Limited | England & Wales | Appliance care service plans |
| Inkfish Call Centres Limited | England & Wales | Telemarketing services |
| Inkfish Financial Services Limited | England & Wales | Telemarketing services |
| Domestic & General Service Gmbh | Germany | Appliance care service plans |
| Domestic & General Services (Pty) Ltd | Australia | Appliance care service plans |
| Servicios Domestic & General Espana S.L | Spain | Appliance care service plans |
| Servizi Domestic & General Italia S.r.l. | Italy | Appliance care service plans |
| **Other subsidiaries:** | | |
| Domestic & General Insurance Services Limited | England & Wales | Insurance broker |
| Copleys Limited | England & Wales | Dormant company |
| Flyingtoolbox.com Limited | England & Wales | Dormant company |

* Directly owned subsidiary of the Company.

The Company owns 100% of the issued share capital of its directly owned subsidiary. There are no minority interests within the Group.

All subsidiaries are included in the Group consolidation.

## 26 Related parties

**(a) Ultimate controlling party**

The ultimate controlling party of the Group is Galaxy Topco Limited, an entity whose shareholders are Funds managed and advised by subsidiaries and affiliates of CVC Capital Partners SICAV-FIS S.A.

**(b) Other related party transactions**

As at 31 March 2018 amounts owed to the immediate Parent undertaking Galaxy Midco 2 Limited totalled £170.5m (2017: £156.4m). Interest of £16.1m (2017: £14.6m) was charged on this balance. No repayments were made during the year (2017: £nil).

As at 31 March 2018 amounts owed by a Parent undertaking, Galaxy Midco 1 Limited, totalled £0.5m (2017: £1.6m). No interest was charged on this trading balance.

During the year ended 31 March 2018, £1.0m (2017: £1.0m) was paid as a monitoring fee to the CVC Capital Partners Advisory Company (Luxembourg) S.a.r.l.

**(c) Transactions with key management personnel**

Key management personnel include all Domestic & General Group and subsidiary directors, and direct reports to the Executive Directors.

| | **2018 £m** | 2017 £m |
|---|---|---|
| Wages and salaries and other social security costs | **9.3** | 8.8 |
| Other pension costs – defined contribution schemes | **0.5** | 0.6 |
| Total key management personnel compensation | **9.8** | 9.4 |

Some key management personnel hold cover on domestic appliances that are covered by the Group. These transactions are completed on terms that are the same as those available to staff.

## 27 Risk management of trading liabilities

**Trading liabilities**

The Group provides extended cover on domestic appliances in the UK through two companies; Domestic & General Services Limited, which is an appliance care service plan company and Domestic & General Insurance PLC, which is an insurance company. Internationally, the Group provides cover either through local service companies or through branches of Domestic & General Insurance PLC. Appliance care contracts, whether service plan or insurance, are accounted for under IFRS 4: Insurance Contracts, as the definition of an insurance contract under IFRS 4 extends to all trading products issued by the Group.

The Group manages its trading liability risk through the following measures: underwriting controls; approval procedures for new products; control over the prices at which cover may be sold; regular review of client, product and plan performance; and monitoring of emerging issues. Statistical expectancy is applied to pricing and provisioning for the portfolio of trading contracts. The principal risk is that the frequency and severity of claims and repairs is greater than expected. The actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Group's strategy is to aim for a targeted return on each type of service. The trading portfolio combines a large number of small value contracts which generally span one to five years and which, in the main, have short tail risks of predominantly less than one year. The prompt settlement of claims reduces the variability of outcome. The Group builds and sets its pricing on a rigorous and prudent 'ground up' approach developed and tested during many years as a specialist provider. Accordingly, pricing is built up from several parts, including claims and repair costs, administrative costs, acquisition costs, tax and profit margin. The Group uses several methods to assess and monitor its trading liability risk exposure both for individual types of risks covered and overall risks. These methods include internal risk measurement and sensitivity analysis. The calculation of the claims and repair costs element is a result of the anticipated claims cost and the projected claims frequency for each year of projection. We also re-price based on latest account experience and external conditions.

The main factors considered are historical and projected failure incidences, current average repair costs and type of repair, forecast levels of inflation, product sales volumes and predicted and historic take-up levels.

**(a) Sources of uncertainty in the estimation of future claims payments**

Appliance care plans result in a high volume of low cost claims with a short claims tail that are usually settled within six months of reporting the incident. The nature of the core business is such that there are no latent risks, nor are there any material concentrations or aggregations of risk, and the business is not subject to catastrophe risk. Accordingly, the value of the claims reserve is low relative to the size of other assets and liabilities of the Company. The claims reserve is an aggregation of unprocessed reported claims, either in process, known to be outstanding, or that have been incurred but not reported ('IBNR') along with a claims handling reserve sufficient to fund the expense of settling the claims.

**(b) Development of claims provision (note 20)**

The calculation of the IBNR reserve is management's estimate of claims that have been incurred and on which a liability exists but which has not yet been reported. Management measures, on an ongoing basis, the actual outturn compared to the IBNR estimate and seeks reasons and explanations for any significant variance from the initial estimation. Any uncertainty about the amount and timing of claims payments is typically resolved within one year.

## 28 Financial risk management

The Group is exposed to financial risk through its financial assets and financial liabilities, and its appliance care service plans and insurance contracts. Risks include interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group.

**(a) Interest rate risk**

The Group's greatest risk to changes in interest rates arises from its investment portfolio and borrowings.

Interest rate risk within the investment portfolio and external borrowings is managed actively by the Group's Treasury function. Interest rate risk on cash balances is not hedged unless of strategic importance to the underlying business.

The interest rate exposure on forecast financial indebtedness is hedged as follows:

- For the next 12 months: a minimum of 66% fixed or hedged with offsetting cash balances;
- For the next 13 to 24 months: a minimum of 50% fixed or hedged with offsetting cash balances;
- For the next 25 to 36 months: a minimum of 40% fixed or hedged with offsetting cash balances;
- For the next 37 to 48 months: a minimum of 30% fixed or hedged with offsetting cash balances; and
- For the next 49 to 60 months: a minimum of 20% fixed or hedged with offsetting cash balances.

Interest rate risk on available for sale investments is managed by investing within strictly controlled investment criteria that specify, amongst other things, maximum durations.

A 1.0% increase in interest rates would have a £2.2m positive (2017: £2.2m) impact on interest income, and a £4.9m negative (2017: £4.5m) impact on interest payable of the Group. The above analyses assume that all other variables remain constant.

**(b) Credit risk**

The greatest credit risks to the Group are in relation to deposits with credit institutions, money market funds, available for sale investments and trading debtors. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties.

Deposits can only be placed with banks or building societies having credit limits approved by the Board. Counterparty exposure is subject to constant review. Available for sale investments are managed by an external fund manager within investment management terms that specify, amongst other things, minimum credit ratings and maximum duration.

Internationally we have a number of contracts with major clients, with exposure on the monies owed to us at any one time. However, we closely monitor outstanding debt and are in constant dialogue with the clients and are therefore in a position to act swiftly to mitigate any loss in the event of a major client running into financial difficulties.

Trading and insurance debtors are amounts receivable from policyholders and service plan customers and are by their nature high volume but low value. Credit risk exposure is minimal; if an instalment debtor lapses we cancel the associated cover provided.

**Credit ratings of significant classes of financial assets**

| | **A rated (or above) Institutions 2018 £m** | **B rated (or below) Institutions 2018 £m** | **Unrated 2018 £m** | **Total 2018 £m** |
|---|---|---|---|---|
| **Cash and cash equivalents** | **40.9** | **–** | **–** | **40.9** |
| **Money market funds** | **18.8** | **–** | **–** | **18.8** |
| **Available for sale investments carried at fair value** | **81.7** | **18.8** | **–** | **100.5** |
| **Deposits with credit institutions** | **35.7** | **–** | **–** | **35.7** |
| **Trade and other receivables** | **–** | **–** | **504.1** | **504.1** |
| | **177.1** | **18.8** | **504.1** | **700.0** |

| | A rated (or above) Institutions 2017 £m | B rated (or below) Institutions 2017 £m | Unrated 2017 £m | Total 2017 £m |
|---|---|---|---|---|
| Cash and cash equivalents | 30.1 | – | – | 30.1 |
| Money market funds | 59.7 | – | – | 59.7 |
| Available for sale investments carried at fair value | 82.1 | 19.5 | – | 101.6 |
| Deposits with credit institutions | 49.1 | – | – | 49.1 |
| Trade and other receivables | – | – | 426.1 | 426.1 |
| | 221.0 | 19.5 | 426.1 | 666.6 |

## 28 Financial risk management continued

The Group has implemented policies that require appropriate credit checks on potential trade partners before sales commence.

The amount disclosed in the balance sheet for financial assets represents the Group's maximum exposure to credit risk.

**Past due or impaired financial assets**

The table below sets out an analysis of the Group's assets, showing those which are past due, or impaired. Categories of financial assets for which there are neither past due or impaired balances have not been included below.

| | | Trade and other receivables 2018 £m | Total 2018 £m |
|---|---|---|---|
| **Not past due** | | **500.9** | **500.9** |
| **Past due (days)** | **0–30** | **3.0** | **3.0** |
| | **31–60** | **0.1** | **0.1** |
| | **61–90** | **0.4** | **0.4** |
| | **Greater than 90** | **0.7** | **0.7** |
| **Provision** | | **(1.0)** | **(1.0)** |
| **Carrying amount** | | **504.1** | **504.1** |

| | | Trade and other receivables 2017 £m | Total 2017 £m |
|---|---|---|---|
| Not past due | | 428.1 | 428.1 |
| Past due (days) | 0–30 | (1.7) | (1.7) |
| | 31–60 | 0.2 | 0.2 |
| | 61–90 | (0.1) | (0.1) |
| | Greater than 90 | 0.2 | 0.2 |
| Provision | | (0.6) | (0.6) |
| Carrying amount | | 426.1 | 426.1 |

The Group considers notified disputes and collection experience in determining which assets should be impaired.

**(c) Liquidity risk**

An important aspect of the Group's management of assets and liabilities is ensuring that cash is available to settle liabilities as they fall due. The most significant payments are claims and repair costs, staff costs and interest payments on loans and borrowings. The profile of these regular payments is highly predictable. The Group maintains cash and liquid deposits to meet demands on a daily basis.

**Contractual maturity analysis:**

The table below summarises the maturity profile of the Group's financial liabilities based on remaining undiscounted contractual obligations where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

| | Claims & repair costs 2018 £m | Loans and borrowings 2018 £m | Trade and other payables 2018 £m | Interest payable 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|
| **0–90 days** | **24.3** | **–** | **158.3** | **12.3** | **194.9** |
| **91 days–1 year** | **–** | **–** | **33.3** | **37.7** | **71.0** |
| **1–3 years** | **–** | **350.1** | **11.3** | **91.4** | **452.8** |
| **3–5 years** | **–** | **125.0** | **2.6** | **35.5** | **163.1** |
| **Greater than 5 years** | **–** | **170.5** | **0.9** | **182.9** | **354.3** |
| **Total** | **24.3** | **645.6** | **206.4** | **359.8** | **1,236.1** |

| | Claims & repair costs 2017 £m | Loans and borrowings 2017 £m | Trade and other payables 2017 £m | Interest payable 2017 £m | Total 2017 £m |
|---|---|---|---|---|---|
| 0–90 days | 24.1 | – | 149.0 | 11.8 | 184.9 |
| 91 days–1 year | – | – | 13.3 | 35.9 | 49.2 |
| 1–3 years | – | 175.0 | 0.8 | 91.8 | 267.6 |
| 3–5 years | – | 325.0 | 0.5 | 55.3 | 380.8 |
| Greater than 5 years | – | 156.4 | 0.6 | 183.5 | 340.5 |
| Total | 24.1 | 656.4 | 164.2 | 378.3 | 1,223.0 |

Interest payable is calculated using yield curves appropriate to the maturities of the Group's borrowings and assumes all borrowings are held to term.

## 28 Financial risk management continued

**(d) Foreign exchange risk**

Foreign exchange risk arises when financial and insurance assets and liabilities are denominated in a currency other than the respective functional currencies of the Group entities. Most transactions are undertaken in functional currency, and asset and liability matching within the Group is such that foreign exchange risk is not material.

The Directors believe net exposure to foreign exchange is not currently significant.

## 29 Capital management

The Board's primary objective in respect of capital management is to ensure the Group maintains sufficient financial resources to meet all obligations as they fall due, including meeting the regulatory requirements of the regulated insurance business of the Group.

The total amount of debt and equity capital of the Group comprises shareholders' deficit of £95.9m (2017: £63.3m), Senior Secured Notes (net of financing costs) of £198.1m (2017: £197.4m), Senior Secured Floating Rate Notes of £147.2m (2017: £172.7m), Senior Notes of £123.4m (2017: £123.2m) and amounts owed to Parent undertakings (including accrued interest) of £170.5m (2017: £156.4m).

The Group's insurance business is regulated by the UK Prudential Regulation Authority ('PRA'). The Board regularly reviews the capital position and from 1 January 2016, the insurance business was required to measure and manage its capital on a Solvency II basis and to comply with the requirements of the Solvency II Framework Directive, as adopted by the PRA. There are certain valuation differences between the IFRS Statement of Financial Position and the Solvency II Balance Sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. The insurance business uses the Solvency II Standard Model as adjusted for Undertaking Specific Parameters ('USP') to determine the level of regulatory capital that needs to be maintained. At 31 March 2018 the Regulated business had Solvency II Capital Resources at £114.6m (2017: £112.4m) against a Solvency Capital Requirement of £53.7m (2017: £46.4m), a regulatory solvency ratio of 213.4% (2017: 242.5%). The insurance business has implemented an Own Risk and Solvency Assessment ('ORSA') process which is used to assess the level of capital that should be retained by the Company. This process considers all the risks faced by the insurance business and includes stress tests applied to business plan financial projections by varying assumptions for future experience. The insurance business is well capitalised under the Solvency II standard model (with USPs) and on the basis of its ORSA and has complied with the capital requirements under Solvency II throughout the year.

The insurance business has a branch in Australia which is regulated by the Australian Prudential Regulation Authority ('APRA') and required to hold capital to cover its Australian liabilities.

The Group has embedded its capital management processes into its normal planning, reporting and decision making activities.

# Glossary of Terms

## Acquisition Costs
Commission and other expenses incurred on acquiring appliance care protection plan and insurance business.

## Clients
Business partners (for example manufacturers, retailers and financial service companies) for whom we provide appliance care services including design, arrangement, pricing, selling, administration and distribution of appliance care service plans and policies for customers.

## Contribution
Contribution is calculated as underlying revenue less claims and repair costs, and third party commission and marketing expenses.

## Customers
Individuals who have purchased appliance care service plans or policies.

## Deferred Acquisition Costs
The proportion of acquisition costs incurred that corresponds to the proportion of sales which have not been recognised as revenue at the balance sheet date.

## Deferred Income
That part of sales which it is estimated will be recognised as revenue in the following or subsequent financial years.

## Gross Loss Ratio
Calculated as claims and repair costs over underlying revenue.

## IAS
International Accounting Standards.

## IBNR
Claims 'Incurred but Not Reported' refers to the amount owed by an insurer to all valid claimants who have had a covered loss but have not yet reported it.

## IFRS
International Financial Reporting Standards.

## Investment Return – Interest
Calculated as investment income earned in the year over the average balance of investments plus cash and cash equivalents in the year.

## Multiplan
A multiplan is a single plan that covers multiple appliances.

## OEM
Original Equipment Manufacturer.

## On Risk
The term 'on risk' is used to describe a plan or policy where the Group is liable to pay a claim in accordance with the terms of that plan or policy.

## Operating Profit Margin
Operating profit expressed as a percentage of revenue.

## Point-of-Need
An appliance care plan sold at the point at which an appliance breaks down. The plan includes a repair, plus an extended appliance care cover.

## Point-of-Registration
An appliance care plan sold when the customer registers their product with the manufacturer.

## Post-Point-of-Sale
An appliance care plan sold after the appliance has been purchased.

## Renewals Rate
The percentage of total renewable plans that renew, net of cancellations and after three months.

## Retail Point-of-Sale
A retailer protection plan sold at the same time as the appliance.

## Revenue
The amount of sales recognised in the period either from sales made in previous periods and deferred or current year sales that are recognised in the current period.

## Sales
Amounts invoiced in respect of appliance care service plans, gross premium income in respect of insurance business and sales invoiced in respect of other support services, exclusive of VAT and IPT (insurance premium tax).

## Underlying Cash Flow Available for Debt Service (CFADS)
Defined as the sum of (i) Free Cash Flow of the Non-Regulated Business, plus (ii) dividends that can be distributed by the Regulated Business over the amount of capital to be held for regulatory purposes determined in accordance with Solvency II principles, plus (iii) certain payments from the Regulated Business to the Non-Regulated Business not included in (i) and (ii) above.

## Underlying EBITDA
Earnings, including interest income, before interest expense, tax, depreciation, amortisation and significant items.

## Underlying Operating Costs
Represents operating costs after the reversal of any fair value adjustments to Deferred Acquisition Costs associated with the acquisition method of accounting for business combinations, and removal of significant items of amortisation of acquisition related intangible assets.

## Underlying Revenue
Represents revenue after the reversal of any fair value adjustments to Deferred Acquisition Costs and Deferred Income associated with the acquisition method of accounting for business combinations.

## Unrestricted Cash
Defined as the cash and cash equivalents balance of the Unregulated Business and the Excess Distributable Reserves of the Regulated Business over and above regulatory capital requirements.

## USP
Undertaking Specific Parameters as defined by EIOPA to adjust standard formula.

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Domestic & General
Swan Court
11 Worple Road
Wimbledon
London SW19 4JS

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