# GALAXY FINCO LIMITED
# (Registered in Jersey No. 113706)

# RESULTS FOR THE NINE-MONTH PERIOD ENDED 31 DECEMBER 2018

**(Unaudited)**

# TABLE OF CONTENTS

## 1. PRESENTATION OF FINANCIAL INFORMATION

### Financial Information

Galaxy Finco Limited was formed in August 2013 by funds advised by CVC Advisers Limited, 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 Advisers Limited as defined by the 'Guidelines for Disclosure and Transparency in Private Equity' published by David Walker in November 2007 (the 'Walker Report').

Galaxy Finco Limited is required to prepare consolidated financial statements in accordance with IAS 1 Presentation of Financial Statements.

The financial information discussed within this financial review has been prepared in accordance with the basis of preparation as described in the unaudited condensed consolidated interim financial statements of Galaxy Finco Limited for the nine-month period ended 31 December 2018 included herein.

The financial review should be read in conjunction with the audited consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2018.

Refer to Appendix D "Certain Definitions" for a list of terms and abbreviations used throughout this financial review.

### Alternative Performance Measures ('APMs')

In this financial review we present certain financial measures that are not required by or presented in accordance with IFRS, including "Underlying Revenue", "Underlying Operating Costs", "Contribution", "Underlying EBITDA", "Net Working Capital", "Free Cash Flow", "Underlying Cash Flow Available for Debt Service" and "Unrestricted Cash", because we believe they provide investors with useful additional information to measure our performance (in the case of Underlying Revenue, Underlying Operating Costs, Contribution and Underlying EBITDA) or liquidity (in the case of Net Working Capital, Free Cash Flow, Underlying Cash Flow Available for Debt Service and Unrestricted Cash).

Refer to Appendix B *"Alternative Performance Measures (APMs)"* for a description of these items.

### Information Regarding Forward-Looking Statements

This financial review includes "forward-looking statements", within the meaning of the U.S. securities laws and certain other jurisdictions, based on our current expectations and projections about future events.

All statements other than statements of historical facts included in this financial review, including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures and our plans and objectives for future operations, may be deemed to be forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to in the sections entitled *"Forward-looking statements"* of this financial review or in the consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2018, or in the offering memorandum, including those set forth under the sections thereof entitled "*Risk Factors*".

### Presentation

Rounding adjustments have been made in calculating some of the financial information included in this financial review. Figures shown as totals in some tables and elsewhere may not be exact arithmetic aggregations of the figures that precede them.

### Cross reference

In certain areas reference has been made to the "offering memorandum". In all cases, this refers to the offering memorandum of Galaxy Bidco Limited and Galaxy Finco Limited dated October 24, 2013.

## 2. FINANCIAL REVIEW

The nine-month period ended 31 December 2018 continued to demonstrate our track record of delivering profitable growth. Compared to the same period last year:

- ***Group underlying revenue increased 4.5% to £606.9m*** supported by the resilient UK subscription model and embedded growth in the UK from high renewal ratios; and new business growth
- ***Underlying EBITDA +7.7% to £81.1m*** due to stable cost ratios driven by expense control and the continuing predictable claims and acquisition costs that are embedded in long-term contracts with our partners
- ***Underlying cash flow available for debt service £35.6m (31 December 2017: £38.9m)*** impacted by working capital investment in the transition to flexible monthly products with shorter periods of cover.

### Group performance

Group underlying revenue increased by 4.5% for the nine-month period ended 31 December 2018 to £606.9m (31 December 2017: £580.6m) driven by the continuing strong organic growth of our renewal book in the UK as well as benefitting from a new client win at the end of the 2018 financial year. There has also been a strong progress in building the International business subscription base, which was offset by the impact of a German cash business run-off (underlying continuing revenue +6.2%).

Underlying operating costs grew by 4.3%. Claims and repair costs grew by 7.3% driven by growth in revenue, and investment in the improved level of cover provided to our customers as part of our Customer First initiatives, while expenses grew 1.4% reflecting our focus on efficiency.

As a result, underlying EBITDA increased by 7.7% for the nine-month period ended 31 December 2018 to £81.1m (31 December 2017: £75.3m).

### Summary underlying financials

| | 9m to 31 December | | % Change |
|---|---|---|---|
| **£m's** | **2018** | **2017** | |
| UK | **527.5** | 472.8 | *11.6%* |
| International | **115.3** | 121.6 | *(5.2%)* |
| **Sales** | **642.8** | 594.4 | *8.1%* |
| UK | **495.4** | 465.7 | *6.4%* |
| International | **111.5** | 114.9 | *(2.9%)* |
| **Underlying Revenue** [1,2,3] | **606.9** | 580.6 | *4.5%* |
| Claims and repair costs | **(267.0)** | (248.8) | *(7.3%)* |
| Expenses | **(268.6)** | (264.9) | *(1.4%)* |
| **Underlying Operating Costs** [1,2,3] | **(535.6)** | (513.7) | *(4.3%)* |
| UK | **166.5** | 164.0 | *1.5%* |
| International | **27.6** | 25.9 | *6.6%* |
| **Contribution** [2,3] | **194.1** | 189.9 | *2.2%* |
| **Underlying EBITDA** [2,3] | **81.1** | 75.3 | *7.7%* |
| **Margin** | ***13.4%*** | *13.0%* | |
| Net debt | **385.3** | 371.0 | 3.9% |
| Underlying cash flow available for debt service [3] | **35.6** | 38.9 | (8.4%) |

[1] Underlying revenue and underlying operating costs differ from that within the income statement by £1.0m for the nine-month period ended 31 December 2018 (31 December 2017: £6.0m) due to fair value adjustments. Details of the fair value adjustment can be found in Note 1 of the unaudited condensed consolidated interim financial statements of Galaxy Finco Limited for the nine-month period ended 31 December 2018.

[2] Underlying revenue, underlying operating costs, contribution and underlying EBITDA are reconciled to their GAAP and GAAP derived equivalents on page 9.

[3] Refer to Appendix B for definitions of underlying revenue, underlying operating costs, contribution, underlying EBITDA, and underlying cash flow available for debt service.

*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 their GAAP equivalents is provided on page 9. Underlying measures exclude significant items and certain fair value adjustments and amortisation charges arising from the acquisition of Domestic & General Group Holdings Limited.*

## Regional performance

*UK*

UK sales grew by 11.6% for the nine-month period ended 31 December 2018 to £527.5m (31 December 2017: £472.8m), driven by continuing strong demand across all our distribution channels, and new business grew by 38.4% for the nine-month period ended 31 December 2018 supported by a new client win at the end of the 2018 financial year, and the launch of our new products as part of Customer First. Underlying revenue increased by 6.4% to £495.4m (31 December 2017: £465.7m), driven by renewals revenues (+8.2% to £370.9m (31 December 2017: £342.8m)). The resulting revenue renewal rate of 80% reflects the ongoing organic growth that is embedded in our subscription model, coupled with retention and pricing initiatives. Underlying operating costs increased by 7.2% year-on-year reflecting growth in underlying revenue, and our continued investment in customer service improvements.

*International*

International sales decreased by 5.1% to £115.3m (31 December 2017: £121.6m), as we refocus the business on building subscription sales, as illustrated by the termination of a non-core retail contract in Spain, partially offset by new business from a retail partner in Italy. As part of its long-term growth strategy, the Group has begun to explore the commercial opportunity for launching a subscription warranty model in the US, in conjunction with its major OEM partners. The US has a well-established appliance care market with high consumer awareness and potentially high demand for OEM led subscription products such as the ones that Domestic & General has successfully developed though its OEM partnerships in the UK. The process is in its early stages and no material impact is expected on the FY19 results of the Group.

## Income Statement

| £m's | For the nine-month period ended 31 December | | For the quarter ended 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Underlying revenue *** | **606.9** | **580.6** | **202.0** | **196.0** |
| Repair costs | (267.0) | (248.8) | (93.2) | (86.6) |
| Commission and marketing fees * | (145.8) | (141.9) | (47.6) | (47.9) |
| **Contribution** | **194.1** | **189.9** | **61.2** | **61.5** |
| Investment income | 1.3 | 1.6 | 0.4 | 0.6 |
| Operating expenses | (114.3) | (116.2) | (36.8) | (40.0) |
| **Underlying EBITDA** | **81.1** | **75.3** | **24.8** | **22.1** |
| Depreciation and amortisation | (8.5) | (6.8) | (3.0) | (2.4) |
| Amortisation of acquisition intangible assets | (22.9) | (23.2) | (7.4) | (7.7) |
| Significant items | (11.3) | (2.6) | (4.6) | (1.1) |
| Finance costs | (38.2) | (39.2) | (13.2) | (13.4) |
| Income tax charge | (3.6) | (1.8) | (1.5) | 0.9 |
| **Loss/(profit) for the period** | **(3.4)** | **1.7** | **(4.9)** | **(1.6)** |

* Underlying revenue and commission and marketing fees are presented before applying a fair value adjustment arising upon acquisition to allow meaningful comparison of financial performance. Details of the fair value adjustment can be found in Note 1 of the unaudited condensed consolidated interim financial statements of Galaxy Finco Limited for the nine-month period ended 31 December 2018. Commission and marketing expenses also excludes internal acquisition costs.

| £m's | For the nine-month period ended 31 December | | For the quarter ended 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **UK Sales** | **527.5** | **472.8** | **199.7** | **179.7** |
| New Business | 161.4 | 116.6 | 70.4 | 47.2 |
| Renewals | 366.1 | 356.2 | 129.3 | 132.5 |
| **International Sales** | **115.3** | **121.6** | **45.5** | **47.7** |
| New Business | 82.2 | 92.5 | 32.1 | 36.1 |
| Renewals | 33.1 | 29.1 | 13.4 | 11.6 |
| **Underlying Sales** | **642.8** | **594.4** | **245.2** | **227.4** |

| £m's | For the nine-month period ended 31 December | | For the quarter ended 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **UK Underlying Revenue** | **495.4** | **465.7** | **165.3** | **157.4** |
| New Business | 124.5 | 122.9 | 40.4 | 41.0 |
| Renewals | 370.9 | 342.8 | 124.9 | 116.4 |
| **International Underlying Revenue** | **111.5** | **114.9** | **36.7** | **38.6** |
| New Business | 81.0 | 87.3 | 26.1 | 29.2 |
| Renewals | 30.5 | 27.6 | 10.6 | 9.4 |
| **Underlying Revenue** | **606.9** | **580.6** | **202.0** | **196.0** |

***Nine-month Period Ended 31 December 2018, compared with nine-month Period Ended 31 December 2017***

*Underlying Revenue* increased by £26.3m, or 4.5%, to £606.9m. The increase in total revenue was due to a 6.4% increase in UK revenue as a result of increased renewals (£28.0m), which was partially offset by a 2.9% decrease in International revenue.

*Repair Costs* increased by £18.2m, or 7.3%, to £267.0m. Expressed as a proportion of underlying revenue of £606.9m and £580.6m respectively, repair costs have increased by 1.1 percentage points to 44.0%. This is a faster rate than revenue growth in the period due to the removal of direct debit recovery and delivery costs as part of our improved customer experience initiatives.

*Customer Acquisition Costs*, comprising commission and marketing fees, increased by £3.9m, or 2.7%, to £145.8m, in line with revenue growth.

*Investment Income* decreased by £0.3m, or 18.8%, to £1.3m for the period ended 31 December 2018.

*Operating Expenses* decreased by £1.9m, or 1.6%, to £114.3m for the period ended 31 December 2018, as a result of the triennial revaluation of the Nottingham freehold property and strong expense control across the business and partly offset by our investment in contact centres and customer service to support the transition to our new products.

*Depreciation and amortisation* increased by £1.7m, or 25.0%, to £8.5m for the period ended 31 December 2018, reflecting the significant investment being made in our IT infrastructure as we build digital capability.

*Significant items and amortisation of acquisition intangible assets* - amortisation relating to intangible assets recognised at acquisition has decreased to £22.9m for the period ended 31 December 2018. Significant items of £11.3m for the period ended 31 December 2018 (31 December 2017: £2.6m) relates to one-off costs incurred in transitioning our discretionary service plan business to maintenance service plans and insurance, as well as Brexit related costs and other professional costs incurred in relation to exploring strategic options for the Group's shareholders, including the possibility of an IPO.

*Finance Costs* decreased by £1.0m, or 2.6%, to £38.2m for the period ended 31 December 2018, benefitting from the refinancing and partial redemption of outstanding principal in the 2018 financial year. Whilst the majority of external debt incurs a fixed interest cost, interest on shareholder loans amounted to

£13.0m for the period ended 31 December 2018, due to interest being rolled up in the carrying amount of the loan.

*Income tax charge* increased by £1.8m to £3.6m for the period ended 31 December 2018. Our effective tax rate on profits before significant items and amortisation for the period ended 31 December 2018 and 2017 was 23.3% and 21.5% respectively.

*Loss for the period* as a result of the factors described above, increased by £5.1m, to £3.4m for the period ended 31 December 2018 (31 December 2017: profit £1.7m).

**Loans and borrowings**

| | As at 31 December | |
|---|---|---|
| **£m's** | **2018** | **2017** |
| 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 |
| | **475.1** | 500.0 |
| Shareholder debt | | |
| 10% Loan due to Parent Company | **183.4** | 168.3 |
| Financing costs | **(4.7)** | (5.3) |
| **Total loans and borrowings** | **653.8** | 663.0 |

The Group successfully refinanced the Senior Secured Floating Rate Notes due 2019 in the 2018 financial year 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 (31 December 2017: £80.0m) with the maturity date extended to 1 November 2020, of which £23.0m (31 December 2017: £23.0m) is allocated to a letter of credit. £77.0m of the facility (31 December 2017: £57.0m) was unutilised at the end of the period, and of this £3.0m (31 December 2017: £3.0m) is currently available as a same day drawdown money market facility. During the period, £0.3m (31 December 2017: £0.6m) has been repaid to the Parent Company. The external debt is secured on the assets of certain Group companies.

The net debt position of the Group is presented below:

| | As at 31 December | |
|---|---|---|
| **£m's** | **2018** | **2017** |
| Third party debt | **475.1** | 500.0 |
| Unrestricted cash reserves | **(89.8)** | (129.0) |
| **Total net debt** | **385.3** | **371.0** |

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. Unrestricted cash reserves also reflect the reclassification of certain cash deposits held in the Group's Australian service company following a review of the entity's cash requirements.

## Finance costs

Finance costs of £38.2m (31 December 2017: £39.2m) relate to the servicing of the Group's debt and can be broken down as follows:

| £m's | For the nine-month period ended 31 December 2018 | 2017 |
|---|---|---|
| **Current Debt Structure** | | |
| 6.375% Senior Secured Notes due 2020# | **9.5** | 9.6 |
| Senior Secured Floating Rate Notes due 2019# | **-** | 7.5 |
| Senior Secured Floating Rate Notes due 2020# | **5.1** | - |
| 7.875% Senior Notes due 2021# | **7.4** | 7.4 |
| Finance charges – amortisation of deferred financing costs | **3.2** | 2.8 |
| 10% Loan due to Parent Company | **13.0** | 11.9 |
| **Total finance costs** | **38.2** | 39.2 |

# Includes £3.8m (31 December 2017: £4.2m) of accrued interest.

## Capital structure and solvency

Sufficient capital is retained to finance growth of the Group and to meet regulatory requirements. 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 Group is presented below:

| £m's | As at 31 December 2018 | 2017 |
|---|---|---|
| Solvency II capital resources | 142.6 | 134.1 |
| Solvency II capital requirement | 69.3 | 53.3 |
| Solvency ratio | **205.8%** | 251.6% |

The qualifying capital resources of £142.6m (31 December 2017: £134.1m) held by DGI at 31 December 2018 comfortably exceeded its capital requirements of £69.3m (31 December 2017: £53.3m), a regulatory solvency ratio of 205.8% (31 December 2017: 251.6%).

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. No dividends were paid during the period.

Brexit: we are preparing for a no deal Brexit such that we shall be able to continue writing insurance business in Europe while meeting 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 will migrate EU customers through a Part VII transfer. These preparations are subject to regulatory licence approvals and court approval of the Part VII process. An exceptional one-off capitalisation of the new entity may be required in the near term, dependent upon the length (if any) of transitional arrangements but we do not expect aggregate capital requirements over the medium term 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 consolidated financial statements for the year ended 31 March 2018. 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, plus (iii) certain payments from the Regulated Business to the Non-Regulated Business not included in (i) and (ii) above.

| | For the nine-month period ended 31 December | |
|---|---|---|
| **£m's** | **2018 *** | **2017 *** |
| **Cash flow available for debt service (CFADS)** | | |
| Underlying EBITDA | **48.8** | 36.2 |
| Working capital movements | **(27.9)** | (15.8) |
| Capital expenditure | **(13.3)** | (14.0) |
| **Free cash flow from unregulated business** | **7.6** | 6.4 |
| Regulated profit after tax | **25.3** | 32.1 |
| Change in capital requirement | **(20.3)** | (9.0) |
| Change in capital resources | **20.4** | 2.8 |
| **Distributable earnings from regulated business** | **25.4** | 25.9 |
| Other cash flows between regulated and unregulated | **2.6** | 6.6 |
| **Underlying Cash flow available for debt service** | **35.6** | 38.9 |
| ***Underlying cash conversion*** | ***43.9%*** | *51.7%* |

Underlying CFADS and underlying cash conversion have decreased on the prior year, primarily driven by the working capital investment from growing our flexible monthly business (new business strain) and the unwind of the legacy extended term book; and certain in-period timing differences.

**Non-GAAP alternative performance measures reconciliation**

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

| £m | For the nine-month period ended 31 December 2018 | 2017 | % Change |
|---|---|---|---|
| Revenue | **605.9** | 574.6 | 5.4% |
| Fair value adjustment arising from acquisition | **1.0** | 6.0 | (83.3%) |
| **Underlying revenue** | **606.9** | 580.6 | 4.5% |
| Operating costs | **568.8** | 533.5 | 6.6% |
| Fair value adjustment arising from acquisition | **1.0** | 6.0 | (83.3%) |
| Amortisation of acquisition intangibles | **(22.9)** | (23.2) | (1.3%) |
| Significant items | **(11.3)** | (2.6) | 334.6% |
| **Underlying operating costs** | **535.6** | 513.7 | 4.3% |
| Underlying revenue | **606.9** | 580.6 | 4.5% |
| Claims and repair costs | **(267.0)** | (248.8) | 7.3% |
| Third party commission and marketing expenses | **(145.8)** | (141.9) | 2.7% |
| **Contribution** | **194.1** | 189.9 | 2.2% |
| Operating profit | **37.1** | 41.1 | (9.7%) |
| Amortisation of acquisition intangibles | **22.9** | 23.2 | (1.3%) |
| Depreciation and amortisation | **8.5** | 6.8 | 25.0% |
| EBITDA | **68.5** | 71.1 | (3.7%) |
| Investment income | **1.3** | 1.6 | (18.8%) |
| Significant items | **11.3** | 2.6 | 334.6% |
| **Underlying EBITDA** | **81.1** | 75.3 | 7.7% |

***Operating data***

| | For the nine-month period ended 31 December 2018 | 2017 * |
|---|---|---|
| **Number of appliances protected** *(in millions)* | **23.2** | **23.5** |
| *UK Division* | 14.5 | 14.5 |
| *International Division* | 8.7 | 9.0 |
| **Number of households served** *(in millions)* | **14.6** | **14.9** |
| *UK Division* | 8.0 | 8.0 |
| *International Division* | 6.6 | 6.9 |
| **Number of appliances protected by customer** | **1.46** | **1.46** |
| *UK Division* | 1.66 | 1.65 |
| *International Division* | 1.22 | 1.22 |
| **Number of claims handled** *(in millions)* | **2.2** | **2.1** |
| *UK Division* | 1.8 | 1.7 |
| *International Division* | 0.4 | 0.4 |
| **Renewals rate** | | |
| *UK Division*** | *76.0%* | *74.2%* |

* 2017 number of UK appliances and households restated following a reporting adjustment by a retail partner.

** Represents the proportion of total UK plans that renewed in the last twelve months and were still in force nine-months after the renewal date. Since there is a lag of 3 months required in order to calculate the renewal rate, the rate presented is as at 30 September 2018 for the current period and as at 30 September 2017 for the comparative.

## 3. SOURCES AND USES OF LIQUIDITY AND CAPITAL

### *Cash flows*

| £m's | 9m to 31 December | | 3m to 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net cash used in operating activities | (8.9) | (9.1) | (14.9) | (4.4) |
| Net cash from investing activities | 18.4 | 22.5 | 26.7 | 16.4 |
| Net cash used in financing activities | (1.2) | (0.6) | - | (0.3) |
| **Net increase in cash and cash equivalents** | **8.3** | **12.8** | **11.8** | **11.7** |
| **Cash and cash equivalents at the beginning of the period** | **40.9** | **30.1** | **37.7** | **30.8** |
| Effects of exchange rates | 0.3 | (0.7) | - | (0.3) |
| **Cash and cash equivalents at the end of the period** | **49.5** | **42.2** | **49.5** | **42.2** |
| Investments | 125.4 | 174.9 | 125.4 | 174.9 |
| **Cash and cash equivalents and investments at the end of the period** | **174.9** | **217.1** | **174.9** | **217.1** |

*Net cash used in operating activities.* Net cash used in operating activities was £8.9m for the period ended 31 December 2018, an improvement of £0.2m. The reduction in net cash used in operating activities was driven by movements in working capital and investment in our Customer First Programme.

*Net cash from investing activities*. There was a net cash inflow from investing activities of £18.4m for the period ended 31 December 2018, a decrease of £4.1m due to change in investment approach.

*Net cash used in financing activities*. There was a net cash outflow from financing activities of £1.2m for the period ended 31 December 2018 an increase of £0.6m driven by loan fees as a result of refinancing the Senior Secured Floating Rate Notes due 2019 with the issuance of £150.1m of new notes due 2020.

The total of cash and cash equivalents and investments as at 31 December 2018 was £174.9m. At 31 December 2018, we estimate that the Group had unrestricted cash reserves of approximately £89.8m.

### *Net working capital*

| £m's | For the quarter ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Deferred income * | (700.9) | (641.3) |
| Deferred acquisition costs * | 248.3 | 241.7 |
| **Net deferred income** | **(452.6)** | **(399.6)** |
| **Trade debtors** | **477.9** | **402.6** |
| **Other working capital balances** | **(126.2)** | **(108.8)** |
| *Accrued income* | 81.4 | 76.3 |
| *Repairs cost provision and others* | (27.1) | (28.5) |
| *Third party creditors* | (63.9) | (67.1) |
| *Accruals* | (59.1) | (33.0) |
| *Other tax, VAT, PAYE, NI payable* | (57.5) | (56.5) |
| **Net working capital** | **(100.9)** | **(105.8)** |

* Deferred income and deferred acquisition costs are presented before applying a fair value adjustment arising upon acquisition in order to allow meaningful comparison of financial position. Details of the fair value adjustment can be found in Note 1 of the unaudited condensed consolidated interim financial statements of Galaxy Finco Limited for the nine-month period ended 31 December 2018.

As of 31 December 2018, our net working capital was (£100.9m), (£50.3m) of which was the Regulated Business's net working capital and (£50.6m) of which was the Non-Regulated Business's net working capital. The net working capital profile is affected by a variety of factors, including, among other things:

- the mix of monthly plans, annual plans (including renewals and Repair & Protect), and extended plans in any given year;
- how appliance care plans are paid for by customers (i.e. fee or premium paid upfront or periodic payments, generally by direct debit);
- customer acquisition costs (i.e. marketing fees and commissions paid to the OEM and retail

partners, and direct acquisition costs);
- the value of claims being paid on prior year sales; and
- the growth rate of sales of the Group's various appliance care plans.

These factors affect the timing of cash we receive on plans and cash we pay as acquisition costs and in settlement of claims. From a net working capital perspective, these factors affect principally our deferred income, trade debtors and deferred acquisition cost's balances. Our UK and International Divisions have different net working capital profiles due to the different stages of maturity of the respective businesses and the different mix of products that are sold.

The increase in the deferred income and trade debtors' balances at 31 December 2018 compared to the same period in 2017, relates to general increases in sales growth but also includes the impact of our new client win and our new product launch. Accruals have also increased due to client sign on fees as part of the Customer First programme, and business development related costs.

***Capital expenditures***

| **£m's** | **For the nine-month period ended 31 December** | | **For the quarter ended 31 December** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| IT Hardware and Software | 12.7 | 12.2 | 3.9 | 6.3 |
| United Kingdom, other | 0.9 | 2.1 | 0.5 | 1.4 |
| International, other | - | 0.3 | (0.1) | - |
| **Total** | **13.6** | **14.6** | **4.3** | **7.7** |

## 4. FREE CASH FLOWS

| £m's | For the nine-month period ended 31 December | | For the quarter ended 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Underlying EBITDA** | **81.1** | **75.3** | **24.8** | **22.1** |
| **Outflow in net working capital** | **(33.8)** | **(42.7)** | **(13.7)** | **(6.3)** |
| *Movement in deferred acquisition costs** | (2.6) | (10.1) | (8.0) | (8.5) |
| *Movement in deferred income ** | 33.2 | 14.4 | 41.9 | 30.0 |
| *Movement in trade and other receivables* | (54.7) | (53.5) | (46.8) | (37.7) |
| *Movement in claims and repair cost provision* | 2.5 | 4.1 | 1.2 | 2.1 |
| *Movement in trade and other payables* | (12.2) | 2.4 | (2.0) | 7.8 |
| **Operating cash flow** | **47.3** | **32.6** | **11.1** | **15.8** |
| Capital expenditure | (13.6) | (14.6) | (4.3) | (7.7) |
| **Free Cash Flow** | **33.7** | **18.0** | **6.8** | **8.1** |

* Movements in deferred acquisition costs and deferred income are presented before applying a fair value adjustment arising upon acquisition, in order to allow meaningful comparison of financial performance. Details of the fair value adjustment can be found in note 1 of the unaudited condensed consolidated interim financial statements of Galaxy Finco Limited for the nine-month period ended 31 December 2018.

Free Cash Flow conversion in the period ended 31 December 2018 was 41.6% of Underlying EBITDA and higher than the period ended 31 December 2017 of 23.9% indicating improved liquidity even though we continue to invest in growing the business.

### *Free cash flow from the Non-Regulated business*

| £m's | For the nine-month period ended 31 December | | For the quarter ended 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Underlying EBITDA | 48.8 | 36.2 | 13.1 | 10.0 |
| Increase in Working capital | (27.9) | (15.8) | (11.1) | (4.0) |
| Capex | (13.3) | (14.0) | (4.3) | (7.6) |
| **Free cash flow from Non-Regulated business** | **7.6** | **6.4** | **(2.3)** | **(1.6)** |

### *Distributable earnings from the Regulated business*

| £m's | For the nine-month period ended 31 December | | For the quarter ended 31 December | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Underlying EBITDA | 32.3 | 39.1 | 11.7 | 12.1 |
| Depreciation | (0.3) | (0.3) | (0.1) | (0.1) |
| Transfer pricing (Regulated to Non-Regulated) | (0.2) | 1.2 | (0.3) | 0.5 |
| Current tax | (6.4) | (8.0) | (2.2) | (2.6) |
| Deferred tax | (0.1) | 0.1 | (0.1) | 0.1 |
| **Regulated business profit after tax** | **25.3** | **32.1** | **9.0** | **10.0** |
| Capital Requirement | (20.3) | (9.0) | (7.7) | (3.5) |
| Capital Resource | 20.4 | 2.8 | 3.3 | 3.4 |
| **Distributable earnings from Regulated business** | **25.4** | **25.9** | **4.6** | **9.9** |

## 5. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT

**GALAXY FINCO LIMITED**

**CONSOLIDATED INCOME STATEMENT**
**FOR THE NINE-MONTH PERIOD ENDED 31 DECEMBER 2018**

| | | **Period ended 31 December 2018 (Unaudited)** | | | Period ended 31 December 2017 (Unaudited) | | | Year ended 31 March 2018 (Audited) |
|---|---|---|---|---|---|---|---|---|
| | Note | **Before significant items and amortisation £m** | **Significant items and amortisation £m** | **After significant items and amortisation £m** | Before significant items and amortisation £m | Significant items and amortisation £m | After significant items and amortisation £m | After significant items and amortisation £m |
| **Revenue** | 1 | **605.9** | **-** | **605.9** | 574.6 | - | 574.6 | 770.5 |
| Operating costs | | | | | | | | |
| - Amortisation | 2 | **-** | **(22.9)** | **(22.9)** | - | (23.2) | (23.2) | (30.9) |
| - Other operating costs | 2 | **(534.6)** | **(11.3)** | **(545.9)** | (507.7) | (2.6) | (510.3) | (724.7) |
| **Operating profit** | | **71.3** | **(34.2)** | **37.1** | 66.9 | (25.8) | 41.1 | 14.9 |
| Investment income | | **1.3** | **-** | **1.3** | 1.6 | - | 1.6 | 2.0 |
| Finance costs | | **(38.2)** | **-** | **(38.2)** | (39.2) | - | (39.2) | (52.9) |
| **Profit/(loss) before taxation** | | **34.4** | **(34.2)** | **0.2** | 29.3 | (25.8) | 3.5 | (36.0) |
| Income tax (charge)/credit | 3 | **(8.0)** | **4.4** | **(3.6)** | (6.3) | 4.5 | (1.8) | 3.7 |
| **(Loss)/profit for the period/year** | | | | **(3.4)** | | | 1.7 | (32.3) |

The total profit/(loss) for the period/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 NINE-MONTH PERIOD ENDED 31 DECEMBER 2018

| | **Period ended 31 December 2018 (Unaudited) £m** | Period ended 31 December 2017 (Unaudited) £m | Year ended 31 March 2018 (Audited) £m |
|---|---|---|---|
| (Loss)/profit for the period/year | **(3.4)** | 1.7 | (32.3) |
| Currency translation differences | **-** | (0.1) | (0.3) |
| Loss on available for sale financial assets | **(0.4)** | (0.2) | (0.6) |
| Effective portion of changes in fair value of cash flow hedges - hedging reserve | **-** | 0.5 | 0.6 |
| **Total comprehensive (expense)/income for the period/year** | **(3.8)** | 1.9 | (32.6) |

The total comprehensive (expense) / income for the period/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 DECEMBER 2018

| | Note | **31 December 2018 (Unaudited) £m** | 31 December 2017 (Unaudited) £m | 31 March 2018 (Audited) £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Goodwill and intangible assets | 4 | **500.5** | 521.8 | 517.9 |
| Property, plant and equipment | | **11.6** | 12.2 | 12.4 |
| Deferred acquisition costs | 5 | **248.3** | 239.6 | 242.5 |
| Investments | 6 | **125.4** | 174.9 | 155.0 |
| Trade and other receivables | | **560.1** | 481.1 | 504.1 |
| Cash and cash equivalents | | **49.5** | 42.2 | 40.9 |
| **Total assets** | | **1,495.4** | 1,471.8 | 1,472.8 |
| **Liabilities** | | | | |
| Loans and borrowings | 10 | **653.8** | 663.0 | 639.2 |
| Deferred tax liabilities | | **31.8** | 37.6 | 36.2 |
| Deferred income | 8 | **700.9** | 639.2 | 661.9 |
| Claims and repair costs provision | 9 | **27.1** | 28.5 | 24.3 |
| Current tax liability | | **0.9** | 8.2 | 0.7 |
| Derivative liabilities | | **-** | 0.1 | - |
| Trade and other payables | | **180.6** | 156.6 | 206.4 |
| **Total liabilities** | | **1,595.1** | 1,533.2 | 1,568.7 |
| **Equity** | | | | |
| Share capital | | **89.9** | 89.9 | 89.9 |
| Other reserves | | **(0.2)** | 0.7 | 0.2 |
| Accumulated loss | | **(189.4)** | (152.0) | (186.0) |
| **Total equity** | | **(99.7)** | (61.4) | (95.9) |
| **Total equity and liabilities** | | **1,495.4** | 1,471.8 | 1,472.8 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE NINE-MONTH PERIOD ENDED 31 DECEMBER 2018

**Equity attributable to equity holder of the Company**

**31 December 2018 (Unaudited)**

| | **Ordinary share capital £m** | **Share premium £m** | **Hedging reserves £m** | **Other reserves £m** | **Accumulated loss £m** | **Total Equity £m** |
|---|---|---|---|---|---|---|
| **At 1 April 2018** | **0.9** | **89.0** | **-** | **0.2** | **(186.0)** | **(95.9)** |
| **Loss for the period** | **-** | **-** | **-** | **-** | **(3.4)** | **(3.4)** |
| **Other comprehensive expense for the period** | **-** | **-** | **-** | **(0.4)** | **-** | **(0.4)** |
| **Balance as at 31 December 2018** | **0.9** | **89.0** | **-** | **(0.2)** | **(189.4)** | **(99.7)** |

31 December 2017 (Unaudited)

| | Ordinary share capital £m | Share premium £m | Hedging reserves £m | Other reserves £m | Accumulated loss £m | Total Equity £m |
|---|---|---|---|---|---|---|
| At 1 April 2017 | 0.9 | 89.0 | (0.6) | 1.1 | (153.7) | (63.3) |
| Profit for the period | - | - | - | - | 1.7 | 1.7 |
| Other comprehensive income/(expense) for the period | - | - | 0.5 | (0.3) | - | 0.2 |
| Balance as at 31 December 2017 | 0.9 | 89.0 | (0.1) | 0.8 | (152.0) | (61.4) |

31 March 2018 (Audited)

| | Ordinary share capital £m | Share premium £m | Hedging reserves £m | Other reserves £m | Accumulated loss £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/(expense) 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) |

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE NINE-MONTH PERIOD ENDED 31 DECEMBER 2018

| | Note | **Period ended 31 December 2018 (Unaudited) £m** | Period ended 31 December 2017 (Unaudited) £m | Year ended 31 March 2018 (Audited) £m |
|---|---|---|---|---|
| **Profit/(loss) before tax** | | **0.2** | 3.5 | (36.0) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | | **2.4** | 2.5 | 3.4 |
| Amortisation of software | | **6.1** | 4.3 | 6.1 |
| Amortisation of acquired intangible assets | 2 | **22.9** | 23.2 | 30.9 |
| Revaluation of land and buildings | | **(0.8)** | - | - |
| Finance cost | | **38.2** | 39.2 | 52.9 |
| Investment income | | **(1.3)** | (1.6) | (2.0) |
| Significant items - other operating costs | 2 | **11.3** | 2.6 | 41.2 |
| | | **79.0** | 73.7 | 96.5 |
| **Changes in working capital** | | | | |
| Increase in deferred acquisition costs | | **(3.6)** | (16.1) | (20.1) |
| Increase in trade and other receivables | | **(54.7)** | (53.5) | (80.1) |
| Increase in deferred income | | **34.2** | 20.4 | 47.7 |
| Increase in claims and repair costs provision | | **2.5** | 4.1 | 0.1 |
| (Decrease)/increase in trade and other payables | | **(12.1)** | 2.4 | 11.5 |
| **Cash flows from operating activities** | | **45.3** | 31.0 | 55.6 |
| Significant items | | **(17.8)** | (5.2) | (9.5) |
| Interest received from cash and cash equivalents | | **0.4** | 0.3 | 0.4 |
| Interest paid | | **(29.0)** | (31.3) | (34.5) |
| Income taxes paid | | **(7.8)** | (3.9) | (7.4) |
| **Net cash (used in)/from operating activities** | | **(8.9)** | (9.1) | 4.6 |
| **Cash flows from investing activities** | | | | |
| Interest received on investments | | **0.8** | 1.3 | 1.8 |
| Acquisition of property, plant and equipment | | **(2.0)** | (5.2) | (6.0) |
| Acquisition of software | | **(11.6)** | (9.4) | (14.1) |
| Withdrawal from credit institutions | | **25.8** | 20.8 | 11.7 |
| Withdrawal from money market funds | | **5.2** | 16.6 | 39.4 |
| Financial instrument investments | | **0.2** | (1.6) | 1.9 |
| **Net cash from investing activities** | | **18.4** | 22.5 | 34.7 |
| **Cash flows from financing activities** | | | | |
| Redemption of Secured Floating Rate Notes | | **(0.9)** | - | (26.3) |
| Amounts paid to group undertakings | | **(0.3)** | (0.6) | (0.8) |
| **Net cash used in financing activities** | | **(1.2)** | (0.6) | (27.1) |
| **Net increase in cash and cash equivalents** | | **8.3** | 12.8 | 12.2 |
| Effects of exchange rates | | **0.3** | (0.7) | (1.4) |
| **Cash and cash equivalents at beginning of the period/year** | | **40.9** | 30.1 | 30.1 |
| **Cash and cash equivalents at the end of the period/year** | | **49.5** | 42.2 | 40.9 |

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

## SIGNIFICANT ACCOUNTING POLICIES

Galaxy Finco Limited (the "Company") is a private company incorporated in Jersey. These condensed consolidated interim financial statements of the Company are for the nine-month period 1 April 2018 to 31 December 2018 and comprise the Company and its subsidiaries (together referred to as the 'Group').

### 1 Statement of compliance

The Group condensed consolidated interim financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

### 2 Basis of preparation

The condensed consolidated interim financial statements for the nine-month period ended 31 December 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. The financial information contained in these interim results does not constitute statutory accounts of Galaxy Finco Limited within the meaning of Section 105 of the Companies (Jersey) Law, 1991.

These condensed consolidated interim financial statements have been prepared by applying the accounting policies used in the 31 March 2018 Annual Report and Accounts which were in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). IFRS 9, the accounting statement on Financial Instruments, has come into effect for annual periods beginning on or after 1 January 2018, and will be applied for the first time in the Annual Report and Accounts for 31 March 2019.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 March 2018.

The Directors have reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Director's review included consideration of future plans, loans and borrowings, cash flow and liquidity. As a result of this review, the Directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Revenue

| | **Period ended 31 December 2018 (Unaudited)** | | |
|---|---|---|---|
| | **Service plans £m** | **Insurance £m** | **Total £m** |
| **Sales** | **338.4** | **304.4** | **642.8** |
| **Deferred income movement** | **45.4** | **(81.3)** | **(35.9)** |
| | **383.8** | **223.1** | **606.9** |
| **Fair value adjustment** | | | **(1.0)** |
| **Revenue** | | | **605.9** |

| | Period ended 31 December 2017 (Unaudited) | | |
|---|---|---|---|
| | Service plans £m | Insurance £m | Total £m |
| Sales | 363.1 | 231.3 | 594.4 |
| Deferred income movement | (4.6) | (9.2) | (13.8) |
| | 358.5 | 222.1 | 580.6 |
| Fair value adjustment | | | (6.0) |
| Revenue | | | 574.6 |

| | Year ended 31 March 2018 (Audited) | | |
|---|---|---|---|
| | 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 |

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.

## 2 Significant items and amortisation

| | **Period ended 31 December 2018 (Unaudited) £m** | Period ended 31 December 2017 (Unaudited) £m | Year ended 31 March 2018 (Audited) £m |
|---|---|---|---|
| Amortisation of intangible assets acquired in a business combination | **(22.9)** | (23.2) | (30.9) |
| Strategic Review Project | **(7.5)** | - | - |
| Restructuring costs | **0.2** | (1.7) | (3.9) |
| Brexit costs | **(2.1)** | - | - |
| Product transition costs | **(1.9)** | (0.9) | (37.3) |
| | **(34.2)** | (25.8) | (72.1) |

The amortisation charge relates to intangible assets recognised as a result of the one-off event of acquiring Domestic & General Group Holdings Limited.

The Strategic Review project has been established to review the strategic options of the Group's shareholders (funds managed and advised by CVC Advisers Limited). Several advisors have been retained with associated costs incurred.

In anticipation of the UK leaving the EU on 29 March 2019, preparations are well advanced to prepare for a 'hard' Brexit to enable the Group to continue writing insurance business in Europe and meet existing European contractual obligations. Project costs incurred during the nine-month period principally relate to the Independent Expert, tax and structuring advice, and legal fees.

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

## 3 Taxation

The major components of the income tax (charge)/credit in the consolidated income statement are:

| | **Period ended 31 December 2018 (Unaudited) £m** | Period ended 31 December 2017 (Unaudited) £m | Year ended 31 March 2018 (Audited) £m |
|---|---|---|---|
| Income tax credit | | | |
| Current tax on profit for the period/year | **(8.0)** | (6.3) | (2.2) |
| Deferred tax | **4.4** | 4.5 | 5.9 |
| Total income tax (charge)/credit | **(3.6)** | (1.8) | 3.7 |

## 4 Goodwill and intangible assets

| | 31 December 2018 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | **Goodwill £m** | **OEM relationships £m** | **Customer relationships & Other £m** | **Software £m** | **Total £m** |
| **Cost** | | | | | |
| **At 1 April 2018** | **278.5** | **260.9** | **251.3** | **48.1** | **838.8** |
| **Additions** | **-** | **-** | **-** | **11.6** | **11.6** |
| **Balance as at 31 December 2018** | **278.5** | **260.9** | **251.3** | **59.7** | **850.4** |
| **Amortisation** | | | | | |
| **At 1 April 2018** | **-** | **74.6** | **229.9** | **16.4** | **320.9** |
| **Charge for the period** | **-** | **8.7** | **14.2** | **6.1** | **29.0** |
| **Balance as at 31 December 2018** | **-** | **83.3** | **244.1** | **22.5** | **349.9** |
| **Carrying amount at 31 December 2018** | **278.5** | **177.6** | **7.2** | **37.2** | **500.5** |

| | 31 December 2017 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | 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 | - | - | - | 0.8 | 0.8 |
| Additions | - | - | - | 8.7 | 8.7 |
| Balance as at 31 December 2017 | 278.5 | 260.9 | 251.3 | 42.7 | 833.4 |
| Amortisation | | | | | |
| At 1 April 2017 | - | 57.2 | 216.4 | 10.4 | 284.0 |
| Reclassification | - | - | - | 0.1 | 0.1 |
| Charge for the period | - | 8.7 | 14.5 | 4.3 | 27.5 |
| Balance as at 31 December 2017 | - | 65.9 | 230.9 | 14.8 | 311.6 |
| Carrying amount at 31 December 2017 | 278.5 | 195.0 | 20.4 | 27.9 | 521.8 |

| | 31 March 2018 (Audited) | | | | |
|---|---|---|---|---|---|
| | 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 | | | | | |
| 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 |

## 5 Deferred acquisition costs

| | **31 December 2018 (Unaudited) £m** | 31 December 2017 (Unaudited) £m | 31 March 2018 (Audited) £m |
|---|---|---|---|
| Balance at the start of the period/year | **242.5** | 220.4 | 220.4 |
| Incurred in the period/year | **162.4** | 166.8 | 222.0 |
| Amortisation for the period/year | **(154.4)** | (144.5) | (197.9) |
| Foreign exchange movement | **(2.2)** | (3.1) | (2.0) |
| Balance at the end of the period/year | **248.3** | 239.6 | 242.5 |
| Split between: | | | |
| Amounts expected to be amortised in the following 12 months | **186.7** | 175.1 | 178.2 |
| Amounts expected to be amortised after 12 months | **61.6** | 64.5 | 64.3 |
| | **248.3** | 239.6 | 242.5 |

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

See Note 1 for details on the fair value adjustment arising on acquisition.

## 6 Investments

| | **31 December 2018 (Unaudited)** | | | |
|---|---|---|---|---|
| | AFS** **£m** | **FVTPL* £m** | **Loans and receivables £m** | **Total £m** |
| **Money market funds** | **-** | **13.8** | **-** | **13.8** |
| **Investments carried at FVOCI** | **101.6** | **-** | **-** | **101.6** |
| **Deposits with credit institutions** | **-** | **-** | **10.0** | **10.0** |
| | **101.6** | **13.8** | **10.0** | **125.4** |

| | 31 December 2017 (Unaudited) | | | |
|---|---|---|---|---|
| | AFS** £m | FVTPL* £m | Loans and receivables £m | Total £m |
| Money market funds | - | 42.3 | - | 42.3 |
| Available for sale investments carried at fair value | 104.8 | - | - | 104.8 |
| Deposits with credit institutions | - | - | 27.8 | 27.8 |
| | 104.8 | 42.3 | 27.8 | 174.9 |

| | 31 March 2018 (Audited) | | | |
|---|---|---|---|---|
| | AFS** £m | FVTPL* £m | Loans and receivables £m | Total £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 |

*FVTPL - fair value through profit or loss

**AFS - available for sale financial assets

Available for sale investments are fixed income 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 £59.5m (31 December 2017: £107.0m and 31 March 2018: £85.5m) and those greater than one year is £65.9m (31 December 2017: £67.9m and 31 March 2018: £69.5m).

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 approximates fair value.

## 7 Categories of financial instruments

**31 December 2018 (Unaudited)**

| | **AFS** - designated on initial recognition £m** | **FVTPL* - designated on initial recognition £m** | **Loans and receivables £m** | **Financial liabilities held at amortised cost £m** | **Total £m** |
|---|---|---|---|---|---|
| **Investments** | **101.6** | **13.8** | **10.0** | **-** | **125.4** |
| **Trade and other receivables** | **-** | **-** | **560.1** | **-** | **560.1** |
| **Cash and cash equivalents** | **-** | **-** | **49.5** | **-** | **49.5** |
| **Derivative liabilities** | **-** | **-** | **-** | **-** | **-** |
| **Loans and borrowings** | **-** | **-** | **-** | **(653.8)** | **(653.8)** |
| **Trade and other payables** | **-** | **-** | **-** | **(180.6)** | **(180.6)** |
| | **101.6** | **13.8** | **619.6** | **(834.4)** | **(99.4)** |

31 December 2017 (Unaudited)

| | AFS** - designated on initial recognition £m | FVTPL* - designated on initial recognition £m | Loans and receivables £m | Financial liabilities held at amortised cost £m | Total £m |
|---|---|---|---|---|---|
| Investments | 104.8 | 42.3 | 27.8 | - | 174.9 |
| Trade and other receivables | - | - | 481.1 | - | 481.1 |
| Cash and cash equivalents | - | - | 42.2 | - | 42.2 |
| Derivative liabilities | - | (0.1) | - | - | (0.1) |
| Loans and borrowings | - | - | - | (663.0) | (663.0) |
| Trade and other payables | - | - | - | (156.6) | (156.6) |
| | 104.8 | 42.2 | 551.1 | (819.6) | (121.5) |

31 March 2018 (Audited)

| | AFS** - designated on initial recognition £m | FVTPL* - designated on initial recognition £m | Loans and receivables £m | Financial liabilities held at amortised cost £m | Total £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) |

*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).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **31 December 2018 (Unaudited)** | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| | **£m** | **£m** | **£m** |
| **Investments at fair value through profit and loss** | **-** | **13.8** | **13.8** |
| **Available-for-sale investments carried at fair value** | **81.7** | **19.9** | **101.6** |
| | **81.7** | **33.7** | **115.4** |

| | 31 December 2017 (Unaudited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | £m | £m | £m |
| Investments at fair value through profit and loss | - | 42.3 | 42.3 |
| Derivative financial liabilities | - | (0.1) | (0.1) |
| Available-for-sale investments carried at fair value | - | 104.8 | 104.8 |
| | - | 147.0 | 147.0 |

| | 31 March 2018 (Audited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | £m | £m | £m |
| Investments at fair value through profit and loss | - | 18.8 | 18.8 |
| Available-for-sale investments carried at fair value | 35.1 | 65.4 | 100.5 |

| | | | |
|---|---|---|---|
| | 35.1 | 84.2 | 119.3 |

## 8 Deferred income

| | **31 December 2018 (Unaudited) £m** | 31 December 2017 (Unaudited) £m | 31 March 2018 (Audited) £m |
|---|---|---|---|
| Balance at the start of the period/year | **661.9** | 614.5 | 614.5 |
| Amounts deferred during the period/year | **641.7** | 593.0 | 816.9 |
| Amounts recognised as revenue during the period/year | **(607.5)** | (572.5) | (769.0) |
| Foreign exchange movement | **4.8** | 4.2 | (0.5) |
| Balance as at the end of the period/year | **700.9** | 639.2 | 661.9 |
| Split between: | | | |
| Amounts expected to be recognised in the following 12 months | **527.1** | 467.3 | 486.5 |
| Amounts expected to be recognised after 12 months | **173.8** | 171.9 | 175.4 |
| | **700.9** | 639.2 | 661.9 |

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

See Note 1 for details on the fair value adjustment arising on acquisition.

## 9 Claims and repair costs provision

| | **31 December 2018 (Unaudited) £m** | 31 December 2017 (Unaudited) £m | 31 March 2018 (Audited) £m |
|---|---|---|---|
| Balance at the start of the period/year | **24.3** | 24.1 | 24.1 |
| Amounts incurred during the period/year | **267.0** | 248.8 | 335.2 |
| Amounts paid during the period/year | **(264.2)** | (244.4) | (335.0) |
| Balance as at the end of the period/year | **27.1** | 28.5 | 24.3 |

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

## 10 Loans and borrowings

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

| | **31 December 2018 (Unaudited) £m** | 31 December 2017 (Unaudited) £m | 31 March 2018 (Audited) £m |
|---|---|---|---|
| 6.375% Senior Secured Notes due 2020 | **200.0** | 200.0 | 200.0 |
| Senior Secured Floating Rate Notes due 2019 | **-** | 175.0 | - |
| Senior Secured Floating Rate Notes due 2020 | **150.1** | - | 150.1 |

| | | | |
|---|---|---|---|
| 7.875% Senior Notes due 2021 | **125.0** | 125.0 | 125.0 |
| 10% loan due to Parent Company | **183.4** | 168.3 | 170.5 |
| Financing costs | **(4.7)** | (5.3) | (6.4) |
| | **653.8** | 663.0 | 639.2 |

During the year ended 31 March 2018, 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 £0.3m (31 December 2017: £0.6m and 31 March 2018: £0.8m) 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 | 198.6 |
| Senior Secured Floating Rate Notes due 2020 | LIBOR + 4.5% | 2020 | 150.1 | 148.0 |
| 7.875% Senior Notes due 2021 | 7.875% | 2021 | 125.0 | 123.8 |
| 10% loan due to Parent Company | 10% | 2033 | 125.0 | 183.4 |
| | | | 600.1 | 653.8 |

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 has a revolving bank facility of £100.0m (31 December 2017: £80.0m and 31 March 2018: £100.0m) with a final maturity date of 1 November 2020, of which £23.0m (31 December 2017 and 31 March 2018: £23.0m) 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 (31 December 2017: £57.0m and 31 March 2018: £77.0m) was undrawn at period end, and of this £3.0m (31 December 2017 and 31 March 2018: £3.0m) is currently available as a same day drawdown money market facility.

## 11 Related parties

The nature of the related party transactions of the Group are consistent in nature and scope with those disclosed in note 26 of the Group's consolidated financial statements for the year ended 31 March 2018.

## 12 Financial risk management

*Credit ratings of significant classes of financial assets*

| | **31 December 2018 (Unaudited)** | | | |
|---|---|---|---|---|
| | **A rated (or above) Institutions £m** | **B rated (or below) Institutions £m** | **Unrated £m** | **Total £m** |
| **Cash and cash equivalents** | **49.5** | **-** | **-** | **49.5** |
| **Money market funds** | **13.8** | **-** | **-** | **13.8** |
| Available-for-sale investments carried at fair value | **86.1** | **15.5** | **-** | **101.6** |
| **Deposits with credit institutions** | **10.0** | **-** | **-** | **10.0** |
| **Trade and other receivables** | **-** | **-** | **560.1** | **560.1** |
| | **159.4** | **15.5** | **560.1** | **735.0** |

| | 31 December 2017 (Unaudited) | | | |
|---|---|---|---|---|
| | A rated (or above) Institutions £m | B rated (or below) Institutions £m | Unrated £m | Total £m |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 42.2 | - | - | 42.2 |
| Money market funds | 42.3 | - | - | 42.3 |
| Available-for-sale investments carried at fair value | 79.0 | 25.8 | - | 104.8 |
| Deposits with credit institutions | 27.8 | - | - | 27.8 |
| Trade and other receivables | - | - | 481.1 | 481.1 |
| | 191.3 | 25.8 | 481.1 | 698.2 |

| | 31 March 2018 (Audited) | | | |
|---|---|---|---|---|
| | A rated (or above) Institutions £m | B rated (or below) Institutions £m | Unrated £m | Total £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 |

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.

| | | **31 December 2018 (Unaudited)** | |
|---|---|---|---|
| | | **Trade and other receivables £m** | **Total £m** |
| **Not past due** | | **560.2** | **560.2** |
| **Past due (days)** | **0 - 30** | **0.4** | **0.4** |
| | **31 - 60** | **-** | **-** |
| | **61 - 90** | **0.1** | **0.1** |
| | **Greater than 90** | **0.3** | **0.3** |
| **Provision** | | **(0.9)** | **(0.9)** |
| **Carrying amount** | | **560.1** | **560.1** |

| | | 31 December 2017 (Unaudited) | |
|---|---|---|---|
| | | Trade and other receivables £m | Total £m |
| Not past due | | 478.3 | 478.3 |
| Past due (days) | 0 - 30 | 3.3 | 3.3 |
| | 31 - 60 | 0.1 | 0.1 |
| | 61 - 90 | 0.3 | 0.3 |

| | | | |
|---|---|---|---|
| | Greater than 90 | - | - |
| Provision | | (0.9) | (0.9) |
| Carrying amount | | 481.1 | 481.1 |

| | | 31 March 2018 (Audited) | |
|---|---|---|---|
| | | Trade and other receivables £m | Total £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 |

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

*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.

| | **31 December 2018 (Unaudited)** | | | | |
|---|---|---|---|---|---|
| | **Claims & Repair costs £m** | **Loans and borrowings £m** | **Trade and other payables £m** | **Interest payable £m** | **Total £m** |
| **0 - 90 days** | **27.1** | **-** | **150.3** | **12.4** | **189.8** |
| **91 days - 1 year** | **-** | **-** | **21.0** | **37.8** | **58.8** |
| **1 - 3 years** | **-** | **350.1** | **5.9** | **74.3** | **430.3** |
| **3 - 5 years** | **-** | **125.0** | **3.3** | **21.1** | **149.4** |
| **Greater than 5 years** | **-** | **183.4** | **0.1** | **183.0** | **366.5** |
| **Total** | **27.1** | **658.5** | **180.6** | **328.6** | **1,194.8** |

| | 31 December 2017 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Claims & Repair costs £m | Loans and borrowings £m | Trade and other payables £m | Interest payable £m | Total £m |
| 0 - 90 days | 28.5 | - | 139.9 | 12.0 | 180.4 |
| 91 days - 1 year | - | - | 15.2 | 36.5 | 51.7 |
| 1 - 3 years | - | 375.0 | 0.8 | 85.2 | 461.0 |
| 3 - 5 years | - | 125.0 | 0.1 | 40.7 | 165.8 |
| Greater than 5 years | - | 168.3 | 0.6 | 184.7 | 353.6 |
| Total | 28.5 | 668.3 | 156.6 | 359.1 | 1,212.5 |

31 March 2018 (Audited)

| | Claims & Repair costs | Loans and borrowings | Trade and other payables | Interest payable | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £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 |

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

## 6. APPENDIX

### A. PRINCIPAL RISKS AND UNCERTAINTIES

***Risk management and control***

The primary objectives of our risk management and control framework is to ensure that our business is being effectively managed, that risks are clearly identified and managed within the Board's risk appetite and to confirm compliance with our regulatory and governance requirements.
The Group has in place a risk management framework and assessment programme that seeks to limit the adverse effects of financial and operational risks on the overall performance of the Group. This is overseen by the Chief Risk Officer, who reports directly to the CEO. A combined Audit & Risk Committee at both the Group and insurance subsidiary level is in place, in each case chaired by an independent Non-Executive Director.

The Group has a comprehensive risk management framework with risk appetite statements approved by the Board, key risk indicators and risk registers. The 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.

i) *Changes in market dynamics*. Risks associated with changes in the wider economy or commercial environment. These risks are mitigated by:
- a resilient business model
- significant experience and expertise in chosen markets
- product development and innovation
- frequent review of competition
- market intelligence
- Brexit planning

ii) *Strategic risks.* Risks associated with developing the strategy for the organisation; the business model, developing new business and partnerships and delivering to customers. These risks are mitigated by:
- formal development of strategy and review of progress by the Board
- clear internal and external communication of strategy
- frequent planning and monitoring of activity

iii) *Regulatory and legal landscape.* Risk that changes to the legal or regulatory landscape could adversely impact on financial performance. These risks are mitigated by:
- ongoing monitoring and awareness
- experienced compliance and risk teams
- independent outsourced internal audit function
- experienced in-house legal function
- engagement and relationship with UK and overseas Regulators
- regular contact with UK regulators

- advice and support from external advisors

iv) *Conduct risk.* Risk of failure to comply with relevant laws, regulations and standards in the UK and overseas. These risks are mitigated by:
- active monitoring and development of products and processes to meet applicable regulations
- Conduct Standards governance structure focusing on good customer outcomes
- appropriate policies and procedures
- strong product design, sales and customer marketing standards
- training and competence programmes for staff
- monitoring of call handling processes (call verification)
- monitoring of publications by external bodies (regulatory, governmental)
- dedicated legal, compliance and risk teams
- annual risk-based compliance monitoring programmes

v) *Underwriting and pricing.* The risk that underwriting does not accurately reflect all the perils being insured, or that the pricing is not commercially viable, or that products are not fairly price for customers. These risks are mitigated by:
- competitive pricing with realistic margins
- experienced staff and specialised systems
- statistical models developed over time
- performance monitoring
- dedicated department to manage repairers' costs and quality
- market intelligence

vi) *Technology*. The risks associated with delivery and future-proofing of our technology, including the potential impact of business interruption through systems and facilities. These risks are mitigated by:
- investment in appropriate technology and staff
- project management and expert support in developing and maintaining information systems
- IT governance structure
- outsourced duplicated data centres
- Business continuity plan

vii) *Data security and protection*. The risk that our data is not securely held and compliant with legal requirements (including GDPR). These risks are mitigated by:
- data security policy and procedures
- regular review and assessment by management
- ISO 27001 – Information Security accreditation. (ISO 27001 is a formal specification for an Information Security Management System)
- Payment Card Industry Data Security Standard ('PCI DSS') certification,
- disclosure statements of customer consent
- access controls
- 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 May 2018

viii) *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. These risks are mitigated by:
- strong product governance, sales and customer marketing standards
- continual, proactive review of processes both internally and externally
- monitoring of Management Information, quality control and service levels
- monitoring and responding to customer complaints and feedback
- root cause analysis of complaints to ensure continuous improvement, and
- media and horizon scanning

ix) *Key client relationships.* The risks associated with the dependency on key client relationships for distribution or services. These risks are mitigated by:
- Client relationships management team
- regular review of performance with key clients
- management of service levels
- dedicated client services team and regular contact with clients
- business strategy and planning

- development of new business pipeline
- long-term agreements with key clients

x) *People risk.* The risk that we have insufficient staff, inadequate talent pipeline and our people have insufficient skills to support the business strategy. These risks are mitigated by:
- review and development process for all employees
- appropriate rewards programme in place
- succession and HR planning reviewed at Board level
- recruitment policy and staff vetting
- performance management process
- implementation of culture change programme

xi) *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. These risks are mitigated by:
- experienced finance team
- financial control environment
- embedded capital requirement review procedures
- close monitoring of financial performance, debt covenants and credit risk by senior management

xii) *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. These risks are mitigated by:
- due diligence and on-boarding
- procurement process in place
- monitoring of Management Information to identify early warning signs
- regular meetings with outsourced providers to track performance and agree actions for areas of underperformance
- 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.

## B. ALTERNATIVE PERFORMANCE MEASURES ('APMS')

In this financial review we present certain financial measures that are not required by or presented in accordance with IFRS, including "Underlying Revenue", "Underlying Operating Costs, "Contribution", "Underlying EBITDA", "Net Working Capital", "Free Cash Flow", "Underlying Cash Flow Available for Debt Service" and "Unrestricted Cash", because we believe they provide investors with useful additional information to measure our performance (in the case of Underlying Revenue, Underlying Operating Costs, Contribution, and Underlying EBITDA) or liquidity (in the case of Net Working Capital, Free Cash Flow, Underlying Cash Flow Available for Debt Service, and Unrestricted Cash).

***Underlying Revenue, Underlying Operating Costs and Contribution***

Following the acquisition of the Domestic & General Group, part of the purchase price paid by Galaxy Bidco Limited was allocated to the fair value of our identifiable assets and identifiable liabilities as of the Completion Date and the excess was recorded as goodwill. In connection with the purchase price allocation, the Group concluded that £208.8m of our Deferred Acquisition Costs had a fair value of £nil and therefore, in the consolidated financial statements of Galaxy Finco Limited included within this financial information, we have reduced both our Deferred Acquisition Costs asset and our Deferred Income liability by a corresponding amount. This adjustment will reverse over time impacting revenue and customer acquisition costs without having an overall impact on operating profit.

The Group's management measures and reports, and intends to continue measuring and reporting, revenue, operating costs and contribution on a basis that (i) reverses the accounting impact of business combinations, (ii) excludes non-warranty sources of revenue and significant items that are material and non-recurring, and (iii) does not include investment income, in order to keep track of and evaluate the operating performance of our core warranty business. In particular:

- "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. Revenue does not include investment income, which is affected by fluctuations in interest rates, changes in market sentiment, economic downturns and any deterioration in the financial condition of one or more issuers of the debt securities held in our investment portfolio and which does not directly result from the core warranty business;
- "Underlying Operating Costs" represents operating costs after the reversal of any fair value adjustments and related amortisation charges to Deferred Acquisition Costs, Deferred Income, and Intangible Assets associated with the acquisition method of accounting for business combinations, as well as any significant items that are material and non-recurring in nature;
- "Contribution" represents Underlying Revenue minus claims and repair costs and third-party commission and marketing expenses

The Group believes that Underlying Revenue, Underlying Operating Costs and Contribution provide useful information to investors about our results of operations for the following reasons: (a) they are among the measures used by the Board of Directors and management to evaluate our underlying operating performance, review business trends, identify strategies to improve results and make day-to-day operating decisions, and (b) they allow a comparison of results across years on a consistent basis, by removing the effects on operating performance of the acquisition method of accounting for business combinations and excluding investment income.

Underlying Revenue, Underlying Operating Costs and Contribution should not be considered in isolation or as substitutes for measures of our operating performance reported in accordance with IFRS. Underlying Revenue, Underlying Operating Costs and Contribution have limitations as analytical tools, including that they do not give effect to our revised estimates regarding the recoverability of Deferred Acquisition Costs through Deferred Income as of a date that is subsequent to the date on which such customer acquisition costs were incurred. Because of these limitations, the Group relies primarily on its IFRS results and uses Underlying Revenue, Underlying Operating Costs and Contribution only supplementally. You are encouraged to evaluate the adjustments reflected in our presentation of Underlying Revenue, Underlying Operating Costs and Contribution and whether you consider each to be appropriate. The information presented by Underlying Revenue, Underlying

Operating Costs and Contribution is unaudited and is not intended to and does not comply with the reporting requirements of the U.S. Securities and Exchange Commission.

***Underlying EBITDA***

Underlying EBITDA represents profit/(loss) before (i) finance costs and interest expenses, (ii) income tax (charge)/credit, (iii) depreciation and (iv) amortisation and after investment income, as further adjusted to exclude the impact on our profit/(loss) of certain items that management considers exceptional or non-trade related and to exclude the results of discontinued operations. Underlying EBITDA provides useful information to investors about results of the Group's operations for the following reasons: (a) it is among the measures used by the Board of Directors and management to evaluate operating performance, review business trends, identify strategies to improve results and make day-to-day operating decisions, and (b) it allows a comparison of the Group's results across years and results across companies in the industry on a consistent basis, by removing the effects on operating performance of the Group's capital structure (such as the varying levels of interest expense), asset base and capital investment cycle (such as depreciation and amortisation) and items largely outside the control of management (such as income taxes).

Underlying EBITDA should not be considered in isolation or as a substitute for measures of operating performance reported in accordance with IFRS. Underlying EBITDA has limitations as an analytical tool, some of which are as follows:

- Underlying EBITDA does not reflect the significant interest expense on debt or the cash requirements necessary to service interest or principal payments on debt;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, and Underlying EBITDA does not reflect any cash requirements for such replacements;
- Underlying EBITDA excludes certain tax payments that may represent a reduction in cash available to us;
- other companies in the industry in which we operate may calculate Underlying EBITDA differently than we do, limiting their usefulness as comparative measures;
- Underlying EBITDA includes investment income, which is affected by fluctuations in interest rates, changes in market sentiment, economic downturns and any deterioration in the financial condition of one or more issuers of the debt securities held in our investment portfolio. Since the Group's investment income does not directly result from our core warranty business, including it in Underlying EBITDA may limit or distort the usefulness of these measure in presenting the profitability of our recurring operations; and
- the calculation and presentation of Underlying EBITDA in this financial review is similar to, but different from, the calculation of Consolidated EBITDA under the Indentures governing the notes or the agreement governing the Galaxy Finco Revolving Credit Facility. Accordingly, Underlying EBITDA does not provide precise indications as to the level of Galaxy Finco's adherence to the terms of the Indentures and Revolving Credit Facility Agreement.

Because of these limitations, the Group relies primarily on its IFRS results and uses Underlying EBITDA only supplementally. Investors are encouraged to evaluate each of the adjustments reflected in the presentation of Underlying EBITDA and consider whether each is appropriate. The information presented by Underlying EBITDA is unaudited and is not intended to and does not comply with the reporting requirements of the U.S. Securities and Exchange Commission.

***Net Working Capital***

Net Working Capital, as of any given balance sheet date, is defined as the sum of the following assets and liabilities: (i) deferred acquisition costs, minus (ii) deferred income, plus (iii) trade debtors, plus (iv) prepayments, minus (v) repairs cost provision, minus (vi) other tax, VAT, PAYE, NI payable, minus (vii) third party creditors, minus (viii) accrued expenses. Management believe that Net Working Capital provides useful information to investors about our operating liquidity for the following reasons: (a) it is among the measures used by the Board of Directors and management to evaluate our ability to fund short-term liquidity needs, and (b) it allows investors, among other things, to assess the extent to which sales carried on our balance sheet are sufficient to cover deferred acquisition costs and receivables

from direct debit customers. Net Working Capital should not be considered in isolation or as a substitute for measures of liquidity or cash flows reported in accordance with IFRS.

***Free Cash Flow***

Free Cash Flow represents Underlying EBITDA plus/(minus) the decrease/(increase) in Net Working Capital minus capital expenditures. Management believes that Free Cash Flow provides useful information to investors about our liquidity and cash flows for the following reasons: (a) management uses this measure to evaluate our ability to generate long-term value and (b) Free Cash Flow is frequently used by securities analysts, investors and other interested parties for valuation purposes or as a common measure to compare financial condition across years and financial condition across companies in the appliance care industry.

Free Cash Flow is not a measure of liquidity under IFRS and has limitations as an analytical tool, some of which are as follows:

- Free Cash Flow does not represent a reliable measure of cash flow available to service our debt, since a substantial majority of our Free Cash Flow is generated by and held in our Regulated Business, from which it can be extracted and upstreamed to the Issuers only in compliance with the regulatory capital requirements applicable to our insurance companies (principally DGI) within the Regulated Business and our dividend policy relating to DGI;
- Free Cash Flow does not represent the residual cash flow available for discretionary expenditures by us, since we have debt payment obligations and tax payment obligations that are not deducted from the measure;
- Free Cash Flow does not deduct cash flows used by the Group in other financing activities;
- Free Cash Flow does not deduct certain other items settled in cash; and
- other companies in the industries in which the Group operates may calculate Free Cash Flow differently, limiting its usefulness as a comparative measure.

Because of these limitations, the Group relies primarily on measures of liquidity and cash flows presented in accordance with IFRS and uses Free Cash Flow only supplementally. You are encouraged to evaluate our methodology for calculating Free Cash Flow and whether you consider it to be appropriate. In addition, in evaluating this APM, you should consider the types of events and transactions that are not reflected in Free Cash Flow and should not consider Free Cash Flow in isolation or as an alternative to net cash flows from operating activities or other measures of liquidity prepared in accordance with IFRS or as a reliable measure of our ability to service our debt.

***Underlying Cash Flow Available for Debt Service***

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 our policy of only paying dividends out of DGI's distributable reserves to the extent that an additional prudential buffer continues to be retained within DGI after giving effect to the proposed distribution).

Underlying Cash Flow Available for Debt Service is defined as the sum of (i) Free Cash Flow of the Non-Regulated Business, plus (ii) dividends that can be distributed by DGI over the amount of capital to be held for regulatory purposes plus the prudential buffer and by other members of the Regulated Business, plus (iii) certain payments from the Regulated Business to the Non-Regulated Business not included in (i) and (ii) above.

Underlying Cash Flow Available for Debt Service is presented because in management's view it provides investors with useful information about our ability to generate and extract cash flows from our various subsidiaries in order to make interest and principal payments on our debt, including the notes offered hereby. Underlying Cash Flow Available for Debt Service is not a measure of liquidity under IFRS and has limitations as an analytical tool, some of which are as follows:

- Underlying Cash Flow Available for Debt Service does not represent the residual cash flow available for discretionary expenditures, particularly because it is a pre-tax measure and our various tax payment obligations are not deducted from such measure;
- Underlying Cash Flow Available for Debt Service does not deduct cash flows used in financing activities;

- Underlying Cash Flow Available for Debt Service is not a direct measurement of cash flows and attempts to derive and measure our ability to service debt from income statement data of the Regulated Business and Non-Regulated Businesses. Accordingly, Underlying Cash Flow Available for Debt Service does not directly correlate to the actual collection of cash. In addition, the calculation of the measure does not take into account changes in working capital of the Regulated Business that are otherwise factored in when calculating its net cash from operating activities;
- Underlying Cash Flow Available for Debt Service does not deduct certain other items settled in cash; and
- other companies in the industries in which we operate may calculate Underlying Cash Flow Available for Debt Service differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, the Group relies primarily on measures of liquidity and cash flows presented in accordance with IFRS and uses Underlying Cash Flow Available for Debt Service only supplementally. You are encouraged to evaluate our methodology for calculating Underlying Cash Flow Available for Debt Service and whether you consider it to be appropriate. In addition, in evaluating this APM, you should consider the types of events and transactions that are not reflected in Underlying Cash Flow Available for Debt Service and should not consider Underlying Cash Flow Available for Debt Service in isolation or as an alternative to net cash flows from operating activities or other measures of liquidity prepared in accordance with IFRS.

***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.

## C. FORWARD-LOOKING STATEMENTS

This financial review includes “forward-looking statements”, within the meaning of the U.S. securities laws and certain other jurisdictions, based on our current expectations and projections about future events, including:

- our ability to maintain our relationships with existing OEM and retailer partners and win contracts with new business partners;
- our ability to continue to renew automatically plans with customers who pay by direct debit;
- our reliance on a limited number of major business partners;
- our ability to expand in international markets;
- the impact of regulations on us and our operations and the possibility of future regulatory changes;
- the competitive environment in which we operate;
- general economic trends and trends in the appliance care services industry;
- our strategy, outlook and growth prospects;
- changes to our repair cost ratios and expectations of future repair costs;
- the management and performance of our investment portfolio;
- risks related to conducting operations in several different countries;
- our ability to maintain an effective system of internal controls over financial reporting;
- our operational and financial targets;
- our liquidity, capital resources and capital expenditure;
- our ability to maintain data security and comply with data protection laws;
- exchange rate fluctuations;
- our ability to attract and retain key personnel;
- risks related to our structure;
- our high degree of leverage and significant debt service obligations, as well as our ability to generate and upstream sufficient cash flow to service our debt;
- the effect of operating and financial restrictions in our debt instruments;
- other risks associated with our structure, our financial profile, the Notes and our other indebtedness factors discussed or referred to in the offering memorandum, including those set forth under the section thereof entitled “Risk Factors”, to the extent not superseded or amended hereby;
- other factors discussed or referred to in the offering memorandum, including those set forth under the section thereof entitled “*Risk Factors*”, to the extent not superseded or amended hereby; and
- other factors discussed or referred to in the financial review of the consolidated financial statements (unaudited) of Galaxy Finco Limited for the year ended 31 March 2018, including those set forth under the section thereof entitled “*Risk Factors*”.

All statements other than statements of historical facts included in this financial review, including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures and our plans and objectives for future operations, may be deemed to be forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, including those identified under the “Risk Factors” section in the offering memorandum. Words such as “believe”, “expect”, “anticipate”, “may”, “assume”, “plan”, “intend”, “will”, “should”, “estimate”, “risk” and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. In addition, from time to time we or our representatives, acting in respect of information provided by us, have made or may make forward-looking statements orally or in writing and these forward-looking statements may be included in but are not limited to press releases (including on our website), reports to our security holders and other communications. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the

cautionary statements referred to above and contained elsewhere in this financial review or in the consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2018, or in the offering memorandum, including those set forth under the section thereof entitled “Risk Factors”.

The risks described in the “Risk Factors” section in the offering memorandum and in the financial review of the consolidated financial statements (unaudited) of Galaxy Finco Limited for the year ended 31 March 2018 are not exhaustive. Other sections of this financial review describe additional factors that could adversely affect our business, financial condition or results of operations. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

## D. CERTAIN DEFINITIONS

Unless indicated otherwise in this financial review or the context requires otherwise:

- all references to the "Completion Date" are to the date on which the Acquisition was consummated, being December 19, 2013;
- all references to "DGI" are to Domestic & General Insurance Plc, a limited liability company incorporated under the laws of England and Wales;
- all references to "DGS" are to Domestic & General Services Limited, a limited liability company incorporated under the laws of England and Wales;
- all references to the "Domestic & General Group" are to Galaxy Finco Limited (a limited company incorporated under the laws of Jersey) and its consolidated subsidiaries;
- all references to the "Fixed Rate Senior Secured Notes Indenture" are to the indenture governing the Senior Secured Notes Issuer's 6.375% Senior Secured Notes due 2020;
- all references to the "Floating Rate Senior Secured Notes Indenture" are to the indenture governing the Senior Secured Notes Issuer's Floating Rate Senior Secured Notes due 2020;
- all references to "Group", "we", "us" or "our" are to the Senior Notes Issuer and its consolidated subsidiaries from time to time, including the Domestic & General Group from the Completion Date;
- all references to the "Guarantors" are to the Senior Secured Notes Guarantors and the Senior Notes Guarantors, collectively;
- all references to "IFRS" are to the International Financial Reporting Standard as adopted by the European Union;
- all references to the "Indentures" are to the Senior Secured Notes Indentures and the Senior Notes Indenture;
- all references to the "Issuers" are to the Senior Secured Notes Issuer and the Senior Notes Issuer, collectively;
- all references to the "Revolving Credit Facility" are to the £100.0m revolving facility made available under the Revolving Credit Facility Agreement;
- all references to the "Revolving Credit Facility Agreement" are to the revolving credit facility agreement dated August 13, 2013 (as amended and restated from time to time) between (among others) the Senior Secured Notes Issuer (as original borrower), the Senior Notes Issuer, Goldman Sachs Lending Partners LLC, Barclays Bank PLC, Credit Suisse AG, London Branch, BNP Paribas Fortis SA/NV, Morgan Stanley Senior Funding Inc., Société Générale, London Branch, UBS AG, London Branch, Mizuho Bank, Ltd., National Westminster Bank plc (as lenders) and The Royal Bank of Scotland plc (as facility agent and security agent) as the same may be further amended from time to time;
- all references to the "Non-Regulated Business" are to the entities comprising the Domestic & General Group other than those comprising the Regulated Business;
- all references to the "Offering Memorandum" are to the offering memorandum of Galaxy Bidco Limited and Galaxy Finco Limited dated October 24, 2013;
- all references to the "PoS Trust" are to the English law trust fund (as the same be amended from time to time) established by Domestic & General Services Limited on June 17, 2010 to secure expected future claims in respect of its warranty plans sold through retailers, other third parties or sold directly, and/or any other similar trusts or arrangements established from time to time and/or any successors thereof;
- all references to the "predecessor Group" are to Domestic & General Group Holdings Limited and its consolidated subsidiaries prior to the Completion Date;
- all references to the "successor Group" are to Galaxy Finco Limited and its consolidated subsidiaries subsequent to the Completion Date;
- all references to the "Regulated Business" are to Domestic & General Acquisitions Limited and the entities owned, directly or indirectly, by Domestic & General Acquisitions Limited including Domestic & General Group Limited (our EEA insurance parent undertaking), Domestic & General Insurance Services Limited (a UK regulated non-investment insurance intermediary), Inkfish Financial Services Limited (a UK regulated non-investment insurance intermediary), DGI (our UK regulated insurance company) and DGI's international insurance branches in Germany, Spain, France and Australia, together with the Italian, Spanish and German service companies (which are not insurance companies and are not subject to regulatory capital requirements).

- all references to the “Senior Notes Indenture” are to the indenture governing the Senior Notes Issuer’s 7.875% Senior Notes due 2021;
- all references to the “Senior Secured Notes Indentures” are to the Fixed Rate Senior Secured Notes Indenture and Floating Rate Senior Secured Notes Indenture.