Domestic
& General

GALAXY FINCO LIMITED
(Registered in Jersey No. 113706)

RESULTS FOR THE YEAR ENDED
31 March 2019
(Unaudited)

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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 consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2019 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 2019.

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 2019, 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. BUSINESS REVIEW

In Customer First we set ourselves the ambitious challenge of transforming our business and culture to focus first and foremost on delivering an excellent customer experience, underpinned by changes in our products, operations, systems and culture. We have delivered across all of these objectives with the key elements of our plan substantively completed on schedule. In addition, the business has continued to build on its track record of organic growth with another year of strong financial performance, that, combined with our operational delivery, has established the foundation for sustained, profitable growth both in the UK and internationally.

A strong culture at the heart of everything we do

Our Mission and Vision are supported by five simple values underpinned with a set of behaviours that put the customer at the heart of everything we do. Our Momentum Plan sets out the actions that demonstrate our commitment to culture change, including a new behaviour rating for every colleague. The plan has been embraced by our colleagues and is reflected in a substantially improved engagement score. I would like to take this opportunity to thank our colleagues for rising to the challenge of delivering such an ambitious and far-reaching transformation agenda.

Customer First transformation completed

We have now completed our programme to transition of all our legacy Discretionary Service plans to Maintenance or Insurance plans and within these categories, simplified our products into three core ranges: Product Care, Replacement Care and Repair & Care.

This two-year transition programme has involved unprecedented collaboration across our product design, call centre, training, IT, legal, regulatory and finance teams, all of whom have also worked in collaboration with our OEM, retail and affinity Partners to ensure that Customer First is fully embedded within their service and sales teams. The improvements in product simplicity and transparency of entitlements has helped drive measurable improvements in customer satisfaction, advocacy and complaints. With one-third of our customers making a claim each year, these improvements highlight our strong and clear value proposition.

Strengthening and broadening Partner relationships

Building on last year's contract renewals with our key Partners, we renewed a number of additional Partner contracts during 2019. Partnerships are at the heart of our business model and we have continued to push forward with multiple initiatives to realise the mutual benefits of Customer First.

We significantly enhanced our third-party agent training programme through a combination of online and classroom training content, developed and delivered by our network of trainers, to ensure that Partner sales teams operate to the same high standards that we expect from our own contact centres. As a result, all of our Partner agent teams are now actively selling our new products. Feedback from the process has been very encouraging with agents positive about the simplicity of the products and sales scripts.

In addition to training Partner agents, we also launched:

I. our own online Repair & Replacement platform with OEM partners, delivering a step change in the ease and convenience with which customers can order replacement products under their plans (driving a 3% improvement in the Repair NPS and a 14% fall in like for like complaints volumes);
II. a new sales channel with Sky whereby Sky engineers are able to showcase our products to customers on repair visits; and
III. co-branded marketing communications with our newest partner Scottish Power.

Established foundations for delivering an online-first customer experience – DGX

As part of Customer First, we have begun a wide-ranging programme of building the capabilities to deliver an online first experience for our customers. The foundations of Domestic & General Experience ('DGX'), modernising the customer journey and utilising our digital platform, enabling us for a smart future, have now been established.

During the year we successfully launched D&G@Home, our customers' portal into their D&G services, enabling online booking of repairs and replacements, both of which have driven improvements in NPS and reduced call volumes. The customer portal also provides rich and useful OEM-designed content at no extra cost, so that customers can access appliance-specific maintenance details.

DGX is an ongoing programme requiring the same level of cross-business collaboration as Customer First but with the foundations now established, we are confident that delivering this digital shift in our business will further improve customer service, grow loyalty and reduce operating costs.

Risk culture and regulatory focus embedded across the business
A key achievement of our transformation and a major focus during the year was to improve our customer proposition and ensure that D&G continues to provide products that are consistent with current and future regulation. We strengthened our team with the appointment of Tom Hughes as Chief Risk Officer, reporting directly to the CEO; and the creation of a Group Risk Committee to drive governance and oversight across the business. As a result, we have driven strong and continuing engagement with our regulators.

Building blocks in place to drive growth in International
The building blocks to drive growth in International is by replicating our successful UK operating model which is now firmly established and includes:

I. a strong OEM led post-point-of-sale channel;
II. Partners incentivised to grow the base of subscription customers; and
III. a continuing stable point-of-sale business through the traditionally strong retail channels in Germany and Spain – our largest European markets.

During 2019 we successfully leveraged our UK OEM partner discussions through the Customer First transformation to extend many of those relationships to also cover Europe. As a result, we now have contractual pan-European relationships with the top five OEM Major Domestic Appliance brands by volume across our key markets, with each partner incentivised to deliver growth in post-point-of-sale registrations and subscription volumes.

We are seeing strong growth in registration (+4%) and conversion rates (+13%); as well as growth in subscription penetration (+21%) with retail Partners now also actively engaged.

The US market represents a significant market for our subscription-based products and we are pleased to have signed a letter of intent with one of our largest OEM partners to launch the D&G proposition in the US. We are now in contract negotiations, operational plans are at an advanced stage and we expect to launch to consumers in 2020.

Contact centre investment and leadership delivering improvements
Our UK contact centres are open 24 hours a day, 365 days a year and are manned by approximately 1,400 agents across ten specialist teams that handle approximately 16m inbound and outbound calls per year dealing with inbound and outbound sales, customer service, customer registration, repair related, soft service and technical help calls. We have invested significantly in transforming our contact centres through training, upgraded telephony systems, digital platform development and cutting-edge speech analytics technology. During the year we complemented this investment with a focus on the leadership and operational management of our contact centres in order to ensure a smooth transition to selling and servicing our new products. As a result, we are emerging out of the transition phase with lower attrition in call centre staff, improved sales conversion rates and a strong platform that will support our digital journey.

Executive Committee changes
We made a number of changes to strengthen our Executive Committee during the year, welcoming Mark Jenkins as Group General Counsel and Company Secretary; and expanding Nick Ulycz's role to that of Chief Operating Officer, including contact centre operations.

Strongly positioned to deliver sustainable growth and value
We have made significant progress in implementing our strategic priorities throughout the year whilst maintaining strong financial discipline and delivering revenue and profit growth. We have built on the core engines of our robust business model (high service, hard to replicate partnerships, subscription-based embedded growth and strong track record of secular growth) to create a platform for sustained and profitable growth in the UK and internationally.

3. FINANCIAL REVIEW

The year ended 31 March 2019 continued to demonstrate our track record of delivering profitable growth. Compared to the same period last year:

- ***Group underlying revenue increased 4.3% to £811.3m*** supported by the resilient UK subscription model and embedded growth in the UK from high renewal ratios; and new business growth
- ***Underlying EBITDA +2.3% to £100.8m*** 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 £70.0m (31 March 2018: £54.7m)*** with positive flows from regulated business

Group performance

Group underlying revenue increased by 4.3% for the year to 31 March 2019 to £811.3m (31 March 2018: £777.5m) 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 operating costs grew by 4.9%. Claims and repair costs grew by 9.7% 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 0.3% reflecting our focus on efficiency. As a result, underlying EBITDA increased by 2.3% for the year ended 31 March 2019 to £100.8m (31 March 2018: £98.5m).

Summary underlying financials

	Year ended 31 March		*% Change*
£m's	**2019**	**2018**	
UK	**720.1**	658.0	*9.4%*
International	**151.6**	160.7	*(5.6%)*
Sales	**871.7**	818.7	*6.5%*
UK	**664.3**	624.6	*6.4%*
International	**147.0**	152.9	*(3.9%)*
Underlying Revenue [1,2,3]	**811.3**	777.5	*4.3%*
Claims and repair costs	**(367.8)**	(335.2)	*(9.7%)*
Expenses	**(356.2)**	(355.3)	*(0.3%)*
Underlying Operating Costs [1,2,3]	**(724.0)**	(690.5)	*(4.9%)*
UK	**221.2**	215.6	*2.6%*
International	**35.5**	35.4	*0.3%*
Contribution [2,3]	**256.7**	251.0	*2.3%*
Underlying EBITDA [2,3]	**100.8**	98.5	*2.3%*
Margin	***12.4%***	*12.7%*	
Net debt	**358.4**	382.6	(6.3%)
Underlying cash flow available for debt service [3]	**70.0**	54.7	28.0%

[1] Underlying revenue and underlying operating costs differ from that within the income statement by £1.0m in the current year (2018: £7.0m) due to fair value adjustments. Details of the fair value adjustment can be found in Note 1 of the financial statements of Galaxy Finco Limited for the year ended 31 March 2019.

[2] Underlying revenue, underlying operating costs, contribution and underlying EBITDA are reconciled to their GAAP and GAAP derived equivalents on page 11.

[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 11. 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 9.4% year-on-year to £720.1m (31 March 2018: £658.0m), driven by continuing strong demand across all our distribution channels, and new business grew by 32.6% for the year ended 31 March 2019 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 £664.3m (31 March 2018: £624.6m), driven by renewals revenues of 7.8% to £497.8m (31 March 2018: £461.8m). 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 7.3% year-on-year reflecting our continued investment in customer service improvements.

International
International sales decreased by 5.6% to £151.6m (31 March 2018: £160.7m), as we refocus the business on building subscription sales, illustrated by the termination of a non-core retail contract in Spain related to mobile phones which are currently not the strategic focus of the Group, and partially offset by new business from a retail partner in Italy. The Group has also begun contractual negotiations for launching a subscription warranty model in the US, in conjunction with one of 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.

Income Statement

£m's	For the year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
Underlying revenue *	**811.3**	**777.5**	**204.4**	**196.9**
Repair costs	(367.8)	(335.2)	(100.8)	(86.4)
Commission and marketing fees *	(186.8)	(191.3)	(41.0)	(49.4)
Contribution	**256.7**	**251.0**	**62.6**	**61.1**
Investment income	1.8	2.0	0.5	0.4
Operating expenses	(157.7)	(154.5)	(43.4)	(38.3)
Underlying EBITDA	**100.8**	**98.5**	**19.7**	**23.2**
Depreciation and amortisation	(11.7)	(9.5)	(3.2)	(2.7)
Amortisation of acquisition intangible assets	(28.7)	(30.9)	(5.8)	(7.7)
Significant items	(15.2)	(41.2)	(3.9)	(38.6)
Finance costs	(51.4)	(52.9)	(13.2)	(13.7)
Income tax credit	(7.3)	3.7	(5.8)	5.5
Loss for the period	**(13.5)**	**(32.3)**	**(12.2)**	**(34.0)**

* 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 financial statements of Galaxy Finco Limited for the year ended 31 March 2019. Commission and marketing expenses also excludes internal acquisition costs.

£m's	For the year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
UK Sales	**720.1**	**658.0**	**192.7**	**185.2**
New Business	233.6	176.2	72.3	59.6
Renewals	486.5	481.8	120.4	125.6
International Sales	**151.6**	**160.7**	**36.3**	**39.1**
New Business	106.9	121.9	24.7	29.4
Renewals	44.7	38.8	11.6	9.7
Underlying Sales	**871.7**	**818.7**	**229.0**	**224.3**

£m's	For the year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
UK Underlying Revenue	**664.3**	**624.6**	**168.8**	**158.8**
New Business	166.5	162.8	41.9	39.9
Renewals	497.8	461.8	126.9	118.9
International Underlying Revenue	**147.0**	**152.9**	**35.5**	**38.1**
New Business	105.7	115.7	24.8	28.4
Renewals	41.3	37.2	10.7	9.7
Underlying Revenue	**811.3**	**777.5**	**204.4**	**196.9**

Year Ended 31 March 2019, compared with Year Ended 31 March 2018

Underlying Revenue increased by £33.8m, or 4.3%, to £811.3m. The increase in total revenue was due to a 6.4% increase in UK revenue as a result of increased renewals (£36.1m), which was partially offset by a 3.9% decrease in International revenue.

Repair Costs increased by £32.6m, or 9.7%, to £367.8m. Expressed as a proportion of underlying revenue of £811.3m and £777.5m respectively, repair costs have increased by 2.2 percentage points to 45.3%. 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 £4.5m, or 2.4%, to £186.8, in line with revenue growth. Acquisition costs as a percentage of underlying revenue was 23.0% (2018: 24.6%) and the reduction since 2018 reflects our advantageous fixed return contracts and ability to recover increased repair costs from our Partners.

Investment Income decreased by £0.2m, or 10%, to £1.8m for the year ended 31 March 2019.

Operating Expenses increased by £3.2m, or 2.1%, to £157.7m for the year ended 31 March 2019, as a result of our investment in contact centres and customer service to support the transition to our new products.

Depreciation and amortisation increased by £2.2m, or 23.2%, to £11.7m for the year ended 31 March 2019, 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 £28.7m for the year ended 31 March 2019. Significant items of £15.2m for the period ended 31 March 2019 (31 March 2018: £41.2m) 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 £1.5m, or 2.8%, to £51.4m for the period ended 31 March 2019, 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 £17.5m for the year ended 31 March 2019, due to interest being rolled up in the carrying amount of the loan.

Income tax charge increased by £11.0m to £7.3m for the year ended 31 March 2019 (2018: £3.7m tax credit). Our effective tax rate on profits before significant items and amortisation for the year ended 31 March 2019 and 2018 was 31.6% and 6.1% respectively.

Loss for the period as a result of the factors described above, decreased by £18.8m, to £13.5m for the year ended 31 March 2019 (31 March 2018: loss £32.3m).

Loans and borrowings

£m's	For the year ended 31 March	
	2019	**2018**
Third party debt		
6.375% Senior Secured Notes due 2020	**200.0**	200.0
Senior Secured Floating Rate Notes due 2019	**-**	-
Senior Secured Floating Rate Notes due 2020	**150.1**	150.1
7.875% Senior Notes due 2021	**125.0**	125.0
	475.1	475.1
Shareholder debt		
10% Loan due to Parent Company	**187.9**	170.5
Financing costs	**(4.2)**	(6.4)
Total loans and borrowings	**658.8**	639.2

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 Group has a revolving bank facility of £100.0m (31 March 2018: £100.0m) with the maturity date extended to 1 November 2020, of which £10.0m (31 March 2018: £23.0m) is allocated to a letter of credit. £90.0m of the facility was unutilised at the end of the period (31 March 2018: £77.0m), and of this £3.0m (31 March 2018: £3.0m) is currently available as a same day drawdown money market facility. During the period, £0.4m (31 March 2018: £0.8m) 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:

£m's	For the year ended 31 March	
	2019	**2018**
Third party debt	**475.1**	475.1
Unrestricted cash reserves	**(116.7)**	(92.5)
Total net debt	**358.4**	382.6

Total net debt has deceased since last year mostly due to 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 £51.4m (31 March 2018: £52.9m) relate to the servicing of the Group's debt and can be broken down as follows:

£m's	For the year ended 31 December	
	2019	**2018**
Current Debt Structure		
6.375% Senior Secured Notes due 2020#	**12.7**	12.8
Senior Secured Floating Rate Notes due 2020#	**7.2**	10.4
7.875% Senior Notes due 2021#	**9.8**	9.8
Finance charges – amortisation of deferred financing costs	**4.2**	3.8
10% Loan due to Parent Company	**17.5**	16.1
Total finance costs	**51.4**	52.9

Includes £9.5m (2018: £9.8m) 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:

	As at 31 December	
£m's	**2019**	**2018**
Solvency II capital resources	144	115
Solvency II capital requirement	56	54
Solvency ratio	**256%**	213%

The qualifying capital resources of £144.0m (31 March 2018: £114.6m) held by DGI at 31 March 2019 comfortably exceeded its capital requirements of £56.2m (31 March 2018: £53.7m), a regulatory solvency ratio of 256.2% (31 March 2018: 213.4%).

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: As a result of the formal extension of the Article 50 deadline to 31 October 2019, we continue to review options to mitigate against a Hard Brexit in light of the broader context of the ongoing Brexit process between the UK and the EU, including potential for a court-approved Part VII transfer of our EU businesses into our licenced German insurance entity. An exceptional one-off capitalisation of the new entity may be required at the point of transfer dependent upon the length and nature of any transitional arrangements, and the precise timing and scope of transfer. However, over the medium term, we do not expect aggregate capital requirements for the Group 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 31 to the consolidated financial statements for the year ended 31 March 2019. 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.

£m's	For the year ended 31 March	
	2019	**2018**
Cash flow available for debt service (CFADS)		
Underlying EBITDA	**62.5**	45.8
Working capital movements	**(19.3)**	(9.7)
Capital expenditure	**(19.9)**	(19.3)
Free cash flow from unregulated business	**23.3**	**16.8**
Regulated profit after tax	**31.7**	45.8
Change in capital requirement	**(3.3)**	(4.5)
Change in capital resources	**15.5**	(9.5)
Distributable earnings from regulated business	**43.9**	**31.8**
Other cash flows between regulated and unregulated	**2.8**	**6.1**
Underlying Cash flow available for debt service	**70.0**	54.7
Underlying cash conversion	***69.4%***	*55.5%*

The unregulated business EBITDA growth has been driven by strong trading performance, while the working capital movement reflects net investment in accelerated unwind of extended cover term policies book; and net investment from growth in flexible monthly products resulting in higher subscription plans and customer benefits.

The Regulated business distributable earnings reflect:

- investment in improved levels of cover,
- new business strain from growth in subscription book;
- irrecoverable VAT; and
- increase in regulatory capital requirement offset by positive impact of profitable business volumes on Solvency II Own Funds

Outlook

The business has traded in line with our expectations during FY19. Having completed the Customer First transformation, we are seeing increasing traction from the operational initiatives we put in place to deliver sustained growth in the future. As a result, we are targeting mid to high single digit growth in revenues, initial margin dilution from Customer First investment and International New business strain with gradual margin expansion thereafter driven by operating leverage, and robust and improving cash flow generation over the medium term.

As previously announced, the Group and its shareholders (CVC) continue to explore strategic options for the business to support further development and growth, including the possibility of an IPO, which we would expect to include a redemption of all outstanding bonds.

Non-GAAP alternative performance measures reconciliation

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

£m	For the year ended 31 March 2019	2018	% Change
Revenue	**810.3**	770.5	5.2%
Fair value adjustment arising from acquisition	**1.0**	7.0	(85.7%)
Underlying revenue	**811.3**	777.5	4.4%
Operating costs	**766.9**	755.6	1.5%
Fair value adjustment arising from acquisition	**1.0**	7.0	(85.7%)
Amortisation of acquisition intangibles	**(28.7)**	(30.9)	(7.1%)
Significant items	**(15.2)**	(41.2)	(63.1%)
Underlying operating costs	**724.0**	690.5	4.9%
Underlying revenue	**811.3**	777.5	4.4%
Claims and repair costs	**(367.8)**	(335.2)	9.7%
Third party commission and marketing expenses	**(186.8)**	(191.3)	(2.3%)
Contribution	**256.7**	251.0	2.3%
Operating profit	**43.4**	14.9	191.3%
Amortisation of acquisition intangibles	**28.7**	30.9	(7.1%)
Depreciation and amortisation	**11.7**	9.5	23.2%
EBITDA	**83.8**	55.3	51.5%
Investment income	**1.8**	2.0	(10.0%)
Significant items	**15.2**	41.2	(63.1%)
Underlying EBITDA	**100.8**	98.5	2.3%

4. SOURCES AND USES OF LIQUIDITY AND CAPITAL

Cash flows

£m's	For the year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
Net cash from operating activities	-	4.6	8.9	13.7
Net cash (used in)/from investing activities	7.8	34.7	(10.5)	12.2
Net cash used in financing activities	(1.4)	(27.1)	(0.2)	(26.5)
Net (decrease)/increase in cash and cash equivalents	**6.4**	**12.2**	**(1.8)**	**(0.6)**
Cash and cash equivalents at the beginning of the period	**40.9**	**30.1**	**49.5**	**42.2**
Effects of exchange rates	-	(1.4)	-	(0.7)
Cash and cash equivalents at the end of the period	**47.3**	**40.9**	**47.7**	**40.9**
Investments	126.4	155.0	1.0	155.0
Cash and cash equivalents and investments at the end of the period	**173.7**	**195.9**	**48.7**	**195.9**

Net cash from operating activities. Net cash used in operating activities was nil for the year ended 31 March 2019, a reduction of £4.6m from the cash generated from operating activities at 31 March 2018. 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 £7.8m for the year ended 31 March 2019, a decrease of £26.9m driven by capital investments in our contact centres and digital capability, and withdrawals from money market funds in 2018 as part of our investment and cash flow management strategy.

Net cash used in financing activities. There was a net cash outflow from financing activities of £1.4m in FY19 reflecting the payment of costs from the refinancing of the Senior Secured Floating Rates notes due in 2019 at the end of 2018. The outflow of £27.1m in 2018 was attributable to the partial redemption of £24.9m of the 2019 Notes as part of the refinancing.

The total of cash and cash equivalents and investments as at 31 March 2019 was £173.7m. At 31 March 2019, we estimate that the Group had unrestricted cash reserves of approximately £116.7m (31 March 2018: £92.5m).

Net working capital

£m's	For the year ended 31 March	
	2019	2018
Deferred income *	(716.5)	(662.9)
Deferred acquisition costs *	243.1	243.5
Net deferred income	**(473.4)**	**(419.4)**
Trade debtors	**506.8**	**424.2**
Other working capital balances	**(142.0)**	**(151.3)**
Accrued income	84.8	79.4
Repairs cost provision and others	(26.3)	(24.3)
Third party creditors	(78.0)	(82.1)
Accruals	(66.8)	(69.0)
Other tax, VAT, PAYE, NI payable	(55.7)	(55.3)
Net working capital	**(108.6)**	**(146.5)**

* 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 consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2019.

As of 31 March 2019, our net working capital was (£108.6m), (£37.5m) of which was the Regulated Business's net working capital and (£71.1m) 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 March 2019 compared to the same period in 2018, 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 year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
IT Hardware and Software	18.0	17.1	5.3	4.9
United Kingdom, other	2.5	2.6	1.6	0.5
International, other	0.1	0.4	0.1	0.1
Total	**20.6**	**20.1**	**7.0**	**5.5**

5. FREE CASH FLOWS

£m's	For the year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
Underlying EBITDA	**100.8**	**98.5**	**19.7**	**23.2**
Outflow in net working capital	**(32.2)**	**(40.9)**	**1.5**	**1.8**
*Movement in deferred acquisition costs**	(1.2)	(13.1)	1.4	(3.0)
*Movement in deferred income **	56.9	40.7	23.7	26.3
Movement in trade and other receivables	(94.0)	(80.1)	(39.3)	(26.6)
Movement in claims and repair cost provision	2.2	0.1	(0.3)	(4.0)
Movement in trade and other payables	3.9	11.5	16.0	9.1
Operating cash flow	**68.6**	**57.6**	**21.2**	**25.0**
Capital expenditure	(20.6)	(20.1)	(7.0)	(5.5)
Free Cash Flow	**48.0**	**37.5**	**14.2**	**19.5**

* 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 consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2019.

Free Cash Flow conversion in the year ended 31 March 2019 was 47.7% of Underlying EBITDA and higher than the year ended 31 March 2018 of 38.1% 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 year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
Adjusted EBITDA	62.5	45.8	13.7	9.6
Increase in Working capital	(19.3)	(9.7)	8.6	6.1
Capex	(19.9)	(19.3)	(6.6)	(5.3)
Free cash flow from Non-Regulated business	**23.3**	**16.8**	**15.7**	**10.4**

Distributable earnings from the Regulated business

£m's	For the year ended 31 March		For the quarter ended 31 March	
	2019	2018	2019	2018
Underlying EBITDA	38.3	52.7	6.0	13.6
Depreciation	(0.5)	(0.5)	(0.2)	(0.2)
Transfer pricing (Regulated to Non-Regulated)	0.3	1.6	0.5	0.4
Current tax	(6.4)	(8.1)	-	(0.1)
Deferred tax	-	0.1	0.1	-
Regulated business profit after tax	**31.7**	**45.8**	**6.4**	**13.7**
Change in Capital Requirement	(3.3)	(9.5)	17.0	(0.5)
Change in Capital Resource	15.5	(4.5)	(4.9)	(7.3)
Distributable earnings from Regulated business	**43.9**	**31.8**	**18.5**	**5.9**

6. CONSOLIDATED FINANCIAL STATEMENTS

GALAXY FINCO LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

		Year ended 31 March 2019			Year ended 31 March 2018		
	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
Revenue	6	**810.3**	**-**	**810.3**	770.5	-	770.5
Operating costs							
- Amortisation	7	**-**	**(28.7)**	**(28.7)**	-	(30.9)	(30.9)
- Other operating costs	7	**(722.6)**	**(15.2)**	**(737.8)**	(683.5)	(41.2)	(724.7)
- Impairment loss on financial assets	10	**(0.4)**	**-**	**(0.4)**	-	-	-
Operating profit/(loss)		**87.3**	**(43.9)**	**43.4**	87.0	(72.1)	14.9
Investment income	8	**1.8**	**-**	**1.8**	2.0	-	2.0
Finance costs	9	**(51.4)**	**-**	**(51.4)**	(52.9)	-	(52.9)
Profit/(loss) before taxation	10	**37.7**	**(43.9)**	**(6.2)**	36.1	(72.1)	(36.0)
Income tax (charge)/credit	13	**(11.9)**	**4.6**	**(7.3)**	(2.2)	5.9	3.7
Loss for the year				**(13.5)**			(32.3)

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

All business above is from continuing operations.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Note	**Year ended 31 March 2019 £m**	Year ended 31 March 2018 £m
Loss for the year		**(13.5)**	(32.3)
Currency translation differences		**0.1**	(0.3)
Loss on available-for-sale financial assets		**-**	(0.6)
Changes in fair value of investments through OCI		**(0.1)**	-
Effective portion of changes in fair value of cash flow hedges - hedging reserve		**-**	0.6
Total comprehensive loss for the year	26	**(13.5)**	(32.6)

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

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

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

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2019

	Note	**31 March 2019 £m**	31 March 2018 £m
Assets			
Goodwill and intangible assets	15	**499.0**	517.9
Property, plant and equipment	14	**13.2**	12.4
Deferred acquisition costs	16	**243.1**	242.5
Financial investments	18	**126.4**	155.0
- available-for-sale		**-**	100.5
- at amortised cost		**2.0**	-
- at fair value through other comprehensive income		**97.3**	-
- at fair value through profit and loss		**27.1**	18.8
- other loans and receivables		**-**	35.7
Trade and other receivables	20	**592.5**	504.1
Cash and cash equivalents	21	**47.3**	40.9
Total assets		**1,521.5**	**1,472.8**
Liabilities			
Loans and borrowings	24	**658.8**	639.2
Deferred tax liabilities	17	**30.7**	36.2
Deferred income	22	**716.5**	661.9
Claims and repair costs provision	23	**26.3**	24.3
Current tax liability		**1.5**	0.7
Trade and other payables	25	**200.5**	206.4
Total liabilities		**1,634.3**	1,568.7
Equity			
Share capital		**89.9**	89.9
Other reserves		**0.2**	0.2
Accumulated loss		**(202.9)**	(186.0)
Total equity	26	**(112.8)**	(95.9)
Total equity and liabilities		**1,521.5**	1,472.8

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AT 31 MARCH 2019

	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)**
Impact of initial application of IFRS 9	**-**	**-**	**-**	**-**	**(4.2)**	**(4.2)**
Tax impact on application of IFRS 9	**-**	**-**	**-**	**-**	**0.8**	**0.8**
Restated balance at 1 April 2018	**0.9**	**89.0**	**-**	**0.2**	**(189.4)**	**(99.3)**
Loss for the year	**-**	**-**	**-**	**-**	**(13.5)**	**(13.5)**
Other comprehensive income/ (loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 March 2019	**0.9**	**89.0**	**-**	**0.2**	**(202.9)**	**(112.8)**

	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/ (loss) 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)

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

	Note	**Year ended 31 March 2019 £m**	Year ended 31 March 2018 £m
Loss before tax		**(6.2)**	(36.0)
Adjustments for:			
Depreciation of property, plant and equipment	14	**3.3**	3.4
Amortisation of software	15	**8.4**	6.1
Amortisation of acquired intangible assets	7	**28.7**	30.9
Revaluation of land and buildings	14	**(0.9)**	-
Interest expense	9	**51.4**	52.9
Interest income	8	**(1.8)**	(2.0)
Significant items - other operating costs	7	**15.2**	41.2
Impairment loss on financial assets	10	**0.4**	-
		98.5	96.5
Changes in working capital			
Increase in deferred acquisition costs		**(2.2)**	(20.1)
Increase in trade and other receivables		**(94.0)**	(80.1)
Increase in deferred income		**57.9**	47.7
Increase in claims and repair costs provision		**2.2**	0.1
Increase in trade and other payables		**3.9**	11.5
Cash flows from operating activities		**66.3**	55.6
Significant items		**(23.9)**	(9.5)
Interest received from cash and cash equivalents		**0.7**	0.4
Interest paid		**(31.9)**	(34.5)
Income taxes paid		**(11.2)**	(7.4)
Net cash from operating activities		**-**	4.6
Cash flows from investing activities			
Interest received on investments		**1.2**	1.8
Acquisition of property, plant and equipment		**(2.3)**	(6.0)
Acquisition of software		**(18.2)**	(14.1)
Withdrawal from credit institutions		**33.6**	11.7
(Deposit with)/withdrawal from money market funds		**(8.3)**	39.4
Financial instrument investments		**1.8**	1.9
Net cash from investing activities		**7.8**	34.7
Cash flows from financing activities			
Refinancing and redemption of Secured Floating Rate Notes		**-**	(26.3)
Amounts paid to group undertakings		**(1.0)**	(0.8)
Repayment of bank loan		**(0.4)**	-
Net cash used in financing activities		**(1.4)**	(27.1)
Net increase in cash and cash equivalents		**6.4**	12.2
Effects of exchange rates		**-**	(1.4)
Cash and cash equivalents at beginning of the year		**40.9**	30.1
Cash and cash equivalents at the end of the year	21	**47.3**	40.9

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

Notes to the Financial Statements

1. General Information

Galaxy Finco Limited is a private Company incorporated in Jersey and the Company's registered office address is 27 Esplanade, St Helier, Jersey JE4 8PS. These consolidated financial statements for the year to 31 March 2019 comprise the Company and its subsidiaries (together referred to as the 'Group'). The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

2. Statement of Compliance

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

3. Basis for preparation

The financial statements are presented in pounds Sterling and are rounded to the nearest one hundred thousand pounds. They are prepared on the historical cost basis except for financial instruments which are held at fair value through profit or loss and financial instruments and freehold buildings which are held at fair value through other comprehensive income (unless this is a reversal of a previous loss reported through the income statement).

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

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

New, amended and revised Standards and Interpretations

The following amendments to accounting standards have been adopted by the Group:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

IFRS 9 addresses the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Following implementation of IFRS 9, financial assets previously classified as available for sale and loans and receivables, are now classified as fair value through other comprehensive income (OCI) and amortised cost respectively. As permitted by IFRS 9, comparative information has not been restated and as a result, balance sheet amounts as at 31 March 2018 have been accounted for in accordance with the previous policy under IAS 39. The measurement basis under IFRS 9 remains the same as that under the previous standard and under the new impairment model, the simplified approach permitted for trade receivables has been applied which requires expected lifetime losses to be recognised from initial recognition. For financial investments, consisting of debt securities that are considered to have low credit risk at the reporting date, 12-month expected credit losses are recognised at initial recognition. The impact of this change to impairment is highlighted in note 31 (b).

IFRS 15 establishes principles that an entity should apply to report information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Appliance care contracts, whether service plan or insurance, are accounted for under IFRS 4: Insurance Contracts, as the definition of an insurance contract under IFRS 4 extends to all trading products issued by the Group. As IFRS 4 currently applies to the Group, IFRS 15 does not have an impact on the financial statements of the Group.

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

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

IFRS 16	Leases
IFRS 17	Insurance Contracts
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 2	Classification and Measurements of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 40	Transfers of Investment Property
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

At 31 March 2019, the amendments highlighted above for IFRS 2, 10 and IAS 19, 28 and 40 have been assessed as not applicable to the Group and therefore have no impact. The Group's analysis as to the impact that IFRS 16 and 17 will have on the financial statements for future reporting periods has concluded the following:

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

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

On adoption of IFRS 16, the Group will recognise lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases (principally leases for office buildings). These liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate assessed for each lease that was capitalised.

In applying IFRS 16 for the first time, the Group will apply the following practical expedients permitted by the standard:

- to 'grandfather' the assessment of which transactions are leases
- expensing operating leases that are short term leases i.e. with a term of 12 months or leases and low value leases

The group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease.*
The Group will adopt IFRS 16 *Leases* for the financial year commencing 1st April 2019 and will restate the comparative (financial year ended 31 March 2019) using the fully retrospective approach. The estimated impact of applying IFRS 16 on the year ended 31 March 2019 will be to decrease Shareholders' equity by £2.1m, increase Right-of-Use asset by £7.4m, lease liability by £9.5m, decrease operating costs by £3.8m, and increase depreciation and interest expense by £2.9m and £0.5m respectively.

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

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

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

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

4. Summary of significant accounting policies

A. Basis of consolidation

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

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

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

B. Sales, revenue and deferred income

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

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

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

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

C. Significant items

Significant items are those items that are material and not indicative of underlying trading due to the nature of the costs and/or their non-recurring nature and are disclosed separately to assist in the understanding of the financial performance of the Group.

D. Acquisition costs

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

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

E. Finance costs

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

F. Employee benefits

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

G. Income tax

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

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

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

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

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

H. Provisions

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

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

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable, or the amount cannot be reasonably estimated.

I. Investments and other financial assets

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the historical financial information provided continues to be accounted for in accordance with the Group's previous policy under IAS 39.

i) Classification

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss),
- and those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

ii) Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three categories which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the income statement.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in investment income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the income statement.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as investment income when the group's right to receive payment is established.

Changes in the fair value of financial assets at FVTPL are recognised in the income statement.

iv) *Impairment*

From 1 April 2018, the Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group measures loss allowances at an amount equal to lifetime Expected Credit Loss (ECL), except in the following cases, for which the amount recognised is 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

Lifetime ECL is the ECL that results from all possible default events over the expected life of a financial instrument, whereas 12-month ECL is the portion of ECL that results from default events that are possible within the 12 months after reporting date.

In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and cash flows that the Group expects to receive; and
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets measured at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of loss allowances in the statement of financial position
Loss allowances for ECL are presented as follows:

- financial assets measured at amortised cost: the loss allowance is deducted from the gross carrying amount of the assets; and
- debt investments measured at FVOCI: the loss allowance is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position.

Write off
The gross carrying amount of a financial asset is written off (either partially in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

v) *Accounting policies applied until 31 March 2018*

Classification
Until 31 March 2018, the group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

Subsequent measurement
The measurement at initial recognition did not change on adoption of IFRS 9 (see description above).

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest rate method.

Available-for-sale financial assets and financial assets at FVTPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVTPL – in the income statement;
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in the income statement and other changes in the carrying amount were recognised in other comprehensive income; and
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to the income statement.

Impairment
The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset was impaired if objective evidence indicated that a loss event had occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that could be estimated reliably.

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

J. Financial liabilities

i) Classification

The Group classifies its financial liabilities, into one of the following categories:

- financial liabilities at FVTPL, and within this category as:
  - held-for-trading;
  - derivative hedging instruments; or
  - designated as at FVTPL; and
- financial liabilities at amortised cost.

ii) Recognition and derecognition

The Group recognises loans and borrowings on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

The Group generally derecognises a financial liability when its contractual obligations expire or are discharged or cancelled. The Group also derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the income statement.

If a financial liability measured at amortised cost is modified but not substantially, then it is not derecognised.

iii) Measurement

A financial liability is initially measured at fair value plus, for a financial liability not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Financial liabilities at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest expenses and foreign exchange gains and losses, are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments (see K below).

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

K. Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

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

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

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

L. Property, plant and equipment

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

The estimated useful economic lives are as follows:

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

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

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

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

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

M. Intangible assets

i) Goodwill

Goodwill arises on the acquisition of subsidiaries and when the acquisition method of accounting for business combinations is applied. Goodwill represents the excess of the consideration transferred over the Group's interest in the net fair values of the net identifiable assets.

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

ii) Intangible assets acquired in a business combination

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

iii) Other intangible assets

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

iv) Subsequent expenditure

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

v) Amortisation

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

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

vi) Impairment

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

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

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

N. Cash and cash equivalents

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

O. Foreign currencies

i) Foreign operations

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

ii) Foreign currency transactions

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

P. Interest-bearing borrowings

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

Q. Leases

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

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

5. Critical estimates and Judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are highlighted below:

i. Estimate: Measurement of recoverable amount of goodwill contained in cash-generating units ('CGUs') (Note 15)

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

ii. Judgement: Prepayments and receivables

Material prepayments and receivables are assessed based on management's judgements on the future recoverability of these balances in accordance with forecast financial information, agreed contractual terms, and with regards to the credit worthiness of the specific counterparty.

iii. Judgement: Impairment of financial assets
The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in determining these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions, other external factors and forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 31 (b).

iv. Judgement relating to earning patterns
For sales arising on appliance care service plans and insurance business, judgement is required in selecting appropriate earnings patterns for the business underwritten and associated acquisition costs, in particular for contracts where there is uncertainty in respect of the risk profile. Earnings patterns are determined with reference to the inception and expiry dates of the policies concerned and the expected risk pattern of the policy.

6. Revenue

	Year ended 31 March 2019		
	Maintenance plans £m	**Insurance £m**	**Total £m**
Sales	**440.1**	**431.6**	**871.7**
Deferred income movement	**65.9**	**(126.3)**	**(60.4)**
	506.0	**305.3**	**811.3**
Fair value adjustment			**(1.0)**
Revenue			**810.3**

	Year ended 31 March 2018		
	Maintenance 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. This fair value adjustment fully reversed during the current financial year.
In addition to the fair value adjustments to revenue, operating costs are stated net of the fair value adjustment to DAC of £1.0m (31 March 2018: £7.0m).

7. Significant items and amortisation of intangible assets

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Amortisation of intangible assets acquired in a business combination	**(28.7)**	(30.9)
Strategic review project	**(8.7)**	-
Restructuring costs	**0.2**	(3.9)
Brexit costs	**(4.4)**	-
Product transition costs	**(2.3)**	(37.3)
	(43.9)	(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 in 2013.

The Strategic Review project is a formal project following the decision by the Group's shareholders (funds managed and advised by CVC Advisors Limited) to review their ownership options. The Group has incurred advisory and corporate costs in continuing to review the strategic options for the Group.

As a result of the formal extension of the Article 50 deadline to 31 October 2019, we continue to review options to mitigate against a Hard Brexit in light of the broader context of the ongoing Brexit process between the UK and the EU, including potential for a court-approved Part VII transfer of our EU businesses into our licenced German insurance entity. An exceptional one-off capitalisation of the new entity may be required at the point of transfer dependent upon the length and nature of any transitional arrangements, and the precise timing and scope of transfer. However, over the medium term, we do not expect aggregate capital requirements for the Group to increase significantly. Project costs incurred principally relate to the Independent Expert in respect of potential Part VII transfer activity, 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 relate to costs incurred in the restructuring of elements of our business.

8. Investment income

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest income on loans and receivables	**1.8**	2.0

9. Finance costs

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest payable on loans and borrowings	**29.7**	33.0
Interest payable on shareholder loans and borrowings	**17.5**	16.1
Finance charges - amortisation of deferred financing costs	**4.2**	3.8
	51.4	52.9

10. Loss before taxation

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
The following items have been included in arriving at the loss before taxation (excluding those already disclosed in note 7):		
Employee costs (note 12)	**102.9**	101.2
Auditor's remuneration (note 11)	**0.5**	0.4
Depreciation of property, plant and equipment (note 14)	**3.2**	3.4
Amortisation of software (note 15)	**8.4**	6.1
Operating lease rental payments (note 27a)	**4.2**	4.2
Sub-lease income (note 27a)	**(0.6)**	(0.5)
Repairs and maintenance expenditure on property, plant and equipment	**10.7**	9.0
Repairs and claims costs	**367.8**	335.2
Acquisition costs	**203.6**	199.9
Research and development costs	**4.2**	3.1
Impairment loss on financial assets	**0.4**	-

11. Services provided by the Group's auditor and its network firms

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Audit of the Group's financial statements	**0.1**	0.0
Audit of the subsidiary financial statements	**0.3**	0.3
Audit related assurance *	**0.3**	0.1
Total audit and audit related assurance fees	**0.7**	0.4

'* Includes other assurance work performed of £0.3m (2018: £nil) that is included in significant items in note 7 within the Strategic Review project.

12. Employee costs

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
(a) Staff costs for the Group during the period		
Wages and salaries	**88.5**	87.6
Social security costs	**9.8**	9.5
Other pension costs	**4.6**	4.1
	102.9	101.2

Included in staff costs is £6.6m (31 March 2018: £5.3m) that is treated as acquisition costs.

(b) Average number of employees during the period	**Number**	Number
Directors	**4**	4
Sales and marketing	**226**	233
Commercial finance and claims	**203**	295
Finance and administration	**480**	480
Contact Centres and IT	**2,055**	1,811
	2,968	2,823

13. Taxation

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Current tax expense		
Current tax on profit for the year	**(11.0)**	(2.1)
Adjustment to tax charge in respect of prior years	**(0.9)**	(0.1)
Total current tax	**(11.9)**	(2.2)
Deferred tax credit		
Origination/(reversal) of temporary differences	**(0.6)**	(0.2)
Tax effect of amortisation of intangible assets	**5.4**	5.5
Impact of rate change	**(0.2)**	0.6
Total deferred tax	**4.6**	5.9
Total income tax (charge)/credit	**(7.3)**	3.7

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Loss on ordinary activities before tax	**(6.2)**	(36.0)
Standard rate of corporation tax in the UK	**19%**	19%
	£m	£m
Loss on ordinary activities multiplied by the standard rate of corporation tax	**(1.2)**	(6.8)
Effects of:		
Change in UK corporation tax rate on timing differences	**0.2**	(0.6)
Items disallowable for tax purposes	**6.2**	1.8
Adjustment to tax charge in respect of prior years	**0.9**	0.1
Tax rate differences in branches	**0.5**	1.4
Tax rate differences in non-UK subsidiaries	**0.5**	0.2
Other	**0.2**	0.2
Total income tax charge/(credit)	**7.3**	(3.7)

Factors that may affect future tax charges

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

14. Property, plant and equipment

	Land and buildings £m	**Computer equipment £m**	**Fixtures, fittings and equipment £m**	**Total £m**
Cost				
At 1 April 2018	**2.2**	**15.8**	**10.8**	**28.8**
Revaluation	**0.9**	**-**	**-**	**0.9**
Additions	**-**	**0.8**	**2.6**	**3.4**
Disposals	**-**	**(0.2)**	**-**	**(0.2)**
Balance as at 31 March 2019	**3.1**	**16.4**	**13.4**	**32.9**
Depreciation				
At 1 April 2018	**-**	**12.1**	**4.3**	**16.4**
Charge for the year	**-**	**1.4**	**1.9**	**3.3**
On disposals	**-**	**-**	**-**	**-**
Balance as at 31 March 2019	**-**	**13.5**	**6.2**	**19.7**
Carrying amount at 31 March 2019	**3.1**	**2.9**	**7.2**	**13.2**

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

The Company's freehold property was valued in October 2018 by Colliers International Valuation UK LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Valuation standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom.

The revaluation exercise resulted in a revaluation surplus of £0.9m, which has been recognised against a historic net revaluation loss in the income statement.

The Directors consider the carrying value to be reflective of that valuation as at 31 March 2019.

15. Goodwill and intangible assets

	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	**-**	**-**	**-**	**18.2**	**18.2**
Balance as at 31 March 2019	**278.5**	**260.9**	**251.3**	**66.3**	**857.0**
Amortisation and impairment losses					
At 1 April 2018	**-**	**74.6**	**229.9**	**16.4**	**320.9**
Charge for the year	**-**	**17.4**	**11.3**	**8.4**	**37.1**
Balance as at 31 March 2019	**-**	**92.0**	**241.2**	**24.8**	**358.0**
Carrying amount at 31 March 2019	**278.5**	**168.9**	**10.1**	**41.5**	**499.0**

	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
On disposals	-	-	-	(0.2)	(0.2)
Balance as at 31 March 2018	278.5	260.9	251.3	48.1	838.8
Amortisation and impairment losses					
At 1 April 2017	-	57.2	216.4	10.4	284.0
Reclassification	-	-	-	0.1	0.1
	-	57.2	216.4	10.5	284.1
Charge for the year	-	17.4	13.5	6.1	37.0
On disposals	-	-	-	(0.2)	(0.2)
Balance as at 31 March 2018	-	74.6	229.9	16.4	320.9
Carrying amount at 31 March 2018	278.5	186.3	21.4	31.7	517.9

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

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

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

	2019	2018
	£m	£m
UK - Non-regulated business	**161.0**	161.0
UK - Regulated business	**104.6**	104.6
International	**12.9**	12.9
	278.5	278.5

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

The projected cash flows were discounted using a pre-tax discount rate of 8.9% at 31 March 2019 for all three CGUs and 8% at 31 March 2018 for the UK – Non-Regulated CGU, and 9% at 31 March 2018 for the UK-Regulated and International CGUs, which reflected current market assessments of the time value of money and the risks specific to the CGUs. Ten-year swap rates have been used as the basis for estimating the future cost of debt for the Group after applying Company specific adjustments.

Management used a long-term growth rate of 1.6% at 31 March 2019 and 3% at 31 March 2018 in extrapolating the forecasts beyond the period covered in the business plan model, reflecting the economic environment prevailing in the relevant markets. The growth rate in the forecast does not exceed the long-term average growth rate for the markets in which the UK and International CGUs operate.

The outcome of the impairment assessments for all balance sheet periods presented, is that goodwill in respect of the UK - Regulated, UK - Non-regulated and International CGUs is not impaired, and that the value in use is higher than the carrying value.

Sensitivities of key assumptions in calculating Value-in-Use (VIU)
The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. A cut in the long-term growth rate or a rise in the discount rate, taken in isolation, which would result in the recoverable amount being equal to the carrying amount (i.e. zero headroom), is presented below:

	2019	2018
Long-term growth rate for zero headroom:		
UK - Regulated	(19.5%)	(15.1%)
UK - Non-regulated	(35.9%)	(23.9%)
International	(53.1%)	(17.2%)
Discount rate for zero headroom:		
UK - Regulated	18.6%	18.1%
UK - Non-regulated	21.5%	19.9%
International	28.8%	20.6%

The assumptions supporting the recoverable amount are not sensitive to reasonably possible adverse changes in key assumptions for the CGUs for the remaining periods. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model such as the external range of discount rates observable, historical performance against forecast, and risks attaching to the key assumptions underlying cash flow projections.

16. Deferred acquisition costs

	2019	2018
	£m	£m
Balance at the start of the year	**242.5**	220.4
Arising in the year	**204.1**	222.0
Amortisation for the year	**(205.1)**	(197.9)
Foreign exchange	**1.6**	(2.0)
Balance at the end of the year	**243.1**	242.5
Split between:		
Amounts expected to be amortised in 12 months	**184.3**	178.2
Amounts expected to be amortised after 12 months	**58.8**	64.3
	243.1	242.5

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

See Note 6 for details on the fair value adjustment arising on acquisition.

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets 2019 £m	**Liabilities 2019 £m**	**Net 2019 £m**
Intangible assets	**-**	**(30.9)**	**(30.9)**
Capital allowances	**(0.2)**	**-**	**(0.2)**
Other temporary differences	**1.5**	**(1.1)**	**0.4**
	1.3	**(32.0)**	**(30.7)**

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

Movement in temporary differences during the period
Reductions in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) were enacted on 15 September 2016.

18. Financial investments

	FVOCI* 2019 £m	FVTPL** 2019 £m	Amortised cost 2019 £m	Total 2019 £m
Money market funds	**-**	**27.1**	**-**	**27.1**
Investments carried at fair value	**97.3**	**-**	**-**	**97.3**
Deposits with credit institutions	**-**	**-**	**2.0**	**2.0**
	97.3	**27.1**	**2.0**	**126.4**

	AFS*** 2018 £m	FVTPL** 2018 £m	Other loans and receivables 2018 £m	Total 2018 £m
Money market funds	-	18.8	-	18.8
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

* FVOCI - Fair value through other comprehensive income
** FVTPL - Fair value through profit or loss
*** AFS - Available-for-sale financial assets

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

The value of financial assets which are expected to be recovered in less than one year is £59.4m (31 March 2018: £85.5m) and those greater than one year is £67.0m (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 financial investments at amortised cost and loans and receivables closely approximates fair value.

19. Financial assets and financial liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the group;
- classification type of the financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Group holds the following financial instruments:

	FVOCI* - designated on initial recognition 2019 £m	FVTPL** - designated on initial recognition 2019 £m	Financial assets held at amortised cost 2019 £m	Financial liabilities held at amortised cost 2019 £m	Total 2019 £m
Investments	**97.3**	**27.1**	**2.0**	**-**	**126.4**
Trade and other receivables	**-**	**-**	**592.5**	**-**	**592.5**
Cash and cash equivalents	**-**	**-**	**47.3**	**-**	**47.3**
Loans and borrowings	**-**	**-**	**-**	**(658.8)**	**(658.8)**
Trade and other payables	**-**	**-**	**-**	**(200.5)**	**(200.5)**
	97.3	**27.1**	**641.8**	**(859.3)**	**(93.1)**

	AFS*** - designated on initial recognition 2018 £m	FVTPL* - designated on initial recognition 2018 £m	Loans and receivables 2018 £m	Financial liabilities held at amortised cost 2018 £m	Total 2018 £m
Investments	100.5	18.8	35.7	-	155.0
Trade and other receivables	-	-	504.1	-	504.1
Cash and cash equivalents	-	-	40.9	-	40.9
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)

* FVOCI - Fair value through other comprehensive income
** FVTPL - Fair value through profit or loss
*** AFS - Available for sale financial assets

a) Classification of financial assets at fair value through other comprehensive income (FVOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. These investments were classified as available-for-sale in the year ended 31 March 2018.

Movements in the carrying amount of these financial assets are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. Financial assets at FVOCI comprise debt securities where the contractual cash flows are solely principal, and interest and the objective of the group's business model is achieved both by collecting contractual cash flows and selling financial assets.

On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

b) Classification of financial assets at fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period which it arises.

In year ended 31 March 2018, the group classified financial assets at FVTPL if they were acquired principally for the purpose of selling in the short term, i.e. are held for trading. They were presented as current assets if they were expected to be sold within 12 months after the end of the reporting period; otherwise they were presented as non-current assets.

c) Classification of financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. These investments were classified as loans and receivables for the year ended 31 March 2018.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Due to the short-term nature of trade and other current receivables, their carrying amount is materially the same as the likely fair value.

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.

Information about the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 31.

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 1 2019 £m	Level 2 2019 £m	Total 2019 £m
Investments at fair value through profit and loss	**-**	**27.1**	**27.1**
Investments at fair value through other comprehensive income	**31.9**	**65.4**	**97.3**
	31.9	**92.5**	**124.4**

	Level 1 2018 £m	Level 2 2018 £m	Total 2018 £m
Investments at fair value through profit and loss	-	18.8	18.8
Available-for-sale investments	35.1	65.4	100.5
	35.1	84.2	119.3

20. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	**497.5**	420.5
Other receivables	**15.1**	5.2
Expected loss and bad debt provision	**(4.9)**	(1.0)
Prepayments and accrued income	**84.8**	79.4
	592.5	504.1

All trade and other receivables are current.

21. Cash and cash equivalents

	2019 £m	2018 £m
Bank and cash balances	**2.1**	12.0
Call deposits and short term bank deposits	**45.2**	28.9
	47.3	40.9

22. Deferred income

	2019 £m	2018 £m
Balance at the start of the year	**661.9**	614.5
Amounts deferred during the year	**870.3**	816.9
Amounts recognised as revenue during the year	**(812.2)**	(769.0)
Foreign exchange	**(3.5)**	(0.5)
Balance as at the end of the year	**716.5**	661.9
Split between:		
Amounts expected to be recognised in 12 months	**543.1**	486.5
Amounts expected to be recognised after 12 months	**173.4**	175.4
	716.5	661.9

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

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

For contracts of an indeterminate length, historical data on average customer life has been used to determine a proxy for the service obligation period and revenue is recognised on a straight line basis over that period.

See Note 6 for details on the fair value adjustment arising on acquisition.

23. Claims and repair costs provision

	2019 **£m**	2018 £m
Balance at the start of the year	**24.3**	24.1
Amounts incurred during the year	**367.8**	335.2
Amounts paid during the year	**(365.8)**	(335.0)
Balance as at the end of the year	**26.3**	24.3

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

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

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

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

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

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

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

(b) Change in assumptions and sensitivity analysis

The Group's activities involve writing high volume, low unit cost business. Any change in the assumption used for any particular plan on a particular product will not result in a material change to the performance of the Group. The majority of claims incurred by the Group have a short tail and are usually settled within three months, hence the Group's claims and repair costs provision is significantly smaller than for types

of business that have longer settlement tails. The assumptions that have the greatest effect on the measurement of trading liabilities are the expected claims frequency and cost of each repair or treatment.

A 10% change in outturn of the claims and repair costs provision would result in a change in the provision at 31 March 2019 of £2.6m (31 March 2018: £2.4m) which represents 0.7% (31 March 2018: 0.7%) of the total claims and repair costs for the year ended 31 March 2019 and is 3.0% (31 March 2018: 2.8%) of profit before investment return and finance costs, significant items and amortisation, and tax for the year ended 31 March 2019.

24. Loans and borrowings

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

	2019 **£m**	2018 £m
6.375% Senior Secured Notes due 2020	**200.0**	200.0
Senior Secured Floating Rate Notes due 2020	**150.1**	150.1
7.875% Senior Notes due 2021	**125.0**	125.0
10% Loan Due to Parent Company	**187.9**	170.5
Total Principal	**663.0**	645.6
Financing costs	**(4.2)**	(6.4)
Carrying amount	**658.8**	639.2

The fair value of the 10% loan due to parent company is considered to be materially similar to the same as the carrying value above. The fair values for the Senior Secured, Senior Secured Floating, and Senior notes are lower than their carrying values above by £1.8m to £198.2m, £1.8m to £148.3m, and £3.4m to £121.6m respectively, as determined with reference to observable market prices for those tranches of debt.

For more information about the Group's exposure to interest rate risk see note 31.

The Group repaid £0.3m (31 March 2018: £0.8m) to the Parent Company during the year.

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	198.8
Senior Secured Floating Rate Notes due 2020	LIBOR + 4.5%	2020	150.1	148.2
7.875% Senior Notes due 2021	7.875%	2021	125.0	123.9
10% Loan due to Parent Company	10%	2033	125.0	187.9

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 majority of the Group's loans and borrowings is repayable entirely on maturity date.

The Group did not have any defaults of principal or interest or other breaches with respect to its loans and borrowings during the year to 31 March 2019 and year ended 31 March 2018.

Certain Group companies have pledged collateral as security in respect of the loan notes in the form of a general charge over their assets. The book value of collateral as at 31 March 2019 is £680.6m (31 March 2018: £731.2m).

The Group has a revolving bank facility of £100.0m (31 March 2018: £100.0m) with a final maturity date of 1 November 2020, of which £10.0m (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.

£90.0m (31 March 2018: £77.0m) was undrawn at the balance sheet date, and of this £3.0m (31 March 2018: £3.0m) is currently available as a same day drawdown money market facility.

25. Trade and other payables

	2019 £m	2018 £m
Trade payables	**133.7**	137.4
Accrued expenses	**66.8**	69.0
	200.5	206.4

Of the total payables, £8.0m (31 March 2018: £14.8m) is expected to be settled more than 12 months after the reporting date.

26. Total equity

	Capital £m	**Hedging reserve £m**	**Other reserve £m**	**Accumulated loss £m**	**Total £m**
At 1 April 2018	**89.9**	**-**	**0.2**	**(186.0)**	**(95.9)**
Impact of initial application of IFRS 9	**-**	**-**	**-**	**(4.2)**	**(4.2)**
Tax impact on application of IFRS 9	**-**	**-**	**-**	**0.8**	**0.8**
Restated balance at 1 April 2018	**89.9**	**-**	**0.2**	**(189.4)**	**(99.3)**
Total comprehensive income for the year	**-**	**-**	**-**	**(13.5)**	**(13.5)**
Balance as at 31 March 2019	**89.9**	**-**	**0.2**	**(202.9)**	**(112.8)**

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

Capital

	2019 £m	2018 £m
Ordinary share capital	**0.9**	0.9
Share premium	**89.0**	89.0
	89.9	89.9

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

The particulars of the share classes are as follows:

Allotted, called up and fully paid

Class	Par Value	2019 No.	2018 No.
A ordinary	**£0.01**	**89,871,070**	89,871,070

Called up share capital

Allotted, called up and fully paid	2019 No.	2019 £m	2018 No.	2018 £m
Ordinary shares paid at £0.01p each	**89,871,070**	**0.9**	89,871,070	0.9

Share premium account

	2019 £m	2018 £m
Balance as at 1 April and 31 March	**89.0**	89.0

Hedging reserve

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

Other reserve

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

27. Commitments and contingencies

(a) Operating lease commitments

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

	2019 £m	2018 £m
Within one year	**3.9**	3.8
Between two and five years	**6.0**	8.0
More than five years	**0.2**	0.2
	10.1	12.0

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

During the year to 31 March 2019, £4.2m (year ended 31 March 2018: £4.2m) was recognised as an expense in the income statement in respect of operating leases; £0.6m (year ended 31 March 2018: £0.5m) was recognised as income in the income statement in respect of subleases.

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

	2019 £m	2018 £m
Within one year	**0.3**	0.3
Between two and five years	**0.3**	0.6
	0.6	0.9

(b) Capital commitments

At 31 March 2019 the Group had capital commitments contracted for but not provided of £1.3m (31 March 2018: £2.7m).

(c) Contingent liabilities

At 31 March 2019, the Group had contingent liabilities in relation to estimated fees of between £4m-£6m that would become payable to advisors upon a successful Initial Public Offering (IPO) of the Group, if this option was pursued. Given the inherent uncertainty involved in an IPO process, payment of these fees is not considered to be probable and therefore no liability has been recognised in the balance sheet.
There were no contingent liabilities at 31 March 2018.

28. Subsidiary companies

Principal subsidiaries:	Country of incorporation	Nature of business	% of shares held by immediate parent company (or by the Group where this varies)
Galaxy Bidco Limited	Jersey (1)	Holding company	100%
Domestic & General Group Holdings Limited	Jersey (1)	Holding company	100%
Domestic & General Finance 1 Limited	Jersey (1)	Holding company	100%
Domestic & General Finance 2 Limited	Jersey (1)	Holding company	100%
Domestic & General Acquisitions Holdings Limited	Jersey (1)	Holding company	100%
Domestic & General Acquisitions Limited	Jersey (1)	Holding company	100%
Domestic & General Acquisitions 1 Limited	England & Wales (2)	Holding company	100%
Domestic & General Group Limited	England & Wales (2)	Holding company	100%
Domestic & General Insurance plc	England & Wales (2)	General insurance	100%
Domestic & General Services Limited	England & Wales (2)	Appliance care service plans	100%
Inkfish Call Centres Limited	England & Wales (2)	Telemarketing services	100%
Inkfish Financial Services Limited	England & Wales (2)	Telemarketing services	100%
Domestic & General Service Gmbh	Germany (3)	Appliance care service plans	100%
Domestic & General Insurance Europe Limited	Germany (3)	Warranty Insurance	100%
Domestic & General Services (Pty) Ltd	Australia (4)	Appliance care service plans	100%
Servicios Domestic & General Espana S.L	Spain (5)	Appliance care service plans	100%
Servizi Domestic & General Italia S.r.l.	Italy (6)	Appliance care service plans	100%
Other subsidiaries:			
Domestic & General Insurance Services Limited	England & Wales (2)	Insurance broker	100%
Copleys Limited	England & Wales (2)	Dormant company	100%

(1) Address of registered office is 27 Esplanade, St Helier, Jersey JE4 8PS.

(2) Address of registered office is Swan Court, 11 Worple Road, Wimbledon, London, SW19 4JS.

(3) Address of registered office is Hagenauer Strasse 44, 65203 Wiesbaden, Germany.

(4) Address of registered office is Level 21, Australia Square, 264 George Street, Sydney, NSW 2000, Australia.

(5) Address of registered office is Calle de Julian Camarillo, 4B, 3º planta. 28037 Madrid.

(6) Address of registered office is Cernusco sul Naviglio (MI) Via Gobetti n. 2/C, Italia.

All subsidiaries are included in the Group consolidation.

29. Related parties

(a) Ultimate controlling party

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

(b) Other related party transactions and balances

As at 31 March 2019 amounts owed to the immediate Parent undertaking Galaxy Midco 2 Limited totalled £187.9m (31 March 2018: £170.5m). Interest of £17.5m (31 March 2018: £16.1m) was charged on this balance. No repayments were made during the period (31 March 2018: £nil).

As at 31 March 2019 amounts owed by a Parent undertaking, Galaxy Midco 1 Limited, totalled £0.9m (31 March 2018: £0.5m). No interest was charged on this trading balance.

During the year to 31 March 2019, £1.0m (31 March 2018: £1.0m) was paid as a monitoring fee to CVC Capital Partners Advisory Company (Luxembourg) S.a.r.l.

(c) Transactions with key management personnel

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

	2019	2018
	£m	£m
Wages and salaries and other social security costs	**8.7**	9.3
Other pension costs - defined contribution schemes	**0.4**	0.5
Total key management personnel compensation	**9.1**	9.8

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

30. Risk management of trading liabilities

Trading liabilities

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

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

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

sensitivity analysis. The calculation of the claims and repair costs element is a result of the anticipated claims cost and the projected claims frequency for each year of projection. We also re-price based on latest account experience and external conditions.

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

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

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

(b) Development of claims provision (note 23)

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

31. Financial risk management

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

(a) Interest rate risk

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

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

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

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

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

A 1.0% increase in interest rates would have a £1.8m (31 March 2018: £2.2m) positive annual impact on interest income, and a £5.0m (31 March 2018: £4.9m) negative annual impact on interest payable by the Group. The above analyses assume that all other variables remain constant.

(b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at fair value through other comprehensive income (FVOCI) and deposits with banks and financial

institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

i) Risk management

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

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

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

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

Credit ratings of significant classes of financial assets

	A rated (or above) Institutions 2019 £m	**B rated (or below) Institutions 2019 £m**	**Unrated 2019 £m**	**Total 2019 £m**
Cash and cash equivalents	**47.3**	**-**	**-**	**47.3**
Money market funds	**27.1**	**-**	**-**	**27.1**
Investments carried at fair value	**82.6**	**14.7**	**-**	**97.3**
Deposits with credit institutions	**2.0**	**-**	**-**	**2.0**
Trade and other receivables	**-**	**-**	**592.5**	**592.5**
	159.0	**14.7**	**592.5**	**766.2**

	A rated (or above) Institutions 2018 £m	B rated (or below) Institutions 2018 £m	Unrated 2018 £m	Total 2018 £m
Cash and cash equivalents	40.9	-	-	40.9
Money market funds	18.8	-	-	18.8
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.

ii) Impairment of financial assets

The group has two categories of financial assets that are subject to the impairment requirements of IFRS 9:

- Trade (warranty debtors) and other receivables
- debt investments carried at FVOCI

Trade receivables (warranty debtors) and other receivables
The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and product types. The other receivables relate to amounts due from either retailers or our OEM partners and have been considered separately based upon their relative credit strength and probability of default.

The loss allowance calculated at 1 April 2018 (on adoption of IFRS 9) and 31 March 2019 have been determined for trade receivables (warranty debtors) as the exposure at default, multiplied by the applicable probability of default and a loss given default percentage. The probability of default has been determined using historical data for payment collections and the corresponding credit losses experienced. The loss given default percentage represents the actual receivables loss in the event of customer default.

For other receivables, the expected credit loss has been calculated by applying the cumulative expected loss rates for the appropriate duration for the lifetime of the receivable, as produced by one of the major credit rating agencies, against each counterparty's receivable exposure with reference to their credit rating.

At 1 April 2018, the expected credit loss allowance for trade and other receivables was £4.2m. The impact of adopting IFRS 9 has been adjusted against opening reserves; future changes to the expected credit loss allowance will be reported in profit or loss. At 31 March 2019, the expected credit loss allowance for trade and other receivables is £4.6m, and the movement has been reported in profit or loss.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group for other receivables and for repair and protect trade receivables, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade and other receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables
In the prior year, the impairment of trade receivables and other receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Debt investments

The entity's debt investments at fair value through other comprehensive income (FVOCI) are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12

months expected losses. Management consider 'low credit risk' for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Debt investments at FVOCI include listed and unlisted debt securities. Changes to the loss allowance for debt investments at FVOCI are recognised in other comprehensive income.

The expected credit loss for this financial asset class has been calculated by applying the 12 month cumulative expected loss rates produced by one of the major credit rating agencies to that credit rating agency's credit rating for each of the investments held. The loss allowance for debt investments at FVOCI as at 1 April 2018 (on adoption of IFRS 9) and 31 March 2019 has been determined to be immaterial and, as such, no adjustment to the carrying amount has been made.

Past due or impaired financial assets

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

		Trade and other receivables 2019 £m	**Total 2019 £m**
Not past due		**596.3**	**596.3**
Past due (days)	**0 – 30**	**0.3**	**0.3**
	31 - 60	**0.4**	**0.4**
	61 - 90	**0.1**	**0.1**
	Greater than 90	**0.3**	**0.3**
Provision		**(4.9)**	**(4.9)**
Carrying amount		**592.5**	**592.5**

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

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

(c) Liquidity risk

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

Contractual maturity analysis:

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

	Claims & Repair costs 2019 £m	**Loans and borrowings 2019 £m**	**Trade and other payables 2019 £m**	**Interest payable 2019 £m**	**Total 2019 £m**
0 - 90 days	**26.3**	**-**	**183.5**	**12.4**	**222.3**
91 days - 1 year	**-**	**-**	**9.0**	**37.8**	**46.8**
1 - 3 years	**-**	**475.1**	**5.5**	**67.1**	**547.7**
3 - 5 years	**-**	**-**	**2.9**	**16.4**	**19.3**
Greater than 5 years	**-**	**187.9**	**(0.4)**	**182.8**	**370.3**
Total	**26.3**	**663.0**	**200.5**	**316.5**	**1,206.3**

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

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

(d) Foreign exchange risk

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

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

32. Capital management

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

The total amount of debt and equity capital of the Group comprises shareholders' deficit of £112.8m (31 March 2018: £95.9m), Senior Secured Notes (net of financing costs) of £198.8m (31 March 2018: £198.1m), Senior Secured Floating Rate Notes of £148.2m (31 March 2018: £147.2m), Senior Notes of £123.9m (31 March 2018: £123.4m) and amounts owed to parent undertakings (including accrued interest) of £187.9m (31 March 2018: £170.5m).

The Group’s insurance business is regulated by the UK Prudential Regulation Authority (‘PRA’). The Board regularly reviews the capital position and from 1 January 2016, the insurance business was required to measure and manage its capital on a Solvency II basis and to comply with the requirements of the Solvency II Framework Directive, as adopted by the PRA. There are certain valuation differences between

the IFRS Statement of Financial Position and the Solvency II Balance Sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. The insurance business uses the Solvency II Standard Model as adjusted for Undertaking Specific Parameters ('USP') to determine the level of regulatory capital that needs to be maintained. The insurance business has implemented an Own Risk and Solvency Assessment ('ORSA') process which is used to assess the level of capital that should be retained by the Company. This process considers all the risks faced by the insurance business and includes stress tests applied to business plan financial projections by varying assumptions for future experience. The insurance business is well capitalised under the Solvency II standard model (with USPs) and on the basis of its ORSA and has complied with the capital requirements under Solvency II throughout the year.

The insurance business has a branch in Australia which is regulated by the Australian Prudential Regulation Authority ('APRA') and required to hold capital to cover its Australian liabilities.
The Group has embedded its capital management processes into its normal planning, reporting and decision-making activities.

7. 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 31 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 2019, 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 2019, 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.