Domestic & General

Growing sustainable value

Annual Report & Accounts 2017

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

We provide protection against the cost of repair or replacement of customers' appliance. We have a long track record of customer satisfaction and provide products for over 16 million customers, protecting over 23 million appliances.

We have a unique subscription-based Business to Business to Consumer ('B2B2C') business mode, having exclusive contracts with Original Equipment Manufacturers ('OEMs') and retailers, offering products for our customers at the point-of-sale ('PoS'), post-point-of-sale ('PPoS') and point-of-need ('PoN').

THIS ALLOWS US TO FULFIL OUR BRAND PROMISE:

> We take care of you, your product, and your problem.

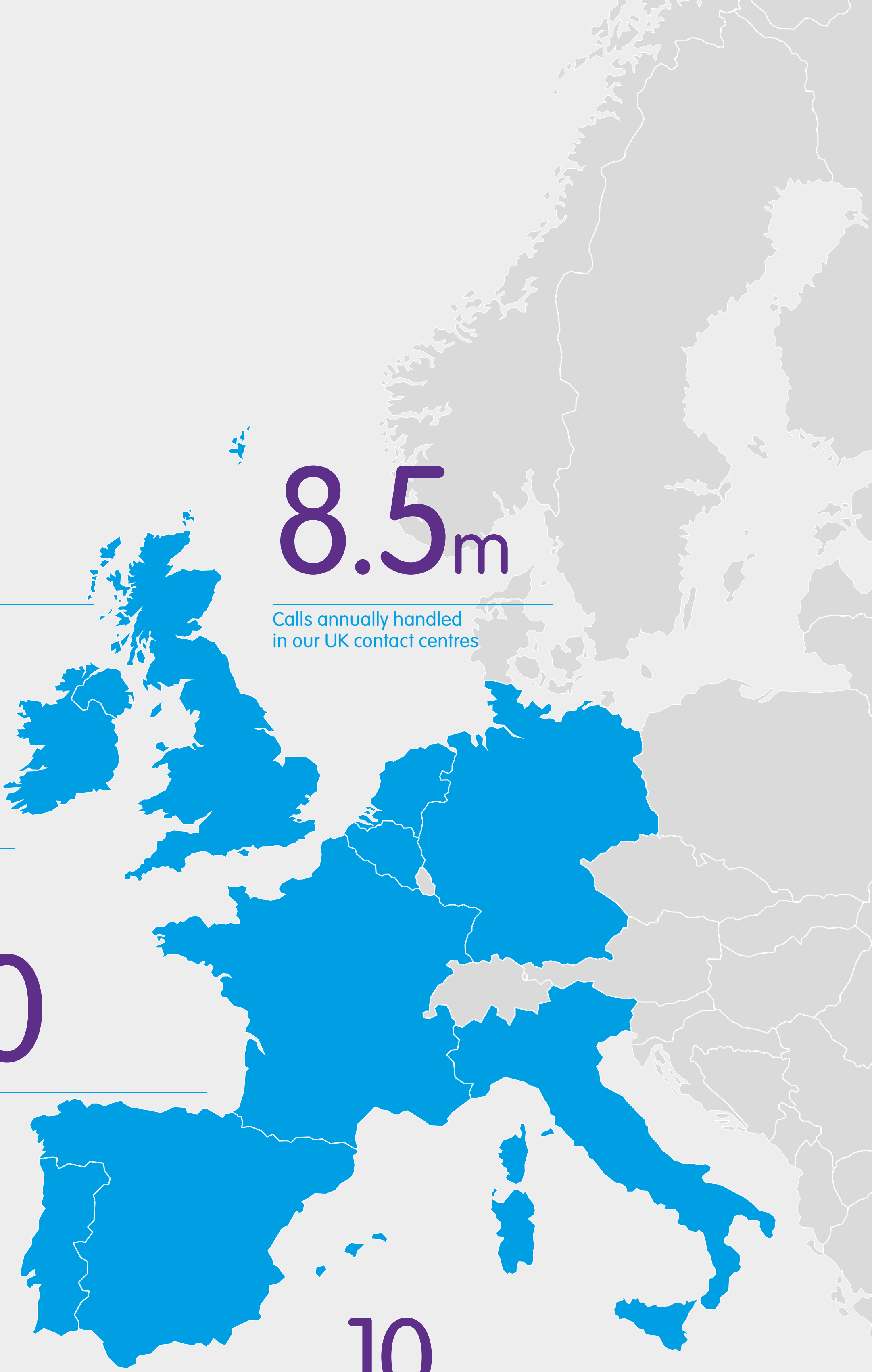
Strategic Report

Governance

Financial Statements

www.domesticandgeneral.com

Our Footprint



24m
Products protected

8.5m
Calls annually handled
in our UK contact centres

6.5m
Subscriptions for plans in the UK

6,000
Repairs a day in the UK

10
Countries we operate in

250,000
Appliances replaced each year

Our business

Established in 1912, D&G is the leading domestic appliance care specialist in the UK with an increasing international presence.

Our products cover major domestic appliances such as washing machines, dishwashers, boilers, fridges, TVs, laptops and mobile phones as well as a wide range of smaller domestic appliances. They allow customers to protect their goods against the cost of repair or replacement in the event of a breakdown (including parts, labour and call-out costs) or accidental damage, theft and other associated risks. Our vision is to take the worry out of breakdowns and we are proud to have a first-time fix rate (i.e. one engineer visit) of over 81% for 2017 (2016: 80%) in the UK. Through maintaining and improving our standards we are able to fulfil our brand promise – "We take care of you, your product, and your problem."

Products

Single appliance

Protects one specific domestic appliance and can be purchased at the same time as the appliance through a retailer or during the manufacturer's guarantee period. For appliances outside the manufacturer's guarantee, protection is offered for one-year periods.

Multiplans

Offer a similar level of protection as single appliance plans but usually for three or more appliances.

Repair & Protect

Is designed for appliances that break down outside of a manufacturer's guarantee and are not covered by an appliance care plan. The plan covers the cost of the initial repair and offers up to 18 months' breakdown protection, typically with a 'no fix, no fee' guarantee on the initial repair.

Routes to market

Point-of-Sale

Our retail partners offer plans for sale in store at the time of purchase of the appliance.

Post-Point-of-Sale

Usually in partnership with OEMs, we offer plans for sale after purchase either when registered or at the end of the manufacturer's guarantee period.

Point-of-Need

Where appliances break down outside of a manufacturer's guarantee period, we offer our Repair and Protect product either through our partners or directly through our Contact Centres.

Highlights

742.6m
Group sales (£)

82.0%
UK subscription renewal rate[1]

95.0m
Underlying EBITDA[2] (£)

84.3m
Underlying operating profit[3] (£)

16.4m
Customers

3.6%
Increase in UK subscription new business Annual Premium Equivalent ('APE')[4]

In the financial year to 31 March 2017 we generated 80% of our revenues from the UK and 20% from our international business (FY16: 82% and 18%).

Our products are sold through several sales channels including through retailers at PoS, and in partnership with OEMs at PPoS and at PoN following an appliance breakdown after the manufacturer's guarantee has expired.

This Annual Review is for Galaxy Finco Limited (the 'Group'), which provides the consolidated Annual Report and Accounts for D&G.

Appliance care

New appliances are protected by a manufacturer's guarantee, typically for a period of one year in the UK, or two years in our international markets, as well as statutory remedies against retailers and manufacturers for faulty or sub-standard goods.

Our products offer extended cover for repairs or new-for-old replacement after the manufacturer's guarantee has ended. They also provide protection against accidental damage and theft and other benefits and services over the life of the appliance, in addition to a consumer's statutory rights.

B2B2C

We occupy a unique place in the appliance care industry. We provide expertise and value and operate as a brand custodian to our business partners while striving to provide high levels of customer service which inspires continued loyalty.

Our success can be gauged by our consistently high customer renewal rates and the long-term, deep relationships we have formed with our business partners.

1 The percentage of total renewable plans on direct debit that renew, net of cancellations and after three months.
2 Underlying operating profit, adding back depreciation plus interest income. A reconciliation to statutory operating profit is included on page 19.
3 Underlying revenue less operating costs other than significant items. A reconciliation to statutory EBITDA is included on page 19.
4 Sales, net of cancellations, adjusted for the impact of periods of cover to provide an annual 1 year premium equivalent.

Over 100 years of history

FY2017 has been a year of significant change in the Group and I am very excited about next year and beyond as we move forward with our new executive team, creating sustainable value through a singular focus on customer service.

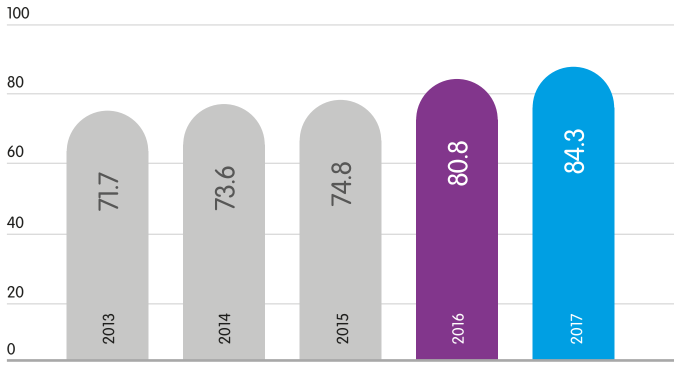
The year has been one of significant change in the Group, and I look forward now with confidence to a future in which we can create sustainable value for shareholders through an absolute focus on customer service.

D&G has a proud history stretching back over 100 years, with a variety of different owners. In December 2013, D&G Group Holdings Limited and its subsidiary companies were acquired by funds advised by CVC Capital Partners ('CVC') and the D&G group's existing management. This Annual Review is for Galaxy Finco Limited and its subsidiaries (the 'Group'), as it produces the consolidated Annual Report and Accounts for D&G.

D&G is the leading specialist provider of appliance care in the UK and a growing specialist provider in several international markets, with operations across much of Europe and Australia.

Underlying operating profit (£m)

+4.3% 2017



Following acquisition, investment has been made in the business to take advantage of the opportunities available to us both in the UK and internationally.

Management changes

Since joining in September 2015, I have been clear that D&G is a sustainable business which creates value when our customers are at the heart of everything we do. Disappointingly there have been examples where our customer service has fallen below our own high standards, but more importantly on occasion below the expectations of our customers. I am personally committed to changing this. This year we have formally endorsed a five-year strategy (Project 22). This strategy focuses on a sustainable business model that maintains our market-leading position by providing outstanding customer service.

I am particularly delighted to welcome Ian Mason, our new Chief Executive, who joined us in July 2016. Ian is a highly experienced and accomplished executive who, prior to his arrival at D&G, had been the CEO of Electrocomponents PLC for 14 years, during which time he successfully transformed the business. I am confident that Ian's leadership and personal values will drive the delivery of our customer-centric strategy.

Ian has invested a lot of effort in ensuring he has the right executive team to deliver our strategy. Ian has promoted Steven Purser (Managing Director) and Joe Fitzgerald (Customer Strategy Director, and recruited Julia Holden (Transformation Director), Nick Ulycz (Group HR Director) and Jo Hale (Customer Service Director). They complement an already existing and strong executive team. I am confident that we have in place a high-quality executive team who possess the capability and personal drive to implement our strategy.

Results

I am pleased to report that we have continued to grow both profits and sales. Group sales have increased by 10% when compared with 2016 (on a constant currency basis, growth is 7%). Underlying operating profit has grown by 4.3% to £84.3m and loss before tax has reduced by 24.3% to £31.7m. The financial health of the business is set out in more detail in the Financial Review on pages 16 to 19.

> I am pleased to report that we have continued to grow both profits and sales.
> David Tyler, Group Chairman

UK
The UK business has experienced some tough operating conditions during the year, with our contact centres having to deal with an unprecedented volume of calls following the tumble dryer modification programme that Whirlpool announced in late 2015.

The business has met this challenge head on and continued to record good sales growth of 5.9% in the year despite the pressures on it from this Whirlpool issue. Underlying operating margin this year of 14.1% was modestly down from the previous year's margin of 14.7% but, given the pressures encountered in the year, this demonstrated the resilience of the business.

As a result, the UK business again showed a growth in profits, and this was driven above all by the continuing strength of the renewals book, which is an embedded feature of the business.

International
The international business has achieved a 31.6% growth in sales in the year, a strong performance. We have now built reasonable scale in our markets and have contracts with many clients across Continental Europe, many of whom are also partners of D&G in the UK.

The international business is now focusing on developing subscription business as this clearly provides the best opportunity to develop a sustainable, growing and profitable operation in the future.

People
The talent, engagement and drive of our people continues to be key to D&G's success and I wish to express, on behalf of the Board, our gratitude to colleagues. We know that our people are passionate about our customers and we have therefore recently introduced a recognition scheme which focuses on and significantly rewards great customer service. We will also be making further investments in the development of our employees, with a strong focus on our people managers. Together, these investments will contribute further to a culture of customer service excellence.

Majority shareholder
Galaxy Finco Limited is ultimately majority owned by funds advised by CVC Capital Partners. CVC was established in 1981 and is a longstanding investor in the UK economy. It has a relationship-driven approach to investing, and looks to invest in high-quality, consumer-facing businesses with strong management teams.

Outlook
The past year has seen the appointment of a new CEO and a reorganisation of the Executive Committee into one which clearly puts the customer at the heart of everything we do. I am pleased with the progress that we have made in ensuring that our systems and structures are aligned with this goal and look forward to overseeing further progress in the business over the coming year. We have a clear strategy to deliver long-term growth in sales and profits and we believe this will be much better secured now given our new approach to look after customers brilliantly.

David Tyler
Group Chairman
17 July 2017

Our values

Caring
We listen to our customers, treat them as individuals and meet their needs.

Fair
We act with honesty and integrity and communicate clearly.

Expert
Our insights and understanding are second to none.

Creative
We apply our skills and experience with ingenuity.

Driven
We strive for excellence and continually improve.

Dependable
We deliver on our promises, unreservedly.

We take the worry out of breakdowns

Chief Executive Officer's Statement

Putting the customer first

D&G is a recognised market leader in the provision of appliance care and I look forward to further increasing our market share through enhancing and strengthening our customer service proposition and actively pursuing growth and development opportunities both internationally and digitally.

I've been made to feel very welcome since I joined D&G and I've enjoyed both working with and getting to know my colleagues throughout the organisation. We're in a strong position in the market with solid relationships with our clients and our customers. We have deep knowledge and understanding of our business and a real desire to serve our customers well and create sustainable value.

Project 22 – our strategy

My initial priority when I joined was to review the business and develop a customer-centric strategy. I have been working with my Executive Committee to set the direction of the business for the next five years. This has been a very intensive and thorough process which has provided us with a focused strategic business plan that puts the customer well and truly at the centre of what we do and sets us on course for a promising and profitable future.

This review reconfirmed that the business has sound fundamentals and strong growth potential. In the UK, our strategy remains focused on our core white and brown goods markets where we have in-depth expertise and an established market-leading position. We are determined to deliver a higher and more consistent level of customer service which will meet and exceed the growing expectations of our customers and enable them to engage with us through multiple channels.

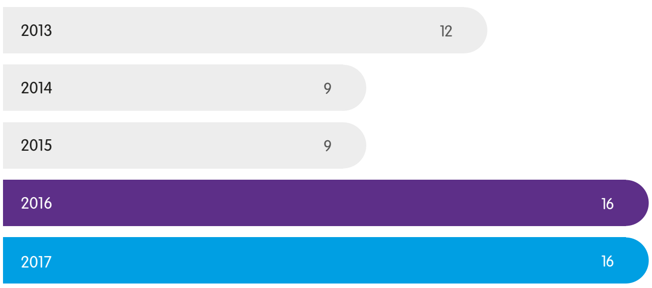
Internationally, we remain committed to our manufacturer and retail partner strategy, centred around growing sustainable value. The international business, which covers Australia and much of Europe is less mature and we continue to concentrate on developing a subscription business to grow value through renewals. This will be achieved not only through manufacturers but also by introducing subscription business to our retail partners.

So that we are able to transform our business and meet our strategic objectives, we have launched a five-year change programme focused on putting the customer first. We are going to improve all customer journeys by simplifying our product suite, upgrading the level of care our customers receive and introducing state-of-the-art systems which will help us deliver on our service promise.

Where we are today

D&G Net Promoter Score*

16



* Based on 14,350 replies to the general survey question: "How likely are you to recommend D&G to a friend or colleague?"

> We're in a great position in the market with strong relationships with both our clients and customers.
> Ian Mason, Chief Executive Officer

Reasons for change

Customer service expectations

Increasing customer demand for **speed and convenience.**

Customers now expect **low effort self-service**…

…and access through **multiple channels**, on the move.

Personalisation

Companies using **data** to understand, segment and target their customers…

… with increasingly **tailored and personalised** offerings.

Transparency

Digitalisation of internal processes, increasingly opened up to the customer online.

Consumers increasingly using **social media** to influence buying decisions… bad news travels fast!

Increasing ease of **price discovery**

Consumer protection

Ever more intense regulatory focus on **customer protection price transparency** and **data protection.**

Our contact centres are central to our transformation and heavily invested in ensuring the delivery of the service standards we've set out to achieve. And finally, underpinning all of this, is a shift in our culture to a business that truly puts customers at the heart of everything we do and delivers exceptional service.

New Executive Committee

In order to capture the potential within our markets and to continue to deliver the strategy, we have re-aligned our operating model and organisation. I have established a new Executive Committee (see pages 26-27) that is aligned to our strategic objectives and dedicated to improving the customer experience.

In the UK we have created an integrated Customer Strategy function which includes a dedicated Customer Care unit. Customer Strategy is responsible for our product propositions and ensuring the range of services we offer match our customers' needs and their increasing expectations. The Customer Care unit is responsible for the service we deliver to our customers when they need us most. They manage the end-to-end pre- and post-sales customer experience.

In order to drive an effective transformation agenda, I have recruited a Transformation Director to the Executive Committee. This appointment is critical as we embark on delivering our strategic objectives.

Relationship with Regulators

We operate within a regulated environment and are committed to working collaboratively with our regulators.

FY18 and beyond

I believe that our strategy and approach gives us not only the means, but also the ability, to develop our business for the future. My number one priority is to provide a high standard of customer service and to ensure we have a strong customer service culture. This is an exciting time for D&G and I'm confident that we have a promising and profitable future ahead of us.

Ian Mason
Chief Executive Officer
17 July 2017

Business Model

Growing sustainable value through a singular focus on the customer.

Inputs

People & Talent

Focused on attracting, retaining and developing great talent and building passionate, high-performing teams, where everyone shares the single vision of delivering outstanding customer service.

Simple Products

Designing and distributing great products and services that customers value, and that continue to position us as a leading appliance care provider.

Partners

Proud to be chosen by, and work with, world-leading manufacturers and retailers, working in true partnerships over the long term to deliver a seamless customer experience and create value for all involved.

Technology & Systems

Investing in technology and systems that continually simplify and enhance the customer journey, reducing customer effort and improving customers' experience.

Customer Focus

Customer Culture

Our strategy and embedding a culture that puts the customer at the heart of everything we do. Our single focus on improving customer outcomes is reflected across every part of our business.

More information see **pages 14-15**

Channels & Customer Journey

We invest to ensure we're always there in the channels that our customers want us to be in. At the point of sale or in time of need, when an appliance breakdown, phone, digital or mobile, we're ensuring we continually deliver better customer journeys.

More information see **pages 10-11**

Insights & Smart Selling

We use our unique data and insight to continually refine and adapt our customer propositions to ensure we keep our position as the UK's leading appliance care provider, and continue to attract and retain outstanding partners.

More information see **pages 12-13**

Routes to Market

Sale of new appliance

Appliance breakdown outside of guarantee period

PoN
23% [1]
OEM/D&G contact centre
Book repair and sale of D&G appliance care plan

Comprehensive data capture

PPoS
54% [1]
Direct marketing to customers:
Inbound calls from customers when appliances are registered;
Outbound calls to customers at the end of the guarantee period

PoS
23% [1]
Sale of appliance care plan in-store or online

Ongoing subscription revenue

1 Proportion of FY17 sales generated.

Value Created

Customers
Service solutions
Peace of mind
Innovative products

Partners
Revenues
Deeper customer relationships
Shared brand experience
Customer satisfaction

Employees
Training & development
Engagement
Career progression
Reward

Investors
Cash generation
Future potential

Domestic & General
Customer retention
Business growth

Our Strategy

UK

Increasing penetration of our core markets through customer service

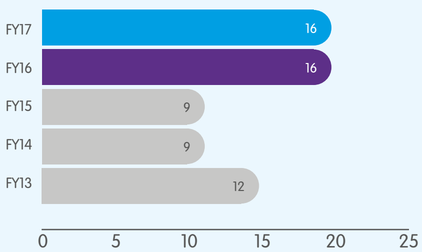
Customer Service

Ensuring customer satisfaction is a primary focus. Our overall Net Promoter Score is a key area we want to drive over the coming years.

KPI

D&G Net Promoter Score*

16



* Based on 14,350 replies to the general survey question: "How likely are you to recommend D&G to a friend or colleague?"

Increase in new UK business subscription plans

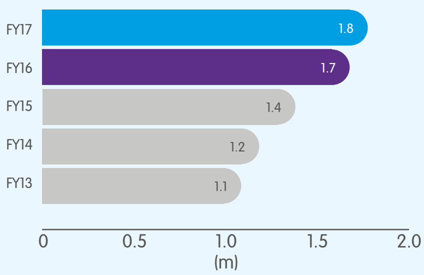
Subscription business is a key part of our strategy. By increasing the number of renewable new business plans we sell by direct debit, we drive this key metric.

KPI

Total of new UK business subscription plans

4.7%

Year-on-year growth



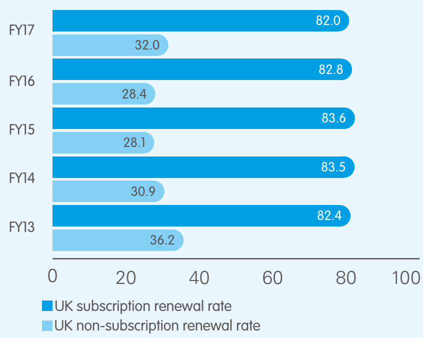
UK renewal rate

Subscription products provide a benefit to our customers as they provide a continuous uninterrupted service. They also benefit the business as a result of the higher renewal rates realised.

KPI

UK subscription renewal rate %

82.0%



International

Grow sustainable value through subscriptions with strong renewals

Expand international presence

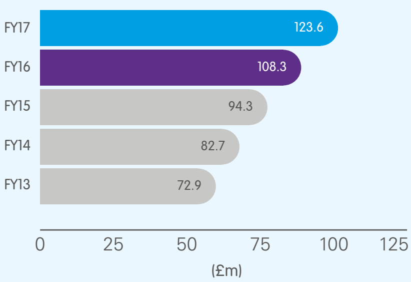
We've invested significantly in ensuring we have a robust operational structure able to strategically target a pipeline of clients in our international markets.

KPI

International sales

14.1%†

year-on-year growth



† At constant currency and excluding sales from German retailer – Media Saturn.

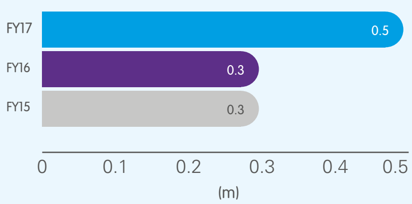
Increase subscription – active registrations

An active registration occurs when the customer contacts us to register their appliances. By increasing the number of active registrations, we increase the size of our database and therefore increase the number of opportunities to sell our products.

KPI

Registrations

0.5m



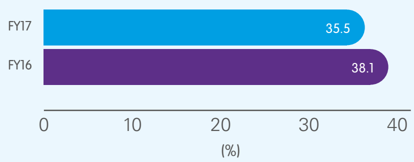
Proportion of subscription business

Increasing the proportion of business on subscription is key to building a sustainable business model.

KPI

Percentage of business on subscription

35.5%



Customer care that helps the business grow

Putting customers at the heart of our business every day.

Every day we visit over 6,000 homes in the UK to attend to broken appliances and help get our customers back up and running again. 16 million people across the world rely on Domestic & General to care for over 24 million items.

Working directly with our partners, the manufacturers, enables us to provide market-leading ‘first-time fix’ rates. We pride ourselves on these metrics as it is important to us that our customers' experience is simple and hassle-free, and that we deliver on our promises. However, we want to do better, and we know that we need to continually drive improvements.

Our business strategy has further elevated the prioritisation of enhancing customer service and experience and we now have dedicated customer teams accountable for ensuring that our customer journeys are effortless and positive. We have increased the number of front-line customer teams to resolve queries and claims more quickly. We have also invested in developing our digital journeys so that customers have more choice in how they can interact with us.

To support customer enhancements, we have also developed a number of new products based on customer needs and insight. We are focusing on simplifying our products and adding more value. We recently launched SmartCare, a new loyalty scheme which enhances our proposition and is a product that has won several industry awards.

For more information on **Our Strategy** see **pages 08-09**

> “The service is good and everyone’s always polite. The engineer was incredibly helpful, very informative and a credit to both D&G and the client they represent.”
>
> D&G Customer

Channels & Customer Journey

Investing to ensure customers can engage with us through the channels they want to use – simplifying their journey and reducing effort.

Sky – believe in better

Our clients move at a fast pace, so it's important that D&G is equipped to not only support their ever-evolving needs but also lead the way in driving new opportunities.

Our partnership with Sky is an excellent example of how D&G and our clients collaborate closely. The introduction of Sky's new Q product gave us the opportunity to redefine our Sky Protect brand and product suite. This new product created more customer value by not only protecting their Sky equipment, but also providing cover for additional viewing devices such as TVs, tablets, laptops and games consoles.

Similarly, the recent launch of Sky Mobile has allowed us to develop a mobile insurance product that can be easily and conveniently added to a customer's existing Sky Protect plans, providing seamless protection.

D&G's core ambition is to provide brilliant service that enhances both our client's brand and our own. Over 40% of eligible Sky Protect customers have already registered for the additional device cover with their plan, and this number continues to grow. A monthly subscription plan has been introduced to give customers greater flexibility, and our new online claims journey will allow customers to control their own repair experience via the channel that suits them.

Such rapid change is made possible by a close-knit client partnership that features collaborative planning and communication at all levels, frequent operational meetings and regular strategic and commercial reviews. All stakeholders on both sides of the partnership feel part of a single team with an aligned goal. D&G contact centre agents live the Sky experience, working in specially branded areas and benefitting from tailored learning and development that includes updates on the latest Sky entertainment packages and equipment.

By utilising Sky's understanding of its customers and brand and combining it with D&G's deep knowledge of the insurance sector, we have been able to produce a tailored proposition for Sky customers that reflects and delivers the outstanding customer service that Sky expects.

For more information on **Our Strategy** see **pages 08-09**

Insights & Smart Selling

Using our unique data and insight to continually refine propositions and services to meet our customers' needs.

Customer Culture

Creating and embedding a culture that puts the customer at the heart of the business.

Improving service and efficiency

Improving the service and efficiency of our contact centres enables our strategy to be delivered.

Our contact centres are critical to the success of the business. Our front-line colleagues are the external face of D&G and represent our brand more than anyone else. It is therefore essential to ensure that the contact centres have processes, technology and a culture to enable outstanding and efficient service and performance.

After a year of pressure, with the company experiencing unprecedented call volumes following the product modification programme announced by one of our major partners, Whirlpool, we have launched a transformation programme to improve our contact centres with three core pillars – People, Customers, Performance. Each area has a project that supports and ensures delivery of the future capabilities that we require:

People – rewarding our teams appropriately, creating an engaged workforce, employing flexible working across different call types and ensuring our agents have the knowledge, tenure and experience to provide great service to our customers.

Customers – ensuring that we are clear on the customer journey and providing great service every time, by simplifying our processes to make it easier to do business with us.

Performance – having technology that supports our people and customer projects, delivering data and information to the front-line and the rest of the business that enables data-driven decisions to improve service and performance.

Our approach to this transformation programme is based on achieving consistent performance, before simplifying the way in which we work to allow us to deliver a step change in service and efficiency.

For more information on **Our Strategy** see **pages 08-09**

“D&G were very precise, efficient, helpful and knowledgeable. I’m very satisfied with the experience I received.”
D&G Customer

Financial Review
Chief Financial Officer's Statement

Group performance

We are pleased to report continued strong performance over the past year, resulting in sales of £742.6m (2016: £675.2m). This growth is driven by continued strong performance of our UK renewal book and strong retail sales in Iberia. Underlying revenue was £735.8m (2016: £689.8m).

The Group's average gross loss ratio has improved to 42.4% (2016: 43.5%); this has been partially offset by increased operational requirements in our UK contact centres. The resultant growth in underlying operating profit is therefore 4.3% to £84.3m with underlying EBITDA improving 4.2% to £95.0m.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	% change
Sales			
UK	**600.5**	567.2	5.9%
International	**142.1**	108.0	31.6%
	742.6	675.2	10.0%
Underlying Revenue*			
UK	**589.1**	564.0	4.5%
International	**146.7**	125.8	16.6%
	735.8	689.8	6.7%
Claims and repair costs	**(311.9)**	(300.3)	3.9%
Expenses	**(339.6)**	(308.7)	10.0%
	84.3	80.8	4.3%
Underlying Operating Profit			
UK	**83.1**	82.7	0.5%
International	**2.5**	(0.6)	516.7%
Other charges	**(1.3)**	(1.3)	0.0%
	84.3	80.8	4.3%
Underlying EBITDA			
UK	**91.9**	90.7	1.3%
International	**4.3**	1.8	138.9%
Other charges	**(1.2)**	(1.3)	7.7%
	95.0	91.2	4.2%
Underlying operating profit margin – UK	**14.1%**	14.7%	
Underlying operating profit margin – International	**1.7%**	(0.5%)	
Underlying operating profit margin – Total Group	**11.5%**	11.7%	

* Revenue differs from that within the income statement by £19.8m in the current year (2016: £41.6m) due to fair value adjustments, see Note 2 for further details. Underlying operating profit and underlying EBITDA are reconciled to the operating profit and EBITDA as per the income statement on page 31.

Regional performance

UK performance

UK sales are 5.9% up on the prior year at £600.5m. Underlying revenue at £589.1m is 4.5% higher than the prior year, with underlying operating profit up 0.5% to £83.1m. Our UK sales growth is attributable to strong performance in our renewal book, driven by the Group's strategic focus on subscription business which has higher retention rates. The increase in operating expenses was the result of a variety of factors. Most significantly, there has been increased cost within both our UK contact centres and outsource providers to ensure that service levels were maintained during a period of unusually high demand.

> In what has been a challenging year, I am pleased to report strong headline growth in sales and profitability, demonstrating the resiliency and strength of our financial model.

Andrew Crossley, Chief Financial Officer

International performance
On a constant currency and adjusted basis, international sales were £123.6m, a 14.1% increase on the prior year figure of £108.3m.

On an unadjusted basis and at actual exchange rates, sales in our International division were £142.1m, 31.6% increase on the previous year figure of £108.0m. Our retail business in Iberia continues to drive performance with sales growth of 39.6% over the prior year.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	% change
Sales			
Germany	31.2	24.7	26.3%
Spain and Portugal	80.4	57.6	39.6%
France, Belgium, Netherlands	4.5	3.7	21.6%
Australia & New Zealand	14.6	11.8	23.7%
Ireland	3.5	2.9	20.7%
Italy	7.9	7.3	8.2%
	142.1	108.0	31.6%

The underlying operating profit of £2.5m (2016: loss of £0.6m) and underlying EBITDA of £4.3m (2016: £1.8m) represent an improvement on the prior year as a result of improved claims frequencies coupled with favourable exchange rate movements.

Group Performance Indicators
In addition to the strategic KPIs identified on pages 08 to 09 we have identified a number of indicators to measure the financial and operational performance and strength of the Group as a whole to users of the financial statements.

2017 performance against these indicators is:

	Year ended 31 March 2017	Year ended 31 March 2016
Financial		
Sales growth	10.0%	3.6%
Underlying revenue growth	6.7%	3.2%
Underlying operating profit growth	4.3%	8.0%
Underlying EBITDA margin	12.9%	13.2%
Gross loss ratio	42.4%	43.5%
Solvency II Regulatory Solvency ratio (DGI)	243.6%	158.0%
Underlying EBITDA Cash Conversion	72.5%	54.8%

	Year ended 31 March 2017	Year ended 31 March 2016
Non-financial		
Number of customers (in millions)	16.4	16.2
UK	*9.0*	*8.8*
International	*7.4*	*7.4*
Number of appliances protected per customer	1.45	1.41
UK	*1.65*	*1.60*
International	*1.21*	*1.20*

Investment portfolio

Our investment strategy is to invest predominately in cash or similar instruments. We consider our investment portfolio appropriate in relation to the profile of our debt and other liabilities.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	% change
Money market funds	**59.7**	38.4	55.5%
Deposits with credit institutions	**49.1**	46.0	6.7%
Cash and cash equivalents*	**30.1**	29.6	1.7%
Available for sale financial instruments	**101.6**	99.2	2.4%
Total investments	**240.5**	213.2	12.8%

* The Group classifies cash balances, call deposits and term deposits with an original term date of less than three months as cash and cash equivalents.

Investment income

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	% change
Investment income	**2.4**	3.0	(20.0%)

Interest income decreased to £2.4m (2016: £3.0m) as low interest rates continued. The overall interest return on the deposit, cash and fund portfolio has been at an annual rate of 1.0% (2016: 1.4%).

A 1% change in interest rates would have a £2.2m (2016: £2.1m) effect on investment income.

Loans and borrowings

Loans and borrowings consist of the following:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	% change
Third party debt			
6.375% Senior Secured Notes due 2020	**200.0**	200.0	0.0%
Senior Secured Floating Rate Notes due 2019	**175.0**	175.0	0.0%
7.875% Senior Notes due 2021	**125.0**	125.0	0.0%
	500.0	500.0	0.0%
Shareholder debt			
10% loan due to parent company	**156.4**	142.9	9.4%
Total loans and borrowings	**656.4**	642.9	2.1%

The Group has a revolving bank facility of £80.0m (2016: £80.0m) with a final maturity date of 18 September 2019, of which £25.0m (2016: £33.0m) 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. £55.0m (2016: £47.0m) was undrawn at year end, and of this £3.0m (2016: £3.0m) is currently available as a same day drawdown money market facility. The external debt is secured on the assets of certain Group companies (see Note 21).

Finance costs

Finance costs of £51.7m (2016: £50.6m) relate to the servicing of the Group's debt and can be broken down as follows:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	% change
Current debt structure			
6.375% Senior Secured Notes due 2020†	**12.8**	12.8	0.0%
Senior Secured Floating Rate Notes due 2019†	**10.5**	10.7	1.9%
7.875% Senior Notes due 2021†	**9.9**	9.8	(1.0%)
Finance charges – amortisation of deferred financing costs	**3.9**	4.0	2.5%
10% loan due to parent company	**14.6**	13.3	(9.8%)
Total finance costs	**51.7**	50.6	2.2%

† Includes £9.8m (2016: £9.8m) of accrued interest.

Statutory and pro-forma reconciliations

The table below provides a reconciliation between the statutory and pro-forma items.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Statutory revenue	716.0	648.2
Fair value adjustment arising from acquisition*	19.8	41.6
Underlying revenue	735.8	689.8
Statutory operating profit	17.6	5.7
Amortisation of acquisition intangibles	62.5	75.1
Significant items	4.2	–
Underlying operating profit	84.3	80.8
Statutory operating profit	17.6	5.7
Amortisation of acquisition intangibles	62.5	75.1
Depreciation	8.3	7.4
Statutory EBITDA	88.4	88.2
Investment income	2.4	3.0
Significant items	4.2	–
Underlying EBITDA	95.0	91.2

* Revenue differs from that within the income statement by £19.8m in the current year (2016: £41.6m) due to fair value adjustments. See Note 2 for further details. Underlying operating profit and underlying EBITDA are reconciled to the operating profit and EBITDA as per the income statement on page 31.

Capital structure and solvency

As at 31 March 2017, the Group is in a net liability position of £63.3m as a result of annual amortisation charges relating to acquired intangible assets at acquisition and which total £273.6m cumulatively since that acquisition. 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 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.

Cash flow

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

Cash generated from operations for the year ended 31 March 2017 amounted to £66.5m (2016: £46.8m), an increase on the prior year of 42%, reflecting positive working capital movements as the impact from the run-off of retail policies in Germany and changes to periods of cover in the UK reduce.

Underlying EBITDA conversion rate for the year was 72.5% (2016: 54.8%).

The Group

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

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

Principal Risks & Uncertainties

Risk management and control

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

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

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

Risk	Risk description	Risk mitigation
Changes in market dynamics	Failure to respond effectively to developments in the broader economy, competition, and other market, fiscal or taxation environment, including Brexit.	• Resilient business model • Significant experience and expertise in chosen markets • Product development and innovation • Frequent review of competition • Market intelligence • Brexit planning
Strategic risk	Risks associated with developing the strategy for the organisation; the business model, developing new business and partnerships and delivering to customers.	• Formal development of strategy and review of progress by Board • Clear internal and external communication of strategy • Frequent planning and monitoring of activity by key management • Strengthening of talent pool through hiring of a Transformation Director and experienced project managers
Regulatory and legal landscape	Risk that changes to the legal or regulatory landscape could adversely impact on financial performance.	• Ongoing monitoring and awareness • Experienced compliance and risk teams • Independent 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
Conduct risk	Failure to comply with relevant laws, regulations and standards in the UK and overseas.	• Active monitoring and development of products and processes to meet applicable regulations • 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 • Involvement of appropriate legal resource and expertise in contract negotiations and dispute resolution • Internal/external reviews of key processes • Specialised expertise in local markets
Underwriting and pricing (see also Note 20)	Failure to provide products competitively and profitably priced on a sustained basis.	• 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

Risk	Risk description	Risk mitigation
Technology	The risks associated with delivery and future-proofing of our technology, including the potential impact of business interruption through systems and facilities.	• Investment in appropriate technology and staff • Project management and expert support in developing and maintaining information systems • IT governance structure • Outsourced duplicated data centres • Business continuity plans
Data security and protection	Risks associated with the collection, processing and use of data and security of personal data held within the organisation.	• 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 Unions new General Data Protection Regulation on the processing of personal data and on the free movement of such data, applicable from May 25, 2010
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.	• Conduct Standards governance structure incorporating focusing on good customer outcomes • 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 • Media and horizon scanning
Key client relationships	We derive the majority of our revenue through arrangements with Original Equipment Manufacturers and retailers, a limited number of whom account for a significant proportion of our sales, revenues and profits which could decrease significantly if the relationship with one or more of these partners was terminated or if the Group is unable to generate value out of those based on the contractual terms in place.	• Client relationships management team • Regular review of performance with key clients • Management of service levels • Dedicated client services team and regular contact with clients • Quality control • Business strategy and planning • Development of new business pipeline • Long-term agreements with key clients
People risk	The risks encompassed in the potential impact of people, e.g. communication, motivation, absence, dismissal, unethical or inappropriate behaviour, on the operations of the business.	• 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
Financial management	Failure to maintain appropriate financial controls throughout the business, including the management of capital and ensuing capital advisory, credit risk, investments and forecasting.	• Experienced finance team • Financial control environment • Embedded capital requirement review procedures • Close monitoring of financial performance, debt covenants and credit risk by senior management • Board oversight of investment policies
Operations	Failure of business operations including functional areas.	• Appropriate recruitment and training of staff • Management supervision of operations • KPI reporting and performance monitoring • Monitoring performance of key service providers • Business continuity plans

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

Corporate Social Responsibility

People

Resourcing

The people we hire are critical to the success of our business. Ensuring we have the right people doing the right jobs will enable us to deliver excellent customer service. We source talent via a multi-channel approach including job boards, social media and online marketing. We also promote all vacancies to our employees, recognising the experience and knowledge of our existing talent. Our in-house team of recruiters engages with candidates daily, building connections with prospective employees who may not be right for us now, but could be in the future. From strengths-based assessments to competency interviews, we select people who have the right skills, aptitude and behaviours for us to deliver on our strategic agenda.

Recognition

As part of our commitment to enhancing customer service and to support the transformation of our contact centre operations, we have performed a fundamental review and overhaul of our remuneration policies. A key element of the review has been to ensure that our remuneration structures are simple, transparent and fair. We have focused on ensuring the remuneration and incentive structures encourage the right type of sales and customer service behaviours and engage our people to perform strongly and contribute to the success of the business.

Our new remuneration structures in our contact centres have a greater weighting to fixed remuneration, to ensure we are able to attract and retain people of the calibre that is critical to the successful execution of our business strategy. Under our new arrangements, variable remuneration is limited as a proportion of total remuneration, and is utilised to reward excellence, over and above the expectations we have for an employee in that role.

Additionally, we have implemented a Group-wide employee recognition programme, which provides immediate rewards for outstanding examples of customer service. This programme seeks to align employee recognition with our strategic agenda of putting customers at the heart of our business.

Wellbeing

We provide a range of benefits to our employees including Occupational Health support and access to free confidential counselling via an Employee Assistance Programme, and we work with health specialists to provide regular, free personal health assessments.

Learning, development and talent

We endeavour to empower all employees to take ownership of their professional development with support from their managers and the Company as a whole. We offer our colleagues an extensive range of learning experiences from informal on-the-job coaching to formal on-site classroom training. We have recently implemented a Learning Management System to drive further development opportunities for our people. We have partnered with leading business schools to support the development of executives.

Diversity and inclusion

Our policies have been created to build an inclusive workplace environment, ensuring that no employees feel excluded because of their age, disability, gender, race, religion or belief, sexual orientation, marriage or civil partnership, pregnancy, maternity, or other factors such as social background. We aim for a working environment, which is inclusive and allows people to be themselves where employees are encouraged to work together in an environment in which all employees feel valued and able to bring their differences to work each day and contribute their best. Overall, 51% of our employees are male and 49% are female.

We aspire to offer both informal and formal flexible working arrangements that benefit our employees and recognise that our employees have responsibilities and commitments outside of work. As such, we have a number of family-friendly policies in place to help manage personal circumstances including adoption leave, fostering leave, fertility treatment, shared parental leave and time off to care for dependants.

Employee engagement
An annual employee engagement survey, Viewpoint, is circulated and all employees are invited to complete the survey detailing their level of engagement, how passionate they are about their jobs, their commitment to the organisation and their level of discretionary effort at work. The survey output is a measurement of our employees' satisfaction and provides specific insights into where, as an organisation, we should focus our efforts to build engagement and motivation. Last year, the survey results evidenced an 82% response rate (2,153 employees) which was an increase of 17% from the previous year. Our overall engagement score of 62% compares favourably with the external market. We have developed Group-wide action plans to address the feedback provided by our people; actions already taken include a significant increase in annual leave entitlement for front-line employees.

Corporate Social Responsibility

Charity and partnering with our local communities
Each financial year, we encourage all of our employees to nominate charities to support. Last year our employees chose Worldwide Cancer Research as our Group charity. In addition we also supported a number of local charities including the Parents' Association for Seriously Ill Children in Nottingham; in Brighton we continued to support Rockinghorse, which provides key support services for unwell children and their families; and in Bedworth we supported the Mary Ann Evans Hospice.

A significant number of our employees also undertook additional fundraising and community work over the last financial year including competing in a 'Tough Mudder' and working in a local charity.

Our employees have raised an impressive £50,000 for good causes, which has been enhanced by D&G, bringing the total for the last financial year to £102,000.

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

Board of Directors

The Directors set out below are Directors of Galaxy Midco 1 Limited. Galaxy Midco 1 Limited is the statutory entity at which the Group's operational board sits. The Directors of Galaxy Finco Limited are set out in the Directors' Report on page 28.

David Tyler
Group Chairman

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

David holds an MA in Economics from the University of Cambridge.

Ian Mason
Chief Executive Officer

Ian was appointed Chief Executive Officer on 4 July 2016. Previously, Ian was CEO of Electrocomponents PLC from 2001 to 2015, holding a number of leadership roles prior to being appointed CEO. During his 14-year tenure as CEO he led the business through a period of significant change, creating a leading international eCommerce business and delivering shareholder value.

Ian is recognised as a strategic thinker and a strong, personable leader. He has extensive experience of the strategic, systems and service challenges of growing and transforming a business. He also has significant non-executive experience, and is currently a Non-Executive Director of Qinetiq Group PLC.

He holds an MBA from INSEAD and a PhD from Cambridge University and started his commercial career at McKinsey and Company and Boston Consulting Group.

Andrew Crossley
Chief Financial Officer

Andy is the Chief Financial Officer. He was appointed a Director of the Group on 4 September 2014. He was previously Chief Financial Officer and Deputy Chief Executive Officer at Prudential UK & Europe and Group Chief Risk Officer for Prudential Plc, having formerly held senior finance positions with other listed companies including Lloyds Bank and Legal & General. He holds a BA from University College London and an MPhil from the University of Cambridge. Andrew is a Non-Executive Director of Vitality Life and Health.

Robin (Pev) Hooper
Non-Executive Director

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

Peter Rutland
Non-Executive Director

David Wells
Non-Executive Director

Debbie Hewitt MBE
Independent Non-Executive Director

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

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

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

Other Committees

Galaxy Midco 1 Limited has an Audit & Risk Committee and a Remuneration Committee with responsibilities for ensuring that the Group, including Galaxy Finco Limited, continues to conduct its business in accordance with applicable United Kingdom corporate governance standards. Details of the membership and terms of reference of each of these committees are provided in more detail below.

Audit & Risk Committee
The members of the Audit & Risk Committee are David Tyler (as Chairman), Andrew Crossley, Pev Hooper, Peter Rutland and Debbie Hewitt MBE. Under its terms of reference, the Audit & Risk Committee should meet at least three times a year and in the current year met five (2015: five) times. The Committee has an established annual plan of work, and its responsibilities include: the review of the annual and quarterly financial statements (including the reasonableness of areas of judgment); review of the appropriateness of the Group's accounting principles and procedures; review of the effectiveness of the audit process and the relationship of the Group with its external auditors including the level and nature of non-audit services; review of the effectiveness of the internal audit function; and review of the effectiveness of the Group's internal controls, risk management and compliance processes.

Remuneration Committee
The members of the Remuneration Committee are Pev Hooper (as Chairman), David Tyler, Peter Rutland, Debbie Hewitt MBE and Ian Mason. Under its terms of reference, the Remuneration Committee should meet at least once a year and in the current year met three (2015: three) times. The Committee has responsibility for determining the overall framework and policy for remuneration of the Chairman, the independent Non-Executive Directors, the Executive Directors and senior executives of the Group. The remuneration policy for executive directors and senior management is to provide packages that are intended to attract, motivate and retain high-calibre individuals, to develop the Group further and enhance its value.

Executive Committee

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

Peter Edwards
Chief Information Officer

Peter joined D&G in January 2012. Previously, Peter has worked with market-leading international businesses, including telecommunications, video game retailing, and media, as well as delivering a new digital strategy for the Royal Opera House.

At D&G, Peter has responsibility for the planning, delivery and management of our technology systems and applications both in the UK and internationally.

Joe Fitzgerald
Managing Director – Customer Strategy

Joe is responsible for our overall customer strategy and leads our Marketing, Repair Service and Underwriting & Commercial functions. Joe joined the Domestic & General graduate scheme in November 1998 and worked in a variety of roles across the business before being appointed Underwriting Director in 2007. Joe is a qualified management accountant.

Jo Hale
Customer Service Director

Jo Hale is our Customer Contact Director who joined in October 2016. Over the last four years Jo has been working with high-growth SMEs in the South West on their people and customer strategies. She has extensive experience in leading large operations, delivering change and improving customer experience.

Prior to this Jo worked for 17 years at RAC, where she lead the sales and services membership areas.

Julia Holden
Transformation Director

Julia has worked in the insurance industry for over 30 years and joined D&G as Transformation Director in January 2017. She started her career in the Life and Pensions industry and moved into a management consultancy role in 1997. She joined Deloitte in 2002 and was promoted to Director in 2008. During her time as a consultant she performed a broad range of advisory and change delivery roles within many of the UK's top insurance businesses. In 2013 she moved back into an industry role as Strategic Project Director at Prudential UK.

Steven Purser
Managing Director – Client Management & New Business Sales

Steve joined D&G in March 2008 and prior to becoming Client Management Director, held the Marketing Director and the Sales & Marketing Director roles. Steve has worked in the industry for over 15 years and previously held senior sales roles for both Homeserve and Allianz Insurance.

His career has included UK and international roles with extensive knowledge of the financial services market.

Jean-Paul Rabin
Group Head of Legal, Compliance & Company Secretary

Jean-Paul joined D&G in November 2008 as Group Head of Legal and Company Secretary. Jean-Paul was previously Head of Legal – Financial Services for the Capita Group, a leading UK provider of business process outsourcing.

Jean-Paul has over 20 years' legal experience, both in the UK and internationally. Having commenced his legal career in Australia, he moved to England, joining Slaughter and May in London. He then worked for a number of multinational groups in a range of industries before returning to the UK. He is qualified in England & Wales, and Australia (NSW).

Nick Ulycz
Group HR Director

Nick was appointed Group HR Director in December 2016. He also has responsibility for the Group Communications function. Prior to joining D&G Nick was Head of HR for HSBC in the UK. Nick spent eight years at HSBC, before which he worked at FirstData as HR Director. Nick studied HR and is a Member of the Chartered Institute of Personnel and Development.

Directors' Report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 March 2017.

Principal activity

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

Board of Directors

The names of the Directors who served through the year are set out below:
Robin (Pev) Hooper
Peter Rutland
David Wells
Andrew Crossley

Share capital

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

Dividends

The Directors do not recommend the payment of a dividend on ordinary shares at this time (2016: nil).

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers by agreeing the terms of each transaction, ensuring the suppliers are made aware of the terms of payment and abiding by the terms of the payment. Trade payables of the Group at 31 March 2017 were equivalent to 25 days' purchases (2016: 29), based on the average daily amount invoiced by suppliers during the period.

Directors and officers, insurance and directors' indemnities

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

Going concern

The Group's business activities and strategy, including a review of future plans, are included in the Strategic Report on pages 6 to 15. The Strategic Report on pages 16 to 19 includes details of the Group's financial position as well as details of the Group's loans and borrowings, cash flow and liquidity.

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

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

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

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

Disclosure of information to auditors

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

Auditors

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

By order of the Board

SJ Secretaries Limited
Company Secretary
17 July 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and IFRSs as adopted by the EU.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the group financial statements of Galaxy Finco Limited for the year ended 31 March 2017 which comprise Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

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

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the EU of the state of the group's affairs as at 31 March 2017 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

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

17 July 2017

Consolidated Income Statement
For the year ended 31 March 2017

		Year ended 31 March 2017			Year ended 31 March 2016		
	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	2	716.0	–	716.0	648.2	–	648.2
Operating costs				–			
– Amortisation	3	–	(62.5)	(62.5)	–	(75.1)	(75.1)
– Other operating costs	3	(631.7)	(4.2)	(635.9)	(567.4)	–	(567.4)
Operating profit/(loss)		84.3	(66.7)	17.6	80.8	(75.1)	5.7
Investment income	4	2.4	–	2.4	3.0	–	3.0
Finance costs	5	(51.7)	–	(51.7)	(50.6)	–	(50.6)
Profit/(loss) before taxation	6	35.0	(66.7)	(31.7)	33.2	(75.1)	(41.9)
Income tax (charge)/credit	9	(9.2)	15.0	5.8	(5.6)	19.5	13.9
Loss for the year				(25.9)			(28.0)

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

All business above is from continuing operations.

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2017

	Note	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Loss for the year		(25.9)	(28.0)
Currency translation differences		0.2	–
Gain/(loss) on available for sale financial assets		0.6	(0.9)
Effective portion of changes in fair value of cash flow hedges – hedging reserve		0.6	0.3
Total comprehensive loss for the year	23	(24.5)	(28.6)

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

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

Consolidated Balance Sheet
At 31 March 2017

	Note	31 March 2017 £m	31 March 2016 £m
Assets			
Goodwill and intangible assets	11	539.9	597.7
Property, plant and equipment	10	10.9	12.0
Deferred acquisition costs	12	220.4	187.0
Investments	14	210.4	183.6
Trade and other receivables	17	426.1	387.3
Cash and cash equivalents	18	30.1	29.6
Total assets		1,437.8	1,397.2
Liabilities			
Loans and borrowings	21	649.7	634.5
Deferred tax liabilities	13	42.0	56.9
Deferred income	19	614.5	569.2
Claims and repair costs provision	20	24.1	20.2
Current tax liability		6.0	2.0
Derivative liabilities	15	0.6	1.2
Trade and other payables	22	164.2	152.0
Total liabilities		1,501.1	1,436.0
Shareholders' equity			
Share capital		89.9	89.9
Other reserves		0.5	(0.9)
Retained earnings		(153.7)	(127.8)
Total shareholders' equity	23	(63.3)	(38.8)
Total shareholders' equity and liabilities		1,437.8	1,397.2

These financial statements were approved by the Board of Directors on 17 July 2017 and were signed on its behalf by:

A M Crossley
Chief Financial Officer

17 July 2017

Consolidated Statement of Changes in Equity
At 31 March 2017

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

	Ordinary share capital £m	Share premium £m	Hedging reserves £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2015	0.9	89.0	(1.5)	1.2	(99.8)	(10.2)
Loss for the year	–	–	–	–	(28.0)	(28.0)
Other comprehensive income for the year	–	–	0.3	(0.9)	–	(0.6)
Balance as at 31 March 2016	0.9	89.0	(1.2)	0.3	(127.8)	(38.8)

Consolidated Cash Flow Statement
For the year ended 31 March 2017

	Note	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Loss before tax		(31.7)	(41.9)
Adjustments for:			
Depreciation of property, plant and equipment		4.1	4.3
Amortisation of software		4.2	3.1
Amortisation of acquired intangible assets		62.5	75.1
Revaluation of land and buildings		(0.3)	–
Interest expense		51.7	50.6
Interest income		(2.4)	(3.0)
Significant items – other operating and finance costs		4.2	–
		92.3	88.2
Changes in working capital			
Increase in deferred acquisition costs		(27.3)	(50.1)
Increase in trade and other receivables		(35.3)	(48.5)
Increase in deferred income		26.8	26.7
Increase in claims and repair costs provision		3.2	2.1
Increase in trade and other payables		6.8	28.4
Cash flows from operating activities		66.5	46.8
Significant items		(1.9)	–
Interest received from cash and cash equivalents		0.3	0.9
Interest paid		(35.0)	(35.3)
Income taxes paid		(5.1)	(4.8)
Net cash from operating activities		24.8	7.6
Cash flows from investing activities			
Interest received on investments		2.1	2.3
Acquisition of property, plant and equipment		(1.5)	(2.1)
Acquisition of software		(8.9)	(10.3)
(Deposit with)/withdrawal from credit institutions		(0.9)	9.5
Deposits with money market funds		(19.0)	(6.4)
Financial instrument investments		4.1	(8.1)
Net cash used in investing activities		(24.1)	(15.1)
Cash flows from financing activities			
Amounts paid to Group undertakings		(1.6)	(0.6)
Net cash used in financing activities		(1.6)	(0.6)
Net decrease in cash and cash equivalents		(0.9)	(8.1)
Effects of exchange rates		1.4	2.2
Cash and cash equivalents at beginning of the year		29.6	35.5
Cash and cash equivalents at the end of the year	18	30.1	29.6

Notes to the Financial Statements

1 Significant Accounting Policies

Galaxy Finco Limited is a Company incorporated in Jersey. These consolidated financial statements of the Company are for the year to 31 March 2017 and comprise the Company and its subsidiaries (together referred to as the 'Group').

A Statement of compliance

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

B Basis of preparation

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

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

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

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

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

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

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

C New, amended and revised Standards and Interpretations

The following Standards, and amendments and revisions to published Standards, were effective for the year ended 31 March 2017, and had no material impact on the Consolidated Financial Statements:

Amendments and revisions to IFRSs	
Amendment to IAS 7	Disclosure initiative
Amendment to IAS 12	Recognition of deferred tax assets for unrealised losses
Clarification to IFRS 12	Annual improvements 2014–2016
Various	2015 amendments to the IFRS for SMEs

The following Standards and amendments to published Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been endorsed by the EU) and not expected to have a material impact on the financial statements of the Group in future periods.

Amendments and revisions to IFRS		Effective for periods beginning on or after
IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Various	Annual improvements 2014–2016	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

IFRS 15 is not expected to impact the Group despite a trading subsidiary, DGS UK Limited, providing service-based warranty products. DGS UK Limited is not regulated as an insurance entity but IFRS 4 specifies that, even if entities providing warranty products are not legally insurance entities, those products can be deemed to be insurance contracts for accounting purposes. As IFRS 4 applies, IFRS 15 does not have an impact.

1 Significant Accounting Policies continued

The following Standards and amendments to published Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been endorsed by the EU) and expected to have a material impact on the financial statements of the Group in future periods are:

Amendments and revisions to IFRSs		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021

IFRS 17 (new standard) will replace the current IFRS 4. IFRS 17 was issued in May 2017 and effective for the periods beginning on or after 1 January 2021.

Based on November 2016 project overview by IFRS, the expected changes under IFRS 17 include:

- new set of approaches on contract recognition
- different reporting performance required
- additional disclosures relating to the risks and amounts reported in financial statements.

The impact of this standard is yet to be quantified by the Company.

Implementation of IFRS 16 will impact measurement and disclosure of leases; as a result operating profit and assets – property, plant and equipment would likely be higher than at present, but with minimal overall net impact.

Implementation of IFRS 9 will impact classification and measurement of financial instruments as well as introducing a new impairment model, which is likely to result in an increase in expenses and liabilities. The Group is in the process of quantifying the impact of this standard.

D Basis of consolidation

The consolidated financial statements include the results of the Company and its subsidiaries. Subsidiaries are those entities over which the investor controls an investee when it is exposed, or has rights to variable returns from its involvement. The financial results of subsidiaries are included in the consolidated financial statements from the date on which effective control commences until the date that control ceases.

Intra-Group balances and transactions and any unrealised gains and losses or income and expenses arising from the intra-group transactions are eliminated in preparing the consolidated financial statements.

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 statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

E Sales, revenue and deferred income

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

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

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

F Significant items

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

G Acquisition costs

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

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

H Provisions

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

1 Significant Accounting Policies continued

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

I Investment income

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

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

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

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

J Derivative financial instruments

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

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

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

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

K Available for sale financial instruments

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

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

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

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 with sufficient regularity to ensure that the carrying amount at the end of a reporting period does not differ materially from its fair value. In the intervening years, these valuations are reviewed by the Directors and are adjusted if the valuation differs materially from its carrying amount.

1 Significant Accounting Policies continued

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

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

M Intangible assets

(a) Goodwill

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

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

Subsequent measurement

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

(b) Intangible assets acquired in a business combination

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

(c) Other intangible assets

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

(d) Subsequent expenditure

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

(e) Amortisation

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

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

N Impairment

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

(a) Non-financial assets

Goodwill is tested for impairment annually even if no indication of impairment exists. Impairment losses cannot be reversed.

An impairment loss in respect of other assets is reversed if there has been a change in the estimates to determine the recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the recoverable amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(b) Financial assets

Impairment losses in respect of financial assets measured at amortised cost are calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

1 Significant Accounting Policies continued

O Investments
All financial assets are designated either as available for sale, at fair value through profit or loss or as loans and receivables.

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

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

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

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

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

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

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

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

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

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

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

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

V Pension costs
Payments to defined contribution pension schemes are charged to the income statement as they fall due.

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

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

2 Revenue

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

	Year ended 31 March		
	Service plans 2016 £m	Insurance 2016 £m	Total 2016 £m
Sales	419.6	255.6	675.2
Deferred income movement	(8.4)	23.0	14.6
	411.2	278.6	689.8
Fair value adjustment			(41.6)
Revenue			648.2

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

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

3 Significant items and amortisation

	Year ended 2017 £m	Year ended 2016 £m
Operating costs		
Amortisation of intangible assets acquired in a business combination	**(62.5)**	(75.1)
Restructuring costs	**(4.4)**	–
Revaluation of land and buildings	**0.2**	–
	(66.7)	(75.1)

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

Significant items include costs incurred during the restructuring of elements of our business. The revaluation relates to land and buildings – see Note 10 for further details.

4 Investment income

	Year ended 2017 £m	Year ended 2016 £m
Interest income on loans and receivables	**2.4**	3.0

5 Finance costs

	Year ended 2017 £m	Year ended 2016 £m
Interest payable on loans and borrowings	**47.8**	46.6
Finance charges – amortisation of deferred financing costs	**3.9**	4.0
	51.7	50.6

Notes to the Financial Statements continued

6 Loss before taxation

	Year ended 2017 £m	Year ended 2016 £m
The following items have been included in arriving at the loss before taxation:		
Employee costs (note 8)	99.7	91.2
Auditor's remuneration (note 7)	0.3	0.3
Depreciation of property, plant and equipment (note 10)	4.1	4.3
Amortisation of intangible assets (note 11)	66.7	78.2
Operating lease rental payments (note 24)	4.4	3.2
Sublease income (note 24)	(0.7)	(0.6)
Repairs and maintenance expenditure on property, plant and equipment	8.7	7.2
Repairs and claims costs	311.9	300.3
Acquisition costs (excluding employee costs)	168.0	129.5
Research and development costs	2.2	1.5

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

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

	Year ended 2017 £000	Year ended 2016 £000
Audit of the Group's financial statements	32	62
Audit of subsidiaries' financial statements	241	238
Fees for regulatory reporting	31	30
Total audit fees	304	330
Other services relating to taxation	34	136
All other services	77	59
	415	525

8 Employee costs

	Year ended 2017 £m	Year ended 2016 £m
(a) Staff costs for the Group during the year		
Wages and salaries	86.5	79.9
Social security costs	9.1	8.3
Other pension costs	4.1	3.0
	99.7	91.2

Included in staff costs is £4.8m (2016: £5.3m) that is treated as acquisition costs.

	Number	Number
(b) Average number of employees during the year		
Directors	4	4
Sales and marketing	287	291
Commercial finance and claims	275	260
Finance and administration	470	446
Contact, IT centres	1,904	1,783
	2,940	2,784

9 Taxation

	Year ended 2017 £m	Year ended 2016 £m
Current tax expense		
Current tax on profit for the year	(8.0)	(6.9)
Adjustment to tax charge in respect of prior years	(1.2)	1.3
Total current tax	(9.2)	(5.6)
Deferred tax credit		
Origination/reversal of temporary differences	0.9	0.7
Tax effect of amortisation of intangible assets	11.7	14.9
Impact of rate change	2.4	3.9
Total deferred tax	15.0	19.5
Total income tax credit	5.8	13.9

9 Taxation continued

The tax for the year is higher than (2016: higher than) the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	Year ended 2017 £m	Year ended 2016 £m
Loss on ordinary activities before tax	(31.7)	(41.9)
Standard rate of corporation tax in the UK	20%	20%

	£m	£m
Loss on ordinary activities multiplied by the standard rate of corporation tax	(6.3)	(8.4)
Effects of:		
Change in UK corporation rate on timing differences	(2.4)	(3.9)
Items disallowable for tax purposes	0.1	0.2
Adjustment to tax charge in respect of prior years	1.2	(1.3)
Tax rate difference in branches	1.3	–
Tax rate differences in non UK subsidiaries	0.1	(0.3)
Other	0.2	(0.2)
Total income tax credit	(5.8)	(13.9)

Factors that may affect future tax charges

Reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was enacted on 15 September 2016. This will reduce the Company's future current tax charge accordingly.

10 Property, plant and equipment

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

10 Property, plant and equipment continued

	Land and buildings £m	Computer equipment £m	Motor vehicles £m	Fixtures, fittings and equipment £m	Total £m
Cost					
At 1 April 2015	1.7	12.3	0.1	5.3	19.4
Additions	–	1.0	–	0.7	1.7
Disposals	–	–	(0.1)	–	(0.1)
Balance as at 31 March 2016	1.7	13.3	–	6.0	21.0
Depreciation					
At 1 April 2015	–	3.6	0.1	1.1	4.8
Charge for the year	–	3.1	–	1.2	4.3
On disposals	–	–	(0.1)	–	(0.1)
Balance as at 31 March 2016	–	6.7	–	2.3	9.0
Carrying amount at 31 March 2016	1.7	6.6	–	3.7	12.0

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

The directors consider the carrying value to be reflective of that valuation as at 31 March 2017.

11 Goodwill and intangible assets

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

	Goodwill £m	OEM relationships £m	Customer relationships & other £m	Software £m	Total £m
Cost					
At 1 April 2015	278.5	260.9	251.3	14.0	804.7
Additions	–	–	–	10.3	10.3
Impairment	–	–	–	–	–
Balance as at 31 March 2016	278.5	260.9	251.3	24.3	815.0
Amortisation and impairment losses					
At 1 April 2015	–	22.4	113.6	3.1	139.1
Charge for the year	–	17.4	57.7	3.1	78.2
Impairment	–	–	–	–	–
Balance as at 31 March 2016	–	39.8	171.3	6.2	217.3
Carrying amount at 31 March 2016	278.5	221.1	80.0	18.1	597.7

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

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

11 Goodwill and intangible assets continued

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:

	2017 £m	2016 £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 at the date of acquisition. 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 inputs into the cash flow projections are based include service plan and insurance policy sales volumes and prices, claims costs, revenue growth, operating margins, retention rates and cancellation rates.

The projected cash flows are discounted using a pre-tax discount rate of 8% (2016: 10%) (UK – Non-Regulated) and 9% (2016: 11%) (UK – Regulated and International), which reflects current market assessments of the time value of money and the risks specific in the CGUs. The reduction in discount rates reflects economic developments and other CGU-specific factors.

Management has used a long-term growth rate of 2% (2016: 2%) in extrapolating the forecasts beyond the period covered in the forecast model, reflecting the current economic environment. Ten-year swap rates have been used as the basis for estimating the future cost of debt for the Group after applying Company-specific adjustments.

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

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

12 Deferred acquisition costs

	2017 £m	2016 £m
Balance at the start of the year	**187.0**	130.2
Arising in the year	**206.2**	191.6
Amortisation for the year	**(166.7)**	(128.1)
Foreign exchange	**(6.1)**	(6.7)
Balance as at 31 March	**220.4**	187.0
Split between:		
Amounts expected to be amortised in 12 months	**160.2**	138.4
Amounts expected to be amortised after 12 months	**60.2**	48.6
	220.4	187.0

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

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

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

13 Deferred tax assets and liabilities continued

	Assets 2016 £m	Liabilities 2016 £m	Net 2016 £m
Intangible assets	–	(56.3)	(56.3)
Capital allowances	0.8	–	0.8
Other temporary differences	–	(1.4)	(1.4)
	0.8	(57.7)	(56.9)

Movement in temporary differences during the year
The standard corporation tax rate for UK in 2016 and 2017 is 20%. Reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was enacted on 15 September 2016.

A deferred tax liability of £1.5m at 31 March 2017 (2016: £2.0m) recognised in respect of potential double tax on German profits.

14 Investments

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

	AFS** 2016 £m	FVTPL* 2016 £m	Loans and receivables 2016 £m	Total 2016 £m
Money market funds	–	38.4	–	38.4
Available for sale investments carried at fair value	99.2	–	–	99.2
Deposits with credit institutions	–	–	46.0	46.0
	99.2	38.4	46.0	183.6

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

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

The value of financial assets which are expected to be recovered in less than one year is £132.9m (2016: £111.1m) and those greater than one year is £77.5m (2016: £72.5m).

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

15 Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

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

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

	Derivative asset/(liability) 2017 £m	Derivative asset/(liability) 2016 £m
Interest rate swaps	(0.6)	(1.2)

The fair value of the derivative financial instrument is based on market quotations.

(b) Hedge accounting

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

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

Hedged item	Notional £m	Term (years)	Completion of hedge
£77m of Senior Secured Floating Rate Notes	77	3	15 May 2018

Hedging instrument	Derivative asset/(liability) 2017 £m	Derivative asset/(liability) 2016 £m
£77m Interest Rate Swap	(0.6)	(1.2)
	(0.6)	(1.2)

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

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

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

	2017 £m	2016 £m
Balance at the start of the year	(1.2)	(1.5)
Amount recognised in equity in the year	0.6	0.3
Cash flow hedge reserve as at 31 March	(0.6)	(1.2)

16 Categories of financial instruments

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

	AFS** – designated on initial recognition 2016 £m	FVTPL* – designated on initial recognition 2016 £m	Loans and receivables 2016 £m	Financial liabilities held at amortised cost 2016 £m	Total 2016 £m
Investments	99.2	38.4	46.0	–	183.6
Trade and other receivables	–	–	387.3	–	387.3
Cash and cash equivalents	–	–	29.6	–	29.6
Derivative liabilities	–	(1.2)	–	–	(1.2)
Loans and borrowings	–	–	–	(634.5)	(634.5)
Trade and other payables	–	–	–	(152.0)	(152.0)
	99.2	37.2	462.9	(786.5)	(187.2)

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

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

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

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

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

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

We have refined our policy for assessing securities and have taken a more granular approach in categorising them within the fair value hierarchy. We deem corporate bonds which are quoted, but not actively traded in relation to trading volumes, to be categorised in Level 2. As a result, we have categorised our investment portfolio as Level 2 for both the current and prior year.

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

	2016 Level 1 £m	2016 Level 2 £m	2016 Total £m
Non-derivative financial assets held for trading	–	38.4	38.4
Derivative financial assets	–	(1.2)	(1.2)
Available for sale investments carried at fair value	–	99.2	99.2

17 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	366.4	349.5
Other receivables	6.4	5.4
Bad debt provision	(0.6)	(0.2)
Prepayments and accrued income	53.9	32.6
	426.1	387.3

All trade and other receivables are current.

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

18 Cash and cash equivalents

	2017 £m	2016 £m
Bank and cash balances	6.7	8.3
Call deposits and short-term bank deposits	23.4	21.3
	30.1	29.6

19 Deferred income

	2017 £m	2016 £m
Balance at the start of the year	569.2	524.5
Amounts deferred during the year	740.3	673.1
Amounts recognised as revenue during the year	(713.5)	(643.6)
Foreign exchange	18.5	15.2
Balance as at 31 March	614.5	569.2
Split between:		
Amounts expected to be recognised in 12 months	446.7	421.2
Amounts expected to be recognised after 12 months	167.8	148.0
	614.5	569.2

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.

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

20 Claims and repair costs provision

	2017 £m	2016 £m
Balance at the start of the year	20.2	17.5
Amounts incurred during the year	312.0	300.3
Amounts paid during the year	(308.1)	(297.6)
Balance as at 31 March	24.1	20.2

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

Assumptions and sensitivities for businesses
(a) Process used to determine the assumptions for measuring trading liabilities
The assumptions used in the estimation of trading liabilities are intended to produce provisions which are sufficient to cover any liabilities arising so far as can be reasonably foreseen.

20 Claims and repair costs provision continued

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

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

- detailed review of claim incident data;
- use of historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected claims ratio compared to actual performance; and
- monitoring of the performance of repairers.

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

(b) Change in assumptions and sensitivity analysis

The Group's activities are high volume, low unit cost business. Any change in the assumption used for any particular plan on a particular product will not result in a material change to the performance of the Group. The majority of claims incurred by the Group have a short tail and are usually settled within six months, hence the Group's claims and repair costs provision is significantly smaller than for types of business that have longer settlement tails. The assumptions that have the greatest effect on the measurement of 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 March 2017 of £2.4m (2016: £2m) which represents 0.8% (2016: 0.7%) of the total claims and repair costs for the year ended 31 March 2017, and is 2.9% (2016: £2.5%) of profit before investment return and finance costs, significant items and tax for the year ended 31 March 2017.

21 Interest-bearing borrowings

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

	2017 £m	2016 £m
6.375% Senior Secured Notes due 2020	200.0	200.0
Senior Secured Floating Rate Notes due 2019	175.0	175.0
7.875% Senior Notes due 2021	125.0	125.0
10% loan due to parent company	156.4	142.9
Financing costs	(6.7)	(8.4)
	649.7	634.5

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

During the year the Company repaid £1.6m (2016: £0.6m) to the parent company.

Terms and debt repayment schedule

	Nominal interest rate	Year of maturity	Principal £m	Carrying amount* £m
6.375% Senior Secured Notes due 2020	6.375	2020	200.0	197.4
Senior Secured Floating Rate Notes due 2019	LIBOR + 5%	2019	175.0	172.7
7.875% Senior Notes due 2021	7.875	2021	125.0	123.2
10% due to parent company	10%	2033	125.0	156.4

* Inclusion of financing costs

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

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 2017 is £674.1m (2016: £640.5m).

The Group has a revolving bank facility of £80.0m (2016: £80.0m) with a final maturity date of 18 September 2019, of which £25.0m (2016: £33.0m) 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. £55.0m (2016: £47.0m) was undrawn at year end, and of this £3.0m (2016: £3.0m) is currently available as a same day drawdown money market facility.

22 Trade and other payables

	2017 £m	2016 £m
Trade payables	124.1	118.6
Accrued expenses	40.1	33.4
	164.2	152.0

All trade and other payables are current.

23 Shareholders' equity

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

	Capital £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m
At 1 April 2015	89.9	(1.5)	1.2	(99.8)	(10.2)
Total comprehensive income for the period	–	0.3	(0.9)	(28.0)	(28.6)
Balance as at 31 March 2016	89.9	(1.2)	0.3	(127.8)	(38.8)

Capital

	2017 £m	2016 £m
Called up share capital	0.9	0.9
Share premium account	89.0	89.0
	89.9	89.9

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

The particulars of the share classes are as follows:

Allotted, called up and fully paid	Par value	2017	2016
Class			
A ordinary	£0.01	89,871,070	89,871,070

Called up share capital
Allotted, called up and fully paid.

	2017 No.	£m	2016 No.	£m
Ordinary shares paid at £0.01p each	89,871,070	0.9	89,871,070	0.9

Share premium account

	2017 £m	2016 £m
Balance as at 1 April and 31 March	89.0	89.0

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

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

24 Commitments

(a) Operating lease commitments

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

	2017 £m	2016 £m
Within one year	3.8	2.6
Between two and five years	10.5	8.8
More than five years	0.8	1.0
	15.1	12.4

The main component of operating leases is the Group's Head Office building which is on a 14-year lease ending in 2021. Space not required is sublet on a short-term basis. The remaining lease liabilities cover a number of Group sites with leases due to expire between 2017 and 2026.

During the year ended 31 March 2017, £4.4m (2016: £3.2m) was recognised as an expense in the income statement in respect of operating leases. £0.7m (2016: £0.6m) was recognised as income in the income statement in respect of subleases.

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

	2017 £m	2016 £m
Within one year	0.0	0.2
	0.0	0.2

(b) Capital commitments

At 31 March 2017 the Group had capital commitments contracted for but not provided of £1.2m (2016: £0.5m).

25 Subsidiary companies

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

Other subsidiaries:	Country of incorporation	Nature of business
Domestic & General Insurance Services Limited	England & Wales	Insurance broker
Copleys Limited	England & Wales	Dormant company
Flyingtoolbox.com Limited	England & Wales	Dormant company

* Directly owned subsidiary of the Company

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

All subsidiaries are included in the Group consolidation.

The Company has given guarantees to certain subsidiaries for at least 12 months from the date of approval of their financial statements.

26 Related parties

(a) Ultimate controlling party

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

(b) Other related party transactions

As at 31 March 2017 amounts owed to the immediate parent undertaking Galaxy Midco 2 Limited totalled £156.4m (2016: £142.9m). Interest of £14.6m (2016: £13.3m) was charged on this balance. No repayments were made during the year (2016: £nil).

As at 31 March 2017 amounts owed by a parent undertaking, Galaxy Midco 1 Limited, totalled £1.6m (2016: £1.0m). No interest was charged on this trading balance.

During the year ended 31 March 2017, £1.0m (2016: £1.0m) was paid as a monitoring fee to the CVC Capital Partners Advisory Company (Luxembourg) S.a.r.l.

(c) Transactions with key management personnel

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

	2017 £m	2016 £m
Wages and salaries and other social security costs	8.8	8.0
Other pension costs – defined contribution schemes	0.6	0.6
Total key management personnel compensation	9.4	8.6

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

27 Risk management of trading liabilities

Trading liabilities

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

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 for overall risks. These methods include internal risk measurement and sensitivity analysis. The calculation of the claims and repair costs element is the most complex and is a result of the anticipated claims cost and the projected claims frequency for each year of projection. We also re-price based on latest account experience and external conditions.

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

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

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

(b) Development of claims provision (see Note 20)

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

28 Financial risk management

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

(a) Interest rate risk

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

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

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

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

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

A 1.0% increase in interest rates would have a £2.2m positive (2016: £2.1m) impact on interest income, and a £4.5m negative (2016: £4.3m) impact on interest payable of the Group. The above analyses assume that all other variables remain constant.

(b) Credit risk

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

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

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

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

Credit ratings of significant classes of financial assets

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

	A rated (or above) institutions 2016 £m	B rated (or below) institutions 2016 £m	Unrated 2016 £m	Total 2016 £m
Cash and cash equivalents	29.6	–	–	29.6
Money market funds	38.4	–	–	38.4
Available for sale investments carried at fair value	71.2	28.0	–	99.2
Deposits with credit institutions	46.0	–	–	46.0
Trade and other receivables	–	–	387.3	387.3
	185.2	28.0	387.3	600.5

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.

28 Financial risk management continued

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

		Trade and other receivables 2016 £m	Total 2016 £m
Not past due		386.8	386.8
Past due (days)	0–30	0.3	0.3
	31–60	0.1	0.1
	61–90	–	–
	Greater than 90	0.3	0.3
Provision		(0.2)	(0.2)
Carrying amount		387.3	387.3

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 claims and repair cost payments, staff costs and interest payments are highly predictable. The Group maintains cash and liquid deposits to meet demands on a daily basis.

See Note 21 for further details.

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

	Claims and repair costs 2016 £m	Loans and borrowings 2016 £m	Trade and other payables 2016 £m	Interest payable 2016 £m	Total 2016 £m
0–90 days	20.2	–	144.4	11.5	176.1
91 days–1 year	–	–	5.5	35.3	40.8
1–3 years	–	–	1.9	93.7	95.6
3–5 years	–	375.0	–	74.8	449.8
Greater than 5 years	–	267.9	0.2	183.6	451.7
Total	20.2	642.9	152.0	398.9	1,214.0

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

28 Financial risk management continued

(d) Foreign exchange risk

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

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

29 Capital management

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

The total amount of debt and equity capital of the Group comprises shareholders' deficit of £63.3m (2016: £38.8m), Senior Secured Notes (net of financing costs) of £197.4m (2016: £196.8m), Senior Secured Floating Rate Notes of £172.7m (2016: £171.9m), Senior Notes of £123.2m (2016: £122.9m) and amounts owed to parent undertakings (including accrued interest) of £156.4m (2016: £142.9m).

The Group's insurance company, Domestic & General Insurance PLC (DGI), is regulated by the UK Prudential Regulation Authority (PRA). The Board regularly reviews the capital position of DGI and from 1 January 2016, DGI 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. Under Solvency II DGI uses the Solvency II standard model as adjusted for Undertaking-Specific Parameters (USPs) to determine the level of capital and 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 business plan financial projections by varying assumptions for future experience. DGI 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.

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

Glossary of Terms

Acquisition costs
Commission and other expenses incurred on acquiring applicance care protection plan business

Annual Premium Equivalent
Sales, net of cancellations, adjusted for the impact of periods of cover to provide an annual one-year premium equivalent

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

Customers
Individuals who have purchased appliance care service plans or policies

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

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

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

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

IAS
International Accounting Standards

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

Investment return – interest
Calculated as investment income earned in the year over the average balance of investments plus cash and cash equivalents in the year

IFRS
International Financial Reporting Standards

Multiplan
A multiplan is a single plan that covers multiple appliances

OEM
Original Equipment Manufacturer

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

Operating Profit Margin
Operating profit expressed as a percentage of revenue

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

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

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

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

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

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

Glossary of Terms continued

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

Underlying EBITDA
Underlying operating profit, adding back depreciation plus interest income

Underlying Operating Profit
Underlying revenue less operating costs other than significant items

Underlying Revenue
Underlying 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

Notes

Notes

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