

# Homserve plc





# Contents

2. Homeserve Companies
5. Growth Record
6. Highlights
7. Chairman's Statement
9. A Statement from the Retiring Chairman
10. Chief Executive's Review
20. Financial Review
23. Corporate and Social Responsibility
26. Directors' Biographical Details
28. Directors' Report
30. Corporate Governance
32. Remuneration Report
38. Directors and Advisers
39. Statement of Directors' Responsibilities
40. Independent Auditors' Report
42. Consolidated Profit and Loss Account
43. Consolidated Balance Sheet
44. Company Balance Sheet
45. Supplementary Statements
46. Consolidated Cash Flow Statement
47. Notes to the Cash Flow Statement
49. Notes to the Accounts
69. Proforma Consolidated Balance Sheet
71. Five Year Summary
72. Shareholder Analysis
73. Financial Calendar
74. Service Finder
76. Company Contact Details

## Home Service



Home Service markets a range of Home Assistance policies branded to Water and Power Companies and Household Insurers and is the market leader in Plumbing and Drains. Other products include electrical wiring cover, gas central heating cover and In the box warranty programmes which are run for appliance manufacturers.

## Home Hotline



Home Hotline is the 24 hour, 365 day Home Assistance claims handling and repairer network. A number of Household Insurers use the service in addition to its support to Home Service's customers.

## Doméo



Offers supply pipe, plumbing and drainage, electrical wiring and heating breakdown cover in France. A joint venture with and branded to Générale des Eaux Services. Home Assistance is also available to other affinity partners in France.

# Home Service USA



Launched in November 2003 to offer supply pipe, plumbing and drains and associated service contracts. Following successful testing with Aqua America, Home Service USA is now offering to brand this service to a number of other American Water Companies.

# Ψ THE REGENCY GROUP



Regency is the market leader in furniture warranties and upholstery repairs and cleaning to major retailers. This service has been extended to Household Insurers for accidental damage claims. Regency also runs a motor warranty ('F&I') business for Seat and Mercedes, plus major dealership groups.



Highway is the market leader in directly employed emergency repairs for Household Insurers covering glazing, locks, window and door frames and garage doors. This has been expanded to cover plumbing and drains. Highway operates from 36 local branches providing national coverage.

## **SERVOWARM** CENTRAL TO GAS HEATING



Servowarm provides support to boiler manufacturers' own repair operations as well as offering Servocare boiler breakdown cover. The business employs 130 CORGI registered gas engineers providing full UK coverage.

## **OnSite**<sup>™</sup>



OnSite provides a range of infrastructure services including water and wastewater services covering the entire water cycle and specialist maintenance services through Middleton Doorman including a new security barrier installation and maintenance business. OnSite's customers include a wide range of commercial and industrial clients.

## **MailSolutions**

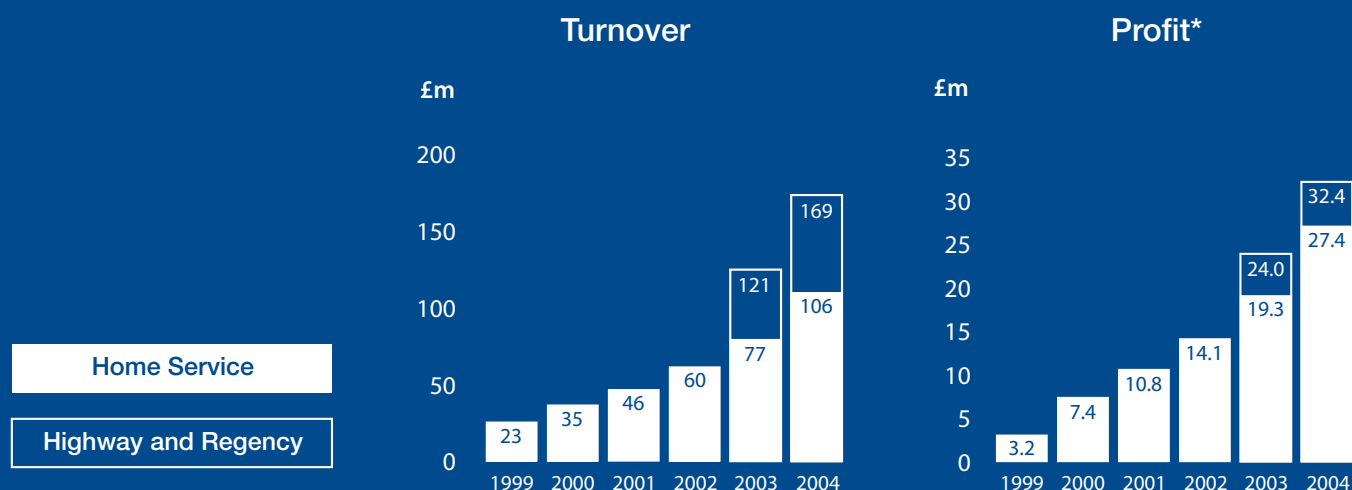


Mail Solutions offers a complete mailing service including leaflet, ticket and continuous stationery printing, high volume envelope manufacturing, laser printing and inserting. Customers include many large direct mail businesses.

**Domestic services have shown a tenfold increase in operating profit\* over the last five years.**

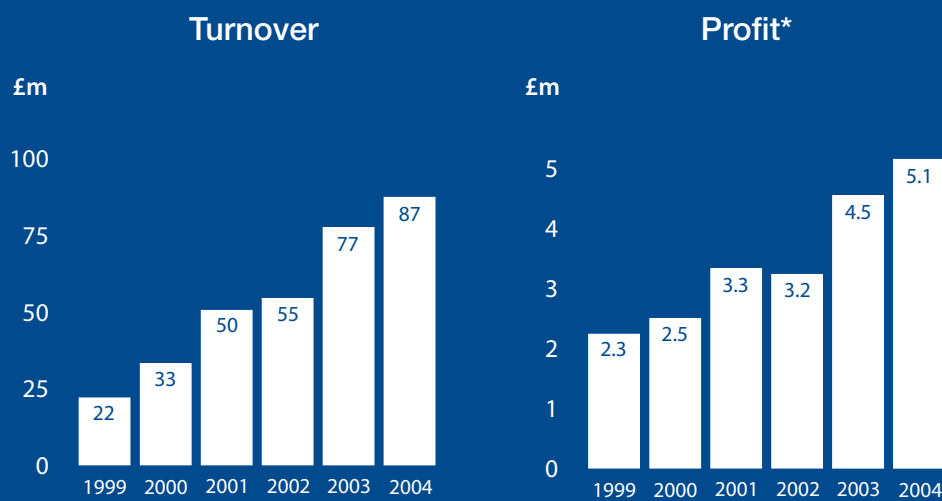
## Growth Record – Continuing Operations

### Homeserve Domestic



- Compound annual growth in turnover of 48% and profit\* of 59%.
- Home Service providing profits\* of £27m on turnover of £106m representing 54% compound annual organic profit growth.

### Homeserve Commercial



- Compound annual growth in turnover of 32% and profit\* of 17%.

\* Operating profit before goodwill and exceptional costs - see note 2 to the Accounts

# Highlights of the Year

Continuing Operations			
	2004	2003	Increase
Turnover†	£250.6m	£194.4m	29%
Operating profit*			
– domestic	£32.4m	£24.0m	35%
– commercial	£5.1m	£4.5m	13%
Profit before tax*	£36.8m	£27.1m	36%
Earnings per share*	33.8p	25.2p	34%
Earnings per share* – post share consolidation**	42.2p	31.5p	34%

Total Group		
	2004	2003
Turnover	£323.0m	£265.8m
Operating profit	£49.1m	£44.5m
Profit before tax*	£51.7m	£44.5m
Basic earnings per share	35.2p	38.2p
Earnings per share*	51.0p	45.9p

- Successful demerger of Water Supply operations on 6 April 2004 creating significant shareholder value.
- 36% increase in profit before tax\* from continuing operations.
- Home Service generated 42% operating profit\* growth and 22% policy growth in core home emergency products.
- International now well established in France with over 160,000 policies. Test marketing has proved successful in Philadelphia region of USA.
- Regency has expanded upholstery repair network and 3 year warranty programme for Harveys now established.
- Highway implemented operational changes during the year and enjoyed increased lead generation in the final quarter particularly from new insurance customers.
- Commercial activities performed well in a competitive market.

† see note 2

\* excluding goodwill and exceptional costs (see profit and loss account and notes 2 and 11)

\*\* adjusted to reflect the 4 for 5 share consolidation



# Chairman's Statement



Homeserve's continuing operations had an outstanding year achieving 36% growth in profit before tax\* and 34% growth in earnings per share\*. The Group as a whole including the demerged operations produced an excellent overall trading performance for the year with operating profits\* increasing by 16%, providing an 11% increase in earnings per share\*.

On 6 April 2004 the Group demerged its water supply operation, South Staffordshire Water and other closely related businesses, in order to simplify the Group structure and provide greater clarity for shareholders. This demerged group was named South Staffordshire Plc, and the shares are now separately listed on the main market of the London Stock Exchange.

At the same time, South Staffordshire Group Plc changed its name to Homeserve plc, retaining its existing listing under Support Services. Additionally the Group acquired the 24.98% minority shareholding in the Homeserve division in a share for share exchange involving the issue of 11.6m new shares by the Group, equivalent to approximately 18.6% of the enlarged share capital.

These changes have been well received internally, by our shareholders and the wider investment community, creating significant shareholder value.

## Group Results

In the year ended 31 March 2004 which includes both Homeserve and South Staffordshire, the Group's turnover (including share of joint ventures) increased by 22% to £323.0m (2003:

£265.8m). Profit before tax, goodwill and exceptional items\* has increased by 16% to £51.7m (2003 £44.5m). This comprises a 31% increase in operating profit\* from the Group's continuing activities and a 3% reduction in operating profit from the demerged Water Group. Earnings per share\* for the year have increased by 11.1% to 51.0p (2003: 45.9p).

The Board is proposing a final dividend of £4.5m being 8.8p per share taking into account the post year end share consolidation. This, combined with the Group's interim dividend and the final dividend proposed by the demerged South Staffordshire Plc of £4.4m, brings the total for the year to £12.7m, representing an equivalent dividend per share in issue at the year end of 20.0p (2003: 18.0p), an increase of 11.1%.

Net debt at 31 March 2004 amounted to £93.5m of which £94.1m related to the Water Group, with the continuing operations having net cash of £0.6m.

## Domestic Businesses

The Domestic businesses, previously the Homeserve division, have increased turnover to £169m (2003: £121m), with operating profits\* increasing by 35% to £32.4m (2003: £24.0m). This represents 39% organic profit growth in the Home Service, Home Hotline and related activities together with a profit contribution of £5.0m from Regency and Highway (2003: £4.7m).

Home Service has increased the number of policies in force by 22%, to 2.93m, and achieved the highest ever number of policies sold in one year. This has been combined with retention

rates continuing at a high level of 88% and significant progress overseas where our operation in France reached 160,000 policies. In relation to the two major acquisitions in 2003, the growth in the Regency business has been held back this year following the withdrawal of first year warranties by one of its major customers and Highway has made a small profit for the year as a whole, but importantly this includes a stronger performance in the final quarter.

### Commercial Outsourcing

The continuing commercial outsourcing businesses have seen turnover increase by 12% to £87.0m and operating profit\* increase by 13% to £5.1m. These increases reflect the full year impact of the Middleton Doorman business acquired in August 2002. Overall the businesses have managed to maintain their margins in a market that is proving to be increasingly competitive.

### Demerged Operations

Operating profits from the now demerged Regulated Water Supply business have increased by 3% to £17.0m (2003: £16.5m) on turnover of £60.4m (2003: £58.8m). The business continued to provide amongst the highest levels of service in the industry whilst achieving its operating cost efficiency targets.

The demerged non-regulated operations have seen a reduction in turnover to £24.7m (2003: £26.6m) and a reduction in operating profit to £4.2m (2003: £5.5m) primarily as a consequence of the reduction in Rapid software licence fees as reported last year.

### Board Changes

As a consequence of the demerger, the composition of the Board has changed significantly. Two of our non-executives have retired and two have transferred to the demerged Water Group, and I wish to thank them for their contribution over many years. In particular I would like to pay tribute to Lindsay Bury, who retired after 26 years on the Board, 12 years as Chairman and provided outstanding leadership and support over a period of significant change for South Staffordshire Group.

I would also like to pay tribute to David Penna, the Main Board Director responsible for South Staffordshire Water who died on 17 December 2003 aged 54. David had made a significant contribution to the business and will be greatly missed by everyone in the Group and throughout the water industry.

We have recruited three new independent non-executives, John Maxwell, Justin Jewitt and Barry Gibson, whom we welcome to the Board.

The commitment of our employees has ensured that this has been a very successful year and I would like to thank them for their hard work and dedication.

### Prospects

Homeserve is now well placed to focus on developing its domestic businesses where there continue to be substantial opportunities for growth, both in the UK and international markets. Home Service expects to continue to improve

its market penetration and develop new products. Overseas, our French joint venture is well established with additional products now being introduced. Initial test marketing in the USA looks very promising, however, capitalising on this opportunity will be dependent on signing additional affinity partners.

Highway achieved profits in the last quarter of the year significantly ahead of those of the preceding year and is now benefiting from the range of initiatives that were taken last year to improve performance. These initiatives, together with new customer wins in the year provide a sound platform for a recovery this year.

Regency has been operating in a difficult furniture retail market but is experiencing increased demand from retail catalogue clients and for its upholstery repair network.

Our retained commercial businesses, OnSite and Mail Solutions, have performed well, albeit that they are facing increasingly challenging markets. We are currently assessing the most appropriate strategy for these businesses going forward.

**Brian Whitty**  
Executive Chairman  
25 May 2004

\* pre goodwill and exceptional items  
(see profit & loss account and notes 2 and 11)

# A Statement from the Retiring Chairman



I would like to make a few comments on the occasion of my leaving the Board after so many years. It has been a remarkable period for the Company. Since becoming a PLC and listing on the London Stock Exchange in 1992, when I became Chairman, we have achieved an uninterrupted growth in earnings per share\* and indeed over the nine years since 1995, a compound increase of 13%, a record achieved by very few listed companies. In recent years this has been largely due to the outstanding success of Home Service where our initial investment of £50,000 in 1992 has grown into a business that last year made an operating profit of £27m.

The Water Company has also done outstandingly well over the years and useful contributions have been made by the other divisions. As well as having by most yardsticks the most successful Water Company in the industry, we have been by far the most successful in our diversification record.

None of this would have been possible without the outstanding efforts of our management and staff at all levels. In particular I would like to pay tribute to John Harris who was Managing Director from 1990 to 1998 and who also has just retired as a non-executive director this year. He was a robust competitor and charismatic leader. I also warmly commend to shareholders my successor Brian Whitty who has proved an excellent CEO and in conjunction with Richard Harpin, the founder of Home Service and the new CEO, I am confident that the Company is in good hands.

Indeed I take great pleasure in the fact both companies are in as good a shape as they have ever been. Although the death of David Penna was a tragedy for the Water Company, the new top management are very experienced and will continue to build on his achievement.

Serving the South Staffordshire Group has been a pleasure throughout my time there and I do thank everyone at all levels of the company as well as our shareholders for the support I have received. I now look forward to reading about continuing progress from both companies in the years ahead.

**Lindsay Bury**

# Chief Executive's Review



Home Service policies in the UK increased **22%** to 2.93 million.

This represents a total of **928,000** new policies in the year.

## Domestic Businesses

The strategy for Homeserve plc is to be a world leading provider of insured repair solutions to customer homes via major business partners. Our services are offered through business partners in the Utilities, Appliance Manufacturing, Retail and Household Insurance sectors. Homeserve can deliver a complete solution from marketing and telesales of policies, sales training and compliance to customer administration, claims handling and deployment of employed and subcontract repairers and organising of underwriting. The domestic businesses now generate £169m of turnover and over £32m of operating profits\*.

Home Service was established over 10 years ago and since that time has achieved an enviable and unbroken growth record in sales, profit and policies. It is the market leader in the provision of plumbing and drainage and electrical wiring cover to the domestic market via affinity partners. Home Service has achieved another outstanding year with policies increasing in the UK by 22% to 2.93 million, 2.1 million plumbing policies, 0.57 million electrical and 0.26 million other policies including domestic heating and gas supply pipe policies. This represents a total of 928,000 new policies in the year before non-renewals (2003: 858,000). Home Service has increased the average number of policies held by its customers to 1.5 from 1.4 last year.

In the final quarter we launched Home Service with Scottish Water. The first campaigns have been successful and we will see the full benefit of this new relationship in the coming year.

Average acquisition costs per policy have risen by 8% as a result of greater acquisition activity, which will be reflected in increased policy numbers and renewals in 2004/5. We have continued to invest in outbound telesales capacity with the number of agents increasing to 200 from 140 last year.

Retention rates have been particularly pleasing at 88%, one percentage point higher than last year. We have achieved this by converting as many customers as possible to direct debit payments, by investing resource in our dedicated cancellations unit and by delivering excellent service when customers experience an emergency. Customer satisfaction measured via call backs to customers who have used the service was in excess of 95% on plumbing and electrics.

The Manufacturer Warranty operation is developing well with further partners added this year. In addition to Ideal and Mira, we now run warranty programmes for Creda Heating, Redring and Xpelair and Sime Boilers and have 138,000 customers registered on our warranty programmes. Our partners report that Home Service marketing performs to a high level at every stage of the sales process.

\* pre goodwill and exceptional items  
(see profit & loss account and notes 2 and 11)

Home Service has achieved excellent results providing value for money products for our customers and a true business partnership.

- Ed Hardwick, Kohler Mira Limited





Doméo now has 160,000 policies, an increase of 100,000 over twelve months.

Doméo, the joint venture in France with Veolia Water has made significant progress in the year and now has 160,000 policies, an increase of 100,000 over 12 months. The main product is external water supply pipe cover, which is sold under the Générale des Eaux Services brand.

Our marketing campaigns have been rolled out across France with over 9 million solus and door to door mailings sent during the year. Plumbing and Drains cover is being sold as a cross sell product with excellent take up rates from mailings and our outbound telesales unit, which was set up in October 2003. We are also rolling out the cross sell of our electrical wiring product and have successfully tested a domestic gas and oil heating breakdown policy.

Doméo now employs 30 staff including outbound staff of 9 and recently moved to larger offices in Lyon, which will provide the capacity we require to continue to expand this business.

Our International Operations have expanded beyond France and into the USA. Home Service USA Corp, a wholly owned subsidiary, was launched in November 2003 to extend our UK Home Service business model to American Water Utilities, both municipal and investor owned. This business is still at a very early stage but already has 13,000 policies and has experienced excellent take up rates.

Two products have been launched in the USA, an external supply pipe only policy and full plumbing and drains cover. The products are offered as service contracts, which are then fully underwritten on a bulk basis rather than being offered as individual underwritten policies as in the UK and France. This enables us to more efficiently comply with the various state regulations.

The speed of rollout in the USA will be dependent on our ability to sign up new water affinity partners in what is a very fragmented market, with our initial focus being on the larger investor owned businesses.

One call to Home Service ensured the problem received immediate attention. I recommend the scheme as a must for all households.

- Mr Dowlman, Lincoln





The engineer provided some excellent advice. It can be difficult finding someone reliable which is why I recommend it to all my friends.

- Mrs A Nicholls, Surrey



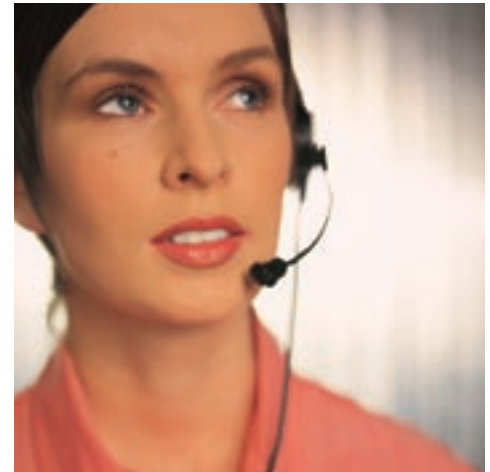


Home Hotline is the market leader in handling domestic home emergency claims and job deployment and also provides 24 hour claims handling and contractor network management for Home Service's own products, plus a growing number of Household Insurers. These include Direct Line, the Royal Bank of Scotland Group, Norwich Union and CPP Group. In addition, Home Hotline runs AXA Assistance's Home Claims handling for customers including Halifax (HBOS Group), CIS, Principal Group and Hercules Group. There are significant opportunities to offer home assistance helplines and insured home assistance policies to many of Highway's Household Insurer customers for which Home Hotline are not currently working. Home Service is also carrying out the direct marketing inbound sales, customer administration, payment processing and issuing policies on behalf of Norwich Union.

Home Hotline received over 1.67 million telephone calls last year, an increase of 25% whilst maintaining high service levels.

Home Hotline will continue to operate a subcontract emergency repair network alongside the directly employed networks operated by Highway and Servowarm, which cover glazing, locks, window and door frames, gas boiler breakdowns and plumbing and drainage. To cope with further expansion in the Household Insurer market and to enable us to manage our continued organic growth we will be moving to a new purpose built call centre close to our current operation in Preston, which will be operational by September 2004. This will more than double our existing capacity by taking the number of workstations available from 225 to 500.

Servowarm provides emergency repair, annual service and replacement boilers for domestic gas heating systems. We have increased our operational capacity in this business and invested in our systems, engineer training and management resource in order to establish a platform to service our gas policy business. We now have 130 Corgi registered gas engineers providing coverage across England and Wales. Our ability to deliver high levels of service with only a subcontract network has historically been a constraint on the growth of the policy business and Servowarm now provides the basis for improving these levels of service.



Home Hotline is the market leader in handling domestic home emergency claims and job deployment, receiving over

1.67 million telephone calls last year, an increase of

25%

Regency continued its market leadership in the provision of underwritten furniture warranties and repair services on behalf of retailers and manufacturers achieving an operating profit of £4.6m, compared to £4.0m last year. This is despite the withdrawal of structural warranties by Harveys (Homestyle Group) and the difficult trading conditions reported for the retail furniture market.

Regency won Land of Leather as an important new customer in the year. Additionally, following the success in setting up and developing Littlewoods' mail order furniture warranty offer, Regency has already won Freemans and Grattan as new retail catalogue clients.

Regency at Home, the directly employed upholstery repair business, which works on behalf of retailers and manufacturers now has 140 repairers (2003: 100) and continues to perform well. Regency at Home is now also working for a number of Highway's Household Insurer customers, providing a repair and cleaning service for furniture and carpets following claims where customers have accidental damage cover with their Household Insurance policy. Although this is a relatively new area for Regency, we believe the potential for growth is significant. There is an opportunity to develop Regency at Home's capability into minor domestic flood and dehumidification, where we believe there will be strong demand from Household Insurers.

Highway Emergency Services is the UK's largest national directly employed repair network working for Household Insurers. It undertakes a range of emergency services including the repair and replacement of glass, frames, locks, garage doors, greenhouses and conservatories, following domestic break-ins, accidental damage and storm related claims. It is market leader across these trades. 400 Service Engineers operate from 36 local branches covering the whole of the UK.



Highway achieved an operating profit of £0.3m in the year having made a loss of £0.2m in the first half of the year. As we reported in our interim results, Highway has made significant operational advances but these have not been reflected in trading performance this year. In addition, Highway increased its operational capability in the third quarter of this year in order to support the new Royal & Sun Alliance contract, where volumes were slower than anticipated in building up. The final quarter trading has shown a significant improvement in performance reflecting a seasonal increase in insurance leads, but also increased average job values, improved conversion of sales leads to jobs completed and reductions in material costs following price reductions negotiated with Highway's major suppliers. Highway is also now benefiting from increased volumes from new accounts. The new customer wins together with the operational improvements provide a sound platform for improved performance.

**Highway have  
400 Service  
Engineers  
operating  
from 36 local  
branches  
covering the  
whole of the UK.**



We find the Regency service to be quick, efficient and to a very good standard of workmanship. I am pleased that our customers are always dealt with in a professional manner.

- Trina Breedon,  
Nationwide Building Society



## **Commercial Outsourcing Businesses**

The retained commercial outsourcing businesses comprise OnSite and Mail Solutions.

OnSite, which includes Middleton Doorman, provides a comprehensive range of infrastructure maintenance services to utilities, public authorities and a wide range of commercial and industrial clients. In line with the results reported in our interim results there have been inconsistent workloads from certain major customers and reduced spend by the water industry as it approaches the end of the current 5 year investment programme. However, we believe there are prospects for growth over the coming years as water and sewerage companies move towards the next regulatory investment period, where the focus will be on wastewater, pollution and flooding.

We have recently secured a replacement for our existing contract with Thames Water for a period of up to 10 years, which should generate revenues in the region of £7m per annum, a level in line with our current revenues. We have also been awarded an initial one year contract with Severn Trent Water for reactive drainage services and a contract with Scottish Water for CCTV and flow monitoring services.

We have also recently established a security barrier installation and maintenance business which is complementary to our Doorman operation and offers a fully national service to commercial clients and government bodies. It has already secured a forward order book with some high profile organisations.

Mail Solutions, our mailing business has continued to increase turnover in what is a highly competitive market. We have further developed our capability in transactional mailing services for financial institutions including Bank of New York. We are continuing to provide a range of services to other high profile customers including HSBC, Lloyds Bank and Carwin. However we have only improved our performance by continually focusing on efficiency and quality to provide competitive advantage.

## **Demerged Businesses**

The results of the demerged operations were announced on 25 May 2004 and its activities are the subject of a separate Annual Report.

The regulated Water Supply business was assessed by OFWAT as second in the industry for levels of service and was one of the most efficient water only companies. Last year saw continued efficiency savings, despite the dry summer, and the business has reduced its operating cost base by 17% in real terms since 1998.

The demerged Group's non-regulated businesses all of which are closely related to the Water Company, comprised Echo, Rapid, Underground Pipeline Services and Aqua Direct. The Echo customer management business continued to expand its customer base outside of its core utility business and Aqua Direct has developed a new bottled water capability.

**Richard Harpin**  
Chief Executive  
25 May 2004

We have recently secured a replacement for our existing contract with Thames Water for a period of up to 10 years.



# Financial Review



## Demerger

The water supply operation and closely related businesses were demerged on 6 April 2004 and therefore the results of the demerged group have been shown as discontinued operations. The exceptional costs and charges relating to the demerger have been included within the results of the continuing operations.

At the same time the Group undertook a share consolidation of 4 shares for every 5 held, in order to maintain the existing share price to enable the comparability of historic and future per share data and to preserve the value of employee share options. The Group also acquired the minority shareholding in the Homeserve division in a share for share exchange involving the issue of 11.6 million shares by the Group, equivalent to approximately 18.6% of the enlarged share capital of Homeserve plc. The acquisition of the minority interest created goodwill of £66.9m which will be amortised over 20 years. Shareholder approval was granted on 5 April 2004.

The demerger, the share consolidation and the acquisition of the minority shareholding together with the associated increase in goodwill occurred after the year end and are not therefore reflected within the results for the year. The consolidated balance sheet as at 31 March 2004 does not reflect the demerger which occurred on 6 April 2004. An unaudited proforma balance sheet for Homeserve plc as at 31 March 2004, reflecting the impact of the demerger and acquisition of the minority interest accompanies these accounts and is set out on page 69.

## Group Results

Turnover for the year (including share of joint ventures) increased by 22% to £323.0m (2003: £265.8m). Turnover (including inter-divisional turnover) for the continuing operations was £256.2m (2003: £198.7m) an increase of 29%.

Within the continuing Group, the domestic businesses increased turnover to £169.2m (2003: £121.3m) and this reflects strong growth in the number of policies and a full year of turnover from Highway and Regency which were acquired in the year ended 31 March 2003. Overall the domestic businesses achieved organic growth in turnover of 19%. The commercial outsourcing businesses increased turnover, including inter-divisional turnover, by £9.6m to £87.0m, a 12% increase, of which organic growth accounted for just less than 1%.

The demerged Regulated Water Supply and non-regulated businesses saw an increase in turnover of £1.0m to £72.4m (2003: £71.4m).

Group operating profit\* before goodwill and exceptional items increased by 16% to £58.7m (2003: £50.5m). Operating profit\* before goodwill and exceptional items for the continuing operations increased by 31% to £37.4m (2003: £28.5m) including 22% organic growth. The domestic businesses achieved operating profit\* growth of 35% to £32.4m (2003: £24.0m) with a £4.6m contribution from Regency (2003: £4.0m) and £0.3m from Highway (2003: £0.7m). Home Service achieved organic operating profit\* growth of

39% and continued to improve its margins to 26% (2003: 25%). The commercial outsourcing businesses increased operating profit\* by 13% to £5.1m (2003: £4.5m) reflecting the full year impact of Middleton Doorman acquired in August 2002. Average operating margins have been maintained at 5.8%.

Regulated Water Supply and the demerged commercial outsourcing businesses saw a 3% reduction in operating profits to £21.3m (2003: £22.0m) reflecting the fact that there was no significant Rapid software licence, which generated profit of over £1m in 2002/3.

Profit before tax excluding goodwill and exceptional costs\* was £51.7m, an increase of 16% (2003: £44.5m). The net interest charge increased to £7.0m (2003: £6.0m), reflecting a full year charge for the index linked bond and other indebtedness. The increased goodwill charge of £7.2m (2003: £6.0m) is due to the full year charge in respect of the acquisitions made in the preceding year.

There were exceptional costs and charges of £6.6m in the year (2003: £nil) relating to the demerger. The costs of demerger amounted to £4.2m together with an exceptional charge of £2.4m resulting from the acquisition of the minority interest in the Homeserve division. This exceptional charge represents accelerated amortisation, in accordance with UITF 17, of the cost of shares issued to the minority shareholders in 2001, which were being amortised over five years. There is an equivalent adjustment to minority interest and there is

therefore no net impact on Group earnings in the year. After taking account of these exceptional costs, profit before taxation for the year was £37.8m (2003: £38.6m).

### Taxation

The effective rate of tax for the year, based on profits excluding goodwill and exceptional costs, was 29.5% compared to 28.7% for the previous year. The effective rate for the continuing operations was 30.6%. No corporation tax relief on the exceptional demerger costs has been assumed.

### Earnings per Share

Earnings per share, excluding goodwill and exceptional items\*, was 51.0p, an increase of 11.1% (2003: 45.9p). The increase in earnings per share\* for the continuing operations was 34%, increasing from 25.2p to 33.8p (note 11 to the Accounts). The growth in earnings before goodwill and exceptional items, continued to be lower than the growth in profit before tax due to the increase in the tax rate in the year and the minority interest charge in respect of the Homeserve division, which has achieved strong profits growth in the year.

The Group has achieved compound annual earnings per share growth, excluding goodwill and exceptional items, over the last five years, of 13%.

### Dividends

The Board is proposing a final dividend of £4.5m being 8.8p per share taking into account the post year end share consolidation. This, combined with the Group's interim dividend and the final dividend proposed by the demerged South Staffordshire Plc of £4.4m, brings the total for the year to £12.7m, representing an equivalent dividend per share in issue at the year end of 20.0p (2003: 18.0p), growth of 11.1%. The final Homeserve dividend will be paid on 26 July 2004. The continuing group intends to maintain a progressive dividend policy.

### Deferred Consideration

We announced in our interim results a reduction in the carrying value of goodwill of £2.5m relating to the first payment of deferred consideration following the acquisition of Highway, due in 2004/5. As announced in March 2004, a further adjustment of £9.4m has been made to reduce the second and final earn-out payment in respect of Highway profits in the year to 31 March 2006, from £13.5m to £4.1m. This lower level of deferred consideration becomes payable if profits in the range £3.4m to £7.7m are achieved in the year to 31 March 2006.

\* pre goodwill and exceptional items  
(see profit & loss account and notes 2 and 11)

## Capital Expenditure

Capital investment in the year, net of capital contributions, totalled £34.4m (2003: £28.6m). The continuing operations' capital expenditure in the year totalled £9.7m (2003: £6.5m). This increase includes the refurbishment of offices in Walsall to provide additional accommodation.

## Cash Flow and Borrowings

The Group generated cash of £77.9m in the year from operating activities, £44.9m of which was generated by the continuing operations. The Group achieved a net cash inflow of £10.3m, compared to a cash inflow of £12.2m in the previous year. This was after capital expenditure of £32.6m (net of capital contributions and sale proceeds), interest, tax and dividends totalling £30.1m, investment in subsidiaries of £4.4m and financing outflows of £0.5m. £9.7m of the cash inflow is attributable to the continuing operations. Net debt decreased by £9.6m to £93.5m at 31 March 2004 (2003: £103.1m), of which the demerged Water Group accounted for £94.1m. Working capital in the year decreased by £2.0m.

The continuing operations had net cash at 31 March 2004 of £0.6m and an interest charge for the year of £0.7m.

## Pensions

Pension costs relating to the Group's defined benefit pension scheme continue to be accounted for in accordance with SSAP 24. The actuarial valuation of the scheme at 1 April 2002 showed a surplus of £4.9m. The additional disclosures presented under the third year of transitional arrangements for FRS 17, Retirement Benefits, show a pension deficit net of deferred tax, of £8.7m (2003: £7.8m deficit).

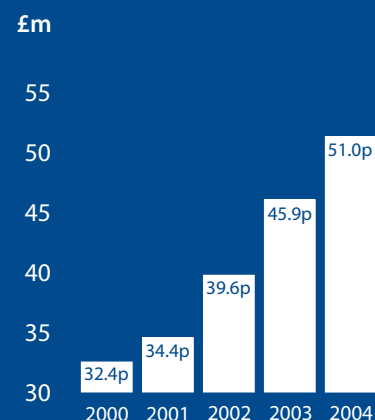
Following the demerger, a separate sub fund has been established for the continuing Group, replicating the rules and the benefit basis for employees. Active members employed by the continuing Group together with deferred members previously employed by the continuing operations will be transferred into the new sub fund.

Based on a valuation as at 30 November 2003 prepared on an ongoing funding basis, the Homeserve sub fund will take on a deficit of £0.4m, with the demerged operations taking a deficit of £2.5m.

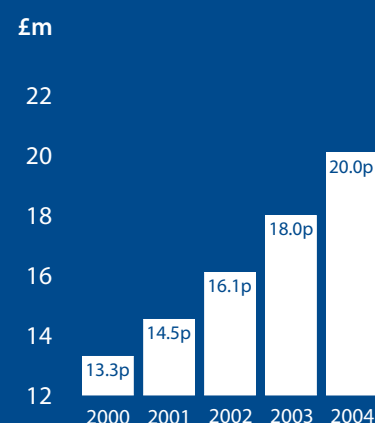
There have been no new accounting standards which have had an impact on the financial statements for the year.

**Andrew Belk**  
Group Finance Director  
25 May 2004

## Earnings per Share\*



## Dividend per Share



\* pre goodwill and exceptional items (see profit & loss account and notes 2 and 11)



# Corporate and Social Responsibility



Excellent customer service is key to the Group's success.

Home Service satisfaction rates consistently run at above

95%

It is recognised that part of the Group's future success will depend on taking into account the interests of all of the stakeholders in our business including employees, customers, shareholders and the wider community. The Group is committed to improving its corporate responsibility activities and will continue to report on them.

## Employees

Our employees are key to our success. Home Service featured for the third year in a row in the Sunday Times 100 Best Companies to work for. They ranked 66th this year which is an excellent result in a business where a high proportion of staff work in a call-centre environment which traditionally has a poor reputation for employee satisfaction. 70% of the marks awarded came from anonymous staff responses to a survey and the feedback collected is used to improve the working experience in the business.

The Group has a policy of equal opportunities and non-discrimination. Every reasonable effort is made to provide disabled people with equal opportunities for employment, training and promotion, taking into account their particular aptitudes and abilities.

Communication is extremely important, particularly as the Group grows. Team briefings are held monthly in the majority of the Group's businesses to keep employees informed about new developments. Newsletters and special publications are also used to communicate within the divisions and across the Group.

These were particularly important in communicating the important messages arising from the demerger.

A Savings Related Share Option Scheme is operated across the Group and is highly successful in involving employees in the performance of the Group. As a further means of involving employees in share ownership, a Share Incentive Plan is to be launched in the first half of 2004/5 under which all employees will receive a number of free shares.

All employees are offered membership of a pension scheme with staff presentations being used where operationally possible to encourage full discussion of this important issue. Access is also provided to independent financial advice where required.

The majority of employees have regular performance and development reviews. Training continues to be of great importance to ensure that all employees have the right skills to perform to their maximum ability. We aim to attract, develop, retain and motivate the best people to ensure we meet our business objectives.

## Customers

Excellent customer service is key to the Group's success. We aim to ensure that all customers enjoy a high quality service. Home Service attempts to call all customers within 48 hours of the use of the service to ensure they were fully satisfied. Satisfaction rates consistently run at above 95% and any dissatisfaction expressed on these calls is followed up with both

the customer and the engineer where appropriate. A noteworthy measure of satisfaction is that customer retention, already high, is higher amongst those customers who have recently made a claim than those who have not. We recognise that our customers have diverse needs and are committed to developing procedures to meet them. One initiative is the development of documentation in alternative formats, such as braille and large print. We are committed to maintaining and improving customer service levels across the Group and procedures are constantly reviewed and refined.

We use a variety of channels to sell our products and services and seek to apply the same high standard of care to all of them. Particular care is taken in outbound sales to ensure that customers gain a full understanding of the service being provided and all outbound calls are recorded. There is also a regular call screening programme.

The Water Company was rated second overall in the water industry for service last year and is constantly reviewing its activities to ensure that it maintains its high standards. There is a Special Services Scheme for customers who require additional assistance and bills are available in braille, large print and on audio cassette if required.

### **Health & Safety**

The Group remains committed to high standards of health and safety across all its activities and believes that the active involvement of employees in health and safety brings positive benefits to the business.

The Group's full time Health and Safety Adviser provides support in setting corporate objectives and formulating Group policy and minimum standards, and has assisted directors and senior managers with the development and implementation of health and safety management systems to protect the health and safety of employees and ensure compliance with statutory requirements.

Each business has appointed a board member to act as champion for health and safety to oversee arrangements for the effective co-ordination and implementation of consistent practices which meet or exceed minimum statutory requirements. Andrew Belk is the nominated main Board Director for reporting on health and safety. The involvement of employees is critical to the success of any health and safety programme, and this is achieved through the establishment of employee forums at local and individual business level throughout the Group.

The Group has continued to demonstrate a commendable health and safety record over the years, with a steadily declining trend in the Reportable Incident Rate as illustrated in the chart opposite. This is despite the fact that the expansion of the Group in the past seven years has increased its exposure to safety critical activities such as the extensive use of machinery in Mail Solutions, confined space work in OnSite, and a growing peripatetic workforce of engineers and fitters in Highway, Regency, Servowarm and Middleton. Although the number of reportable incidents rose in 2003/4 this should be seen in the context of the extremely low rate in

2002/3 and the overall declining trend as noted above.

In May 2004 OnSite was awarded the Royal Society for the Prevention of Accidents (RoSPA) Gold Health and Safety Award for its QUENSH Management System and lower than average accident frequency rates for its sector.

Health and safety has always been seen as fundamental to the success of the Group's business activities, and the development of good working practices will continue to be promoted at all levels.

### **Environment**

The Group and its businesses are committed to environmental sustainability. The operational activities of Group companies have different environmental demands and we therefore prioritise attention to those activities with the largest impact.

OnSite is committed to the continual improvement of environmental performance and has implemented an integrated Quality, Environment, Safety and Health (QUENSH) management system which is continually developed and improved. They have a dedicated manager appointed to this project who also provides environmental consultancy to external clients and other businesses within the Group. It managed the transition of its quality management system certification to ISO9001:2000 for its Colnbrook Sewer Network Maintenance and Middleton Doorman operations, and continues to develop systems in the other areas to seek certification in late 2004/5.

Middleton Doorman publishes a Corporate Social Responsibility Policy incorporating its commitments to customer care, business development, employee welfare and development, environmental sustainability and community engagement and is currently establishing objectives, targets and management programmes to deliver these.

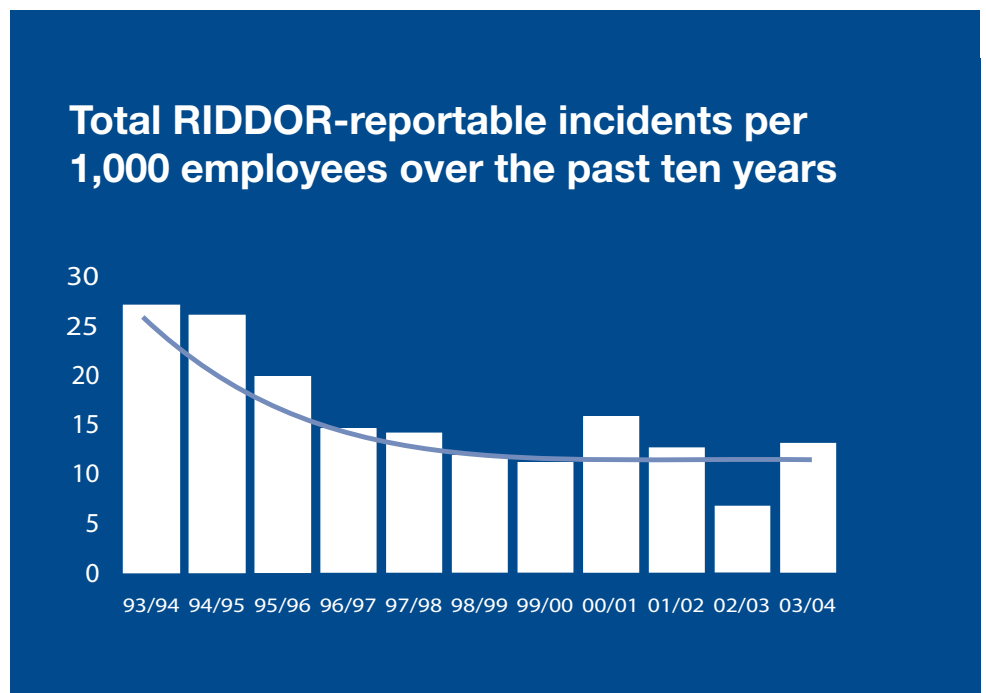
The Water Company publishes a comprehensive Environment Report detailing the company's environmental activities. Other publications include the Water Efficiency Plan and the Bio-Diversity Action Plan.

The other businesses within the Group are largely service based and therefore their exposure to environmental risk is lower. However, we recognise that the Group has a responsibility to act in a way that respects the environment and all our businesses are encouraged to incorporate an awareness of environmental issues into decision making processes.

### Community & Charitable Giving

The Group is committed to assisting charities that have a direct impact on the communities in which its businesses operate. It supports the Air Ambulance both financially, by charitable donation and practically, by providing office space. Other organisations supported by the Group include the British Heart Foundation, local Citizens' Advice Bureaux, Staffordshire Wildlife Trust and Sandwell Carers. In addition, funds were made available to a number of community sports teams nominated by employees of the Group.

We also encourage employees to support charities of their choice and they can contribute to those charities in a tax efficient manner through the Give As You Earn Scheme. In addition, employees of the Water Company were particularly active in their fundraising efforts for WaterAid, the official charity for the water industry that is dedicated exclusively to the provision of safe domestic water to the world's poorest people.



# Directors' Biographical Details

## Brian Whitty (50), FCA ●

Executive Chairman since April 2004 following six years as Chief Executive and three years as Finance Director. Previously Finance Director of ACT Group plc.

## Richard Harpin (39), BA (Hons) C dipAF

Chief Executive since April 2004. Appointed to the Board in May 2001 and previously Chief Executive of the Homeserve division having founded Home Service in conjunction with South Staffordshire Group in 1993. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

## Andrew Belk (40), BSc (Hons) ACA

Group Finance Director since September 2002, having previously been Commercial Director of the Homeserve division. Previously Chief Executive Officer of a UK telecoms company and a Corporate Finance Director with Andersen.

## Barry Gibson (52) †\*●■

Appointed to the Board in April 2004. Currently Senior non-executive Director of William Hill plc and a non-executive Director of National Express plc. He is also Chairman of the British Institute of Retailing. Previously Group Retailing Director at BAA plc and Chief Executive of Littlewoods plc.

## Robert Harley (50)

Appointed to the Board in May 2001. Also Managing Director of Onsite. Previously co-owner of Insight Surveys which was acquired by the Group in 1997.

## John Maxwell (59), CA, CCMI †\*●■

Appointed as Senior Independent Director in April 2004. Previously Director General/Chief Executive of The Automobile Association and an executive Director of Prudential Corporation plc. Currently a non-executive Director of a number of companies including Royal & Sun Alliance plc, Provident Financial plc and The Big Food Group plc.

## Justin Jewitt (50), BA (Hons) †\*●■

Appointed to the Board in 2003. Previously Chief Executive of Nestor Healthcare Group plc. Also previously Managing Director of two of BET's business services companies, prior to which he worked for Thorn EMI and Mobil Oil. He is also visiting professor of healthcare at Glamorgan University.

## Ian Carlisle (42) ◆

Appointed Chief Operating Officer of Homeserve Assistance and Chief Executive of Highway Emergency Services in June 2003. Previously Managing Director of Autoglass plc, prior to which he was Divisional Commercial Director at Marks & Spencer plc.

## Jonathan King (43), BSc (Hons) ◆

Managing Director of Home Service since October 2001 having joined in October 2000 as Business Development Director. Previously he worked in retail marketing with the Boots Company as group brand manager for No.7 Cosmetics.

## Simon Hancox (37), BA (Hons) ◆

Managing Director of Home Hotline since November 2001 having joined from AXA where he worked in Assistance. Previously at CGU in London, having joined Commercial Union as a graduate management trainee where he subsequently moved through many of the functional disciplines.

## Rachael Hughes (33), BA (Hons) ◆

Managing Director of Doméo, Homeserve's joint venture with Generale des Eaux Services in France since launch in June 2001. Previously Managing Director of CHEP Argentina SA following a total of seven years with CHEP Equipment Pooling Systems in North and South America and GKN Group in the UK.

Company Secretary:  
**Christopher Powell,**  
BComm (Hons) ACA

Key:

† Non Executive

\* Audit Committee  
(Chairman J H Maxwell)

● Nomination Committee  
(Chairman B H Whitty)

■ Remuneration Committee  
(Chairman J H Maxwell)

◆ Executive Board only



1.



2.



3.



4.



5.



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7.



8.

### Homeserve plc Board

1. Brian Whitty
2. Richard Harpin
3. Andrew Belk
4. Barry Gibson
5. Robert Harley
6. John Maxwell
7. Justin Jewitt
8. Christopher Powell (Secretary)



9.



10.



11.



12.

### Executive Board

9. Ian Carlisle
10. Jonathan King
11. Simon Hancox
12. Rachael Hughes

# Directors' Report

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2004.

## Principal Activities and Review of Business

During the year the Group was engaged in business support services and water supply to domestic, industrial and commercial customers. Details of Group activities are set out in the Chairman's Statement and Chief Executive's Review on pages 7 to 19. On 6 April 2004 South Staffordshire Plc, comprising the Regulated Water Supply business and the closely related Echo, Rapid, Underground Pipeline Services and Aqua Direct businesses, was demerged from the Group. The results of the demerged Group have therefore been shown as discontinued operations, and the exceptional costs and charges relating to the demerger have been charged in the year within continuing operations.

On 5 April 2004 the Company changed its name from South Staffordshire Group Plc to Homeserve plc.

## Financial Results and Dividends

The Group's results are shown in the consolidated profit and loss account on page 42. The Directors are recommending the payment on 26 July 2004 of a final dividend of 8.8 pence per ordinary share to shareholders on the register at the close of business on 4 June 2004. For further details of the dividend see note 10 to the accounts.

## Post Balance Sheet Events

### Demerger

At an Extraordinary General Meeting of the Company held on 5 April 2004 shareholders approved the demerger of South Staffordshire Plc by means of a dividend in specie whereby each shareholder received 1 ordinary share in South Staffordshire Plc for every 5 ordinary shares held in the Company. Approval was also given for the acquisition of the 24.98% minority shareholding in the Homeserve division held by Richard Harpin and Jeremy Middleton. Consideration for the acquisition of the minority shareholding was the issue of 11,600,000 ordinary shares in the Company. The new shares issued in respect of this transaction did not qualify for the dividend in specie and neither will they qualify for the final dividend in respect of the Company for the year ended 31 March 2004. In addition, a one-off payment of £150,000 each was paid to Messrs Harpin and Middleton in compensation for the loss of certain enhanced dividend rights that they held in respect of the Homeserve division's earnings.

## Share Capital

Following approval by shareholders at an Extraordinary General Meeting on 5 April 2004 each ordinary share of 10 pence each in the capital of the Company was sub-divided into 4 ordinary shares of 2½ pence each and then every 5 ordinary shares of 2½ pence each were consolidated into 1 ordinary share of 12½ pence each. Immediately following this, Richard Harpin was allotted 9,050,550 ordinary shares of 12½ pence each and Jeremy Middleton was allotted 2,549,450 ordinary shares of 12½ pence each in the capital of the Company in connection with the acquisition of their minority shareholding in the Homeserve division.

## Memorandum & Articles of Association

At an Extraordinary General Meeting held on 5 April 2004 shareholders approved the amendment of the Memorandum of Association to take account of the change in activities following the demerger. The adoption of new Articles of Association was also approved.

## Directors

Details of the Directors who held office at 25 May 2004 are given on page 26. Justin Jewitt was appointed to the Board on 1 September 2003. David Penna died on 17 December 2003. Messrs Whitty, Belk, Harpin, Harley, Bury, Corbett, Harris and Sankey served throughout the financial year. On 6 April 2004 Lindsay Bury, David Sankey, John Harris and Panton Corbett resigned as Directors of the Company. On the same date, Barry Gibson and John Maxwell were appointed to the Board.

Messrs Maxwell, Jewitt and Gibson, having been appointed since the last Annual General Meeting, will retire from the Board in accordance with the Articles of Association and, being eligible will offer themselves for election. Mr Harpin and Mr Harley retire by rotation and, being eligible, offer themselves for re-election. Both Mr Harpin and Mr Harley have one year rolling service contracts. Mr Jewitt was appointed for a three year renewable term in September 2003 and Mr Maxwell and Mr Gibson were both appointed for a three year renewable term in April 2004.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2004 and 25 May 2004 are set out in the Remuneration Report. None of the Directors serving at the year end had a beneficial interest in the share capital of any subsidiary company save for Mr Harpin who held 21,300 ordinary shares of £1 each in Homeserve Assistance plc which represented 19.48% of the share capital of that company (2003: 21,300 shares). On 5 April 2004 these shares were exchanged for shares in the Company.

## Annual General Meeting

### Allotment of Shares and Pre-emption Rights

There will be proposed at the Annual General Meeting a renewal of the Directors' general authority to allot shares up to a maximum nominal amount ("the Section 80 Amount") and the Directors' authority to issue shares for cash without applying the statutory pre-emption rights up to a maximum nominal amount ("the Section 89 Amount").

### Authority to Purchase Own Shares

Approval is being sought for the Company to renew the authority contained in the Articles of Association to purchase its own ordinary shares. The Board has no firm intention that the Company should make purchases of its own shares if the proposed authority becomes effective, but would like to be able to act quickly if circumstances arise in which such a purchase would be desirable. Purchases will only be made on the London Stock Exchange and only in circumstances where the board believes that they are in the best interests of the shareholders generally and would result in an increase in EPS. Any shares purchased would be cancelled.

Further detail on the resolutions to be proposed at the Annual General Meeting can be found in the Shareholder Circular.

## Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution proposing the reappointment of Deloitte & Touche LLP as auditors will be put to the Annual General Meeting.

## Fixed Assets

Capital expenditure on tangible fixed assets, including infrastructure renewals, amounted to £38.7m during the year.

## Donations

Charitable donations of £89,148 (2003: £88,799) were made during the year, including amounts contributed to the South Staffordshire Charitable Trust. There were no political contributions in either year.

## Payment of Creditors

The Group's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. Trade creditors at 31 March 2004 represent 84 days of purchases during the year (2003: 88 days) for the Group and nil for the Company. This calculation is distorted by the higher than average level of capital and certain other expenditure incurred during February and March 2004 and reflected in year end trade creditors.

## Substantial Shareholdings

As far as the Directors are aware, no person had a beneficial interest in 3% or more of the voting share capital at 25 May 2004, except for the following:

	<b>Ordinary Shares</b>	<b>Percentage Shares</b>
Richard Harpin	9,926,877	15.8%
Fidelity International Ltd	3,795,442	6.1%
Jeremy Middleton	3,649,387	5.8%
Aviva Plc	2,275,547	3.6%
Barclays Plc	2,212,627	3.5%
HBOS Plc	1,923,619	3.1%

By Order of the Board  
**C G Powell**  
Company Secretary

25 May 2004

# Corporate Governance

The Board has continued to apply the Combined Code (the 'existing Code') with flexibility and common sense. A review of corporate governance has commenced in respect of the new Combined Code (the 'new Code') published in July 2003 and the Board will review compliance and fully report upon this next year.

## Directors

At the year end the Board comprised nine Directors, four executive and five non-executive. As Mr Harris was previously Managing Director of the Company he was not considered to be independent but the Board felt that the other four non-executive directors were independent. Following the demerger there were a number of changes to the composition of the Board which now comprises seven Directors, four executive and three non-executive. Full details of the current Directors are shown on page 26. John Maxwell was appointed as Senior Independent Director on 6 April 2004 and Barry Gibson appointed as a non-executive director on the same date. All of the current non-executive directors are independent.

Having served as Chief Executive throughout the financial year, Brian Whitty was appointed Executive Chairman on 6 April 2004. Although not therefore independent within the meaning of the new Code, the Board are satisfied that there is a clear division of responsibility between the Executive Chairman and the Chief Executive (which has been documented and approved by the Board) and that the Board structure now in place provides the appropriate mix of skills and experience for the ongoing development of the Company. The new Board is also compliant with the new Code, in that it has as many non-executive Directors as executive Directors excluding the Chairman.

Ten board meetings were held in the year. A comprehensive pack of information is provided to each Director in advance of any board meeting to allow sufficient time for preparation.

Following the retirement of Simon Kenyon-Slaney, Panton Corbett and David Sankey were the only two members of the Audit Committee until the appointment of Justin Jewitt in September 2003. The existing Code requires that this Committee have at least three members. The Remuneration Committee comprised Messrs Bury, Corbett, Harris and Sankey with Justin Jewitt being appointed in September 2003. The existing Code requires that members of the Remuneration Committee are independent. John Harris was not considered independent during the year. John Harris tendered his resignation on 6 April 2004. The Nomination Committee comprised Messrs Bury, Whitty and Corbett. Justin Jewitt was also appointed to this Committee in September 2003.

Current committee members are shown on page 26. All three independent non-executive directors serve on the Audit, Remuneration and Nomination Committees and Brian Whitty is also a member of the Nomination Committee.

The Audit Committee and the Remuneration Committee met three times in the year. The Nomination Committee met during the year to consider the appointment of Justin Jewitt and the structure of the Board following demerger and the resultant appointments, including the appointment of John Maxwell and Barry Gibson.

A schedule of matters reserved for the Board was adopted in 1996 based on ICSA Best Practice. The Board maintains a flexible approach to Board matters with the delegation of power to a committee being used for specific routine purposes. The schedule of matters reserved for the Board has been updated in respect of the new Code following the demerger. The Directors have also taken the opportunity to update the terms of reference for the committees to comply with new best practice.

The Board has an established formal procedure for Directors wishing to seek independent legal and other professional advice. No such advice was sought during the year. The Board also has access to the advice and services of the Company Secretary.

No formal training has been provided for the Board due to the knowledge and experience of its members. However, the Board is conscious of the need to ensure that all Directors are kept up to date with legislation, good practice and other issues. Therefore, its professional advisers are available to hold informal training sessions for the Board as necessary.

As reported last year, the Board had previously elected not to nominate a senior independent Director due to there being in place an experienced independent non-executive Chairman. Following the demerger this was changed and on 6 April 2004 John Maxwell was appointed as Senior Independent Director.

The Board's approach to non-executive appointments was revised in 1996 such that future appointments, whilst still for a fixed term of three years (subject to retirement by rotation), would not normally, as a matter of policy, be renewed more than twice. In respect of the non-executive directors appointed following the demerger, this policy has been further refined such that appointments will not normally be renewed more than once.

All the Directors are subject to retirement by rotation and will submit themselves for re-election at least once every three years.

## Directors' Remuneration

This area of policy and practice is dealt with in full in the remuneration report on pages 32 to 37. The remuneration report will be put to a shareholder vote at the AGM.

## Relations with Shareholders

Meetings take place regularly with the Company's largest institutional investors.

The Board is available at the AGM to answer questions on all aspects of the Company. Proxy votes are announced at general meetings following the show of hands.

In 2003 the AGM notice was not sent to shareholders at least twenty working days before the meeting but following the adoption of new Articles of Association in April 2004 there is now sufficient flexibility in respect of the timing of dividend payments to achieve the recommended notice period for the 2004 AGM.



## Accountability and Audit

A review of the Group's position and prospects is set out in the Chairman's Statement, Chief Executive's Review and Financial Review on pages 7 to 22.

The Directors acknowledge their responsibility for the Group's system of internal control and for reviewing its effectiveness, including their responsibility for taking reasonable steps for the safeguarding of the assets of the Group and for preventing and detecting fraud and other irregularities. Such a system can nonetheless provide only reasonable and not absolute assurance against misstatement or loss.

There is an established internal control framework which is continually reviewed and updated taking into account the changing nature of the Group's operations. This process includes the identification, evaluation and management of the significant risks faced by the Group. The Directors confirm that procedures to comply with the Turnbull guidance are in place and that there has been full compliance with the guidance for the period ended 31 March 2004 and up to the date of this Report.

A defined organisation structure for the Group exists with clear lines of accountability and appropriate division of duties. The Group's financial regulations specify authorisation limits for individual managers, with all material transactions being approved by the Board. In addition, formal treasury policies are in place. Three year business plans, annual budgets and investment proposals for each business and for the Group are formally prepared, reviewed and approved by the Board. Financial results and cash flows, including a comparison with budgets and forecasts, are reported to the Board monthly with variances being identified and used to initiate action. Risk management is discussed at Board level both in terms of the Group and the Divisions on a regular basis. The key risks for each Division and the Group have been identified together with the controls to monitor, reduce and mitigate against their potential impact. The Board has reviewed the effectiveness of the internal control framework for the period covered by these financial statements.

The responsibilities of the Directors and auditors in the area of financial reporting are set out on pages 39 to 41. Members of the Audit Committee are set out on page 26. The Committee meets to review the interim and annual accounts, to monitor the adequacy and effectiveness of internal controls and to agree audit strategy. The external auditors and the Group Finance Director are invited to attend all meetings.

The Group has a dedicated Internal Audit function which reports directly to the Audit Committee and a formal audit plan is in place to address the key risks across the Group.

The external auditors are subject to an annual vote by shareholders and the Audit Committee monitors both their performance and independence on an annual basis. Usually, the non-audit services undertaken by the external auditors are regulatory in nature or related to corporate tax advice. This work is so closely related to the core audit services that the external auditors are best placed to undertake it. During the year ended 31 March 2004 the external auditors were closely involved in preparations for the demerger and as a result the non-audit services provided to the Company have been unusually extensive. They have not been involved in other due diligence work or general consultancy.

The Board is of the opinion that having reviewed the external auditors' performance and fees during the period, both are satisfactory. The value of non-audit services provided to the Company by the external auditors is substantial in comparison with previous years but is not unreasonable given the circumstances.

## Going Concern

The Directors consider that it is appropriate to prepare the accounts on a going concern basis. This is based upon a review of the Group's budget for 2004/5, the three year operating plan and projected capital expenditure, together with the committed borrowing facilities available to the Group.

## Compliance Statement

During the year, the Company has complied with the provisions of the existing Code except with regard to the appointment of a senior independent non-executive Director, the period of notice of the AGM and committee membership as detailed above. All of these issues have been addressed in the period since the year end.

# Remuneration Report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. A resolution to approve the report will be proposed at the AGM.

The Regulations require the auditors to report to the Company's members on the 'auditable part' of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

## Unaudited Information

### Remuneration Committee

During the year the Committee comprised each of the Board's non-executive Directors (as described on page 30). There were three meetings in the year. No executive Director sits on the Committee, although the Chief Executive attended and advised on executive Director remuneration (but took no part in the discussion on his own remuneration). The remuneration of the non-executive Directors was determined by the Board as a whole, based on external advice and a review of current practices in other companies.

### Policy on Remuneration of Executive Directors

#### i. Total Level of Remuneration

The Remuneration Committee aims to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive Directors of the right calibre. A review of remuneration policy and salary levels was undertaken in the year by Monks Partnership and their recommendations were taken into account in developing the remuneration policy. Monks Partnership is carrying out a further review post demerger.

#### ii. The Main Components

The main components of the remuneration package for executive Directors are basic salary, benefits, annual bonus and long-term incentives as follows:

##### a. Basic Salary

Basic salary for each Director is determined by the Remuneration Committee taking into account performance of the individual and the Group, together with experience, responsibilities and marketability. The basic salary is set within the parameters recommended as appropriate by the consultant reviews and takes into account levels of pay across the Group.

##### b. Benefits

Pensions, company car, medical insurance, holidays and other benefits are in line with those provided at executive Director level in similar businesses. It was Company policy that benefits in kind were included in pensionable earnings where they are of a contractual nature on the basis that the benefits are taxable income in the hands of the employee. In line with best practice, this has been reviewed and now only applies to the longest serving Director.

##### c. Annual Bonus

The annual bonus is designed to drive the short-term performance of the Group and encourage real year on year growth in profitability. No annual bonus is paid unless there is excellent performance as a result of the achievement of challenging criteria based on:

- compound growth in earnings per share;
- measurable personal targets which relate to the part of the business that the Director has direct responsibility for.

There is also an element which is awarded by the Remuneration Committee for exceptional performance where appropriate. The maximum bonus payable is 50% of salary.

Given the performance-related nature of bonus arrangements, it was Company policy to include the bonus element of remuneration within pensionable earnings. This has been reviewed and now only applies to the longest serving Director.

##### d. Long-Term Incentives

Long-term incentives were provided in the year through the Executive Share Option Plan (ESOP) approved by shareholders in 2001. It is designed to encourage and reward continuing improvement in the Group's performance over the longer term and its participants are the executive Directors and other senior executives who are best placed to influence such performance. Options become exercisable between three and ten years from grant subject to the achievement of stretching performance criteria. Options under the Plan have been granted annually since 2001 and are subject to performance criteria based on annual average EPS growth. This performance measure has been chosen to emphasise the alignment of interest between the participants and shareholders.

Options become exercisable based on a sliding scale and can only be fully exercised if annual average EPS growth of RPI + 10% is achieved over a three year period. No options are exercisable if average EPS growth is less than RPI + 4%. If this happens, retesting of conditions is possible in years 4 and 5, but performance will continue to be measured from a fixed date. Directors must also fulfil a shareholding requirement equal to 50% of options granted before they can exercise an option. The option price is the market price on the last dealing day prior to the date of grant.

Messrs Belk, Harley, Harpin, Penna and Whitty were granted options during the year. Details of options granted are shown on page 37.

The Board has reviewed the policy on the retesting of options and has agreed that this will no longer apply in respect of future options granted under the Plan.

Prior to 2001 a Restricted Share Plan was operated under the existing Employee Share Ownership Plan - The South Staffordshire Water Employee Trust. This Trust purchased shares on the market and the Remuneration Committee made recommendations to the Trustees concerning allocations of awards under the Plan.

The shares so purchased were held in trust, normally for a period of three years. After this period they could become transferable in part or in whole, at the discretion of the Trustees and provided the performance targets set by the Remuneration Committee had been met. The targets set were based upon the Group achieving superior growth in EPS and share price against a group of comparator companies taken from the utilities sector. The last award was in 2000 and no further awards will be made under the Plan. The awards made in 2000 vested during the year with Mr Whitty and Mr Penna receiving shares. Details of the shares vesting are shown on page 37.

It is recognised that the remuneration policy for the executive directors and key senior executives needs to be closely aligned with the Company's strategic direction and long term aims. The ESOP will continue to be the primary incentive mechanism but to complement this, shareholder approval was obtained in April 2004 for a new Long Term Incentive Plan (LTIP). Awards under this Plan will be made to incentivise participants towards specific goals reflecting the Company's strategic aim over the next five years to deliver exceptional shareholder value. The Remuneration Committee intends to restrict the award to be made in 2004 to no more than ten participants. Awards granted will take the form of nil cost share options.

Awards will only vest in full if total shareholder return ('TSR') of 180% is achieved after the fifth anniversary of the date of grant and the annual average EPS growth in the five year award period exceeds the change in RPI by at least 10%. No part of the award will vest if absolute TSR growth is less than 130%.

Awards may be made under both the ESOP and the LTIP in the same year but, other than in the first year of operation of the LTIP, the face value of these combined awards will not exceed twice the annual salary of the participant, other than in exceptional circumstances.

Earnings related performance targets in respect of the Company's share based incentive schemes would be adjusted to exclude the benefit of share repurchases.

## Company Policy on Contracts of Service

All executive Directors are on rolling contracts of service which require one year's notice of termination by the Company. Liquidated damage provisions in contracts are limited to the payment of one year's remuneration. Notice periods and payments are not extendable in takeover situations.

All non-executive Directors have terms of appointment for periods of three years which include provisions in respect of liquidated damages limited to the payment of one year's fees. The letters of appointment in respect of Messrs Bury, Harris, Corbett and Sankey were terminated on 6 April 2004.

## Company Pensions Policy regarding Executive Directors

Executive Directors currently participate in one of two pension arrangements, the Water Companies Pension Scheme or the Homeserve Money Plan (formerly the South Staffordshire Money Plan).

The Water Companies Pension Scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme. Its main features are:

- i. a normal pension age of 60;
- ii. pension at normal pension age of one-half of final pensionable salary and a tax-free lump sum of one and a half times final pensionable salary, subject to completion of 40 years service;
- iii. life assurance of five times pensionable salary or basic salary as applicable;
- iv. pension payable in the event of ill health; and
- v. spouse's pension on death.

The Homeserve Money Plan is a funded, Inland Revenue approved, defined contribution, occupational pension scheme. Its main features are:

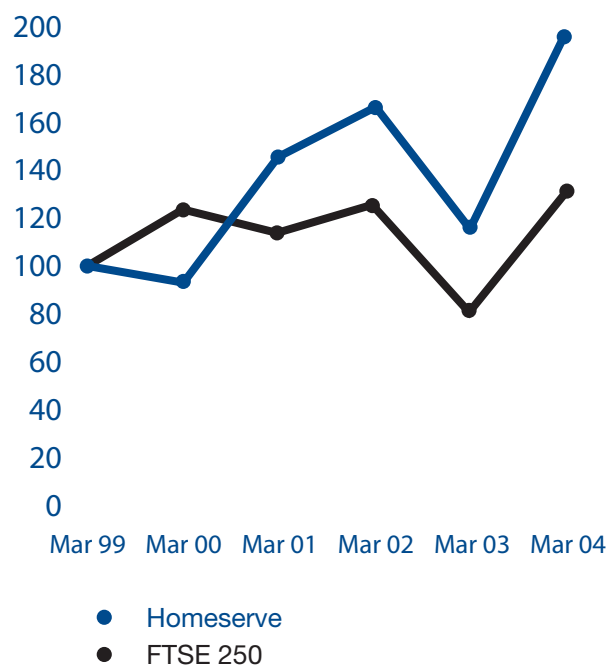
- i. a normal pension age of 65;
- ii. a contribution rate of up to 10%, matched by the Company;
- iii. life assurance of five times basic salary;
- iv. permanent health insurance; and
- v. spouse's pension on death.

If the benefits provided under these Schemes are restricted as a result of the earnings cap further provision is made via a funded unapproved retirement benefit scheme or unapproved money purchase arrangements. For Directors appointed prior to 1999 the Company compensates them for the tax impact of the contributions to the funded unapproved retirement benefit scheme.

# Remuneration Report

## Performance Graph

The graph opposite shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 (also measured by TSR) for the five years ended 31 March 2004. This comparator has been chosen to provide a meaningful comparison of relative performance against similar sized UK listed companies.



## Audited Information

### Directors' Emoluments

	Basic Salary £'000	Benefits £'000	Bonus £'000	Total Emoluments	
				2004 £'000	2003 £'000
<b>Executive</b>					
B. H. Whitty	276	22	110	408	300
A. J. Belk	155	18	62	235	108
R. I. Harley	130	20	52	202	167
R. D. Harpin	206	20	83	309	219
D. M. Penna*	114	15	46	175	208
A. P. Page	—	—	—	—	70
<b>Non-Executive</b>					
L. C. N. Bury	78	—	—	78	55
R. P. Corbett	24	—	—	24	20
J. R. Harris	24	—	—	24	20
D. B. Sankey	55	—	—	55	20
J. A. S. Jewitt†	13	—	—	13	—
W. S. R. Kenyon-Slaney	—	—	—	—	5
<b>Total</b>	<b>1,075</b>	<b>95</b>	<b>353</b>	<b>1,523</b>	
Total 2003	836	98	258		1,192

\* Died 17 December 2003

† Appointed 1 September 2003

A. J. Belk was appointed on 2 September 2002.

The above amounts do not include payments made after the year end in respect of compensation for loss of office of £85,000 to Mr Bury and £25,000 to Mr Harris paid in accordance with their letters of appointment.

## Directors' Pensions

Five Directors were members of the Company's defined benefit pension scheme. The following Directors had accrued entitlements under the scheme as follows:

	<b>Accrued pension 31 March 2004 £'000</b>	<b>Increase in accrued pension in the year £'000</b>	<b>Accrued pension 31 March 2003 £'000</b>	<b>Transfer value of increase £'000</b>
B. H. Whitty	11	2	9	15
R. D. Harpin	6	1	5	9
D. M. Penna*	38	3	35	27
R. P. Corbett	12	2	10	17
D. B. Sankey	18	8	10	58

The following table sets out the transfer value of the Directors' accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Scheme - Transfer Values (GN 11)" published by the Institute of Actuaries and the Faculty of Actuaries.

	<b>Transfer value 31 March 2004 £'000</b>	<b>Contributions made by the Director £'000</b>	<b>Increase in transfer value in the year net of contributions £'000</b>	<b>Transfer value 31 March 2003 £'000</b>
B. H. Whitty	142	—	35	107
R. D. Harpin	50	—	14	36
D. M. Penna*	625	—	79	546
R. P. Corbett	126	—	29	97
D. B. Sankey	136	—	73	63

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

Five Directors were members of money purchase schemes. Contributions paid by the Company in respect of such Directors were as follows:

	<b>2004 £'000</b>	<b>2003 £'000</b>
B. H. Whitty	162	80
A. J. Belk	31	15
R. I. Harley	12	8
R. D. Harpin	21	10
D. M. Penna*	26	87

\* To date of death

# Remuneration Report

## Directors' Shareholdings

The beneficial interests of Directors who served at the end of the year, together with those of their families, in the shares of the Company are as follows:

	<b>25 May 2004</b>	<b>Ordinary Shares 31 March 2004</b>	<b>31 March 2003</b>
L. C. N. Bury	480,000	600,000	600,000
A. J. Belk	—	—	—
R. I. Harley	12,344	15,430	10,000
R. D. Harpin	9,926,877	1,101,522	1,101,522
B. H. Whitty	58,901	73,627	55,025
D. M. Penna	—	54,334*	38,427
R. P. Corbett	—	—	—
J. R. Harris	21,064	26,330	26,330
D. B. Sankey	4,616	5,770	5,770

Directors' interests in shares have been restated as at 25 May 2004 to show the impact of the share consolidation.

In addition, Mr Sankey held a non-beneficial interest in 20,000 ordinary shares, 16,000 following the consolidation.

\* At date of death

## Directors' Options and Long-Term Incentives

Details of the share options held by Directors under SAYE Schemes are as follows:

	<b>31 March 2004</b>	<b>Granted during year</b>	<b>Exercised during year</b>	<b>31 March 2003</b>	<b>Option price</b>	<b>Date granted</b>	<b>Date exercisable from</b>
B. H. Whitty	3,524	—	—	3,524	466.0p	10.12.02	1.2.08
A. J. Belk	2,027	—	—	2,027	466.0p	10.12.02	1.2.06
R. I. Harley	—	—	5,430	5,430	310.4p	18.12.98	1.2.04
R. D. Harpin	5,144	—	—	5,144	328.0p	21.12.00	1.2.05
D. M. Penna	2,027*	—	—	2,027	466.0p	10.12.02	1.2.06

SAYE Scheme options are exercisable for a 6 month period from the date shown. The market price of the Company's shares on the day the options were exercised was £5.41½.

\* At date of death

Details of the share options held by Directors under Executive Share Option Schemes are as follows:

	31 March 2004	Granted during year	Exercised during year	31 March 2003	Option price	Date granted
B. H. Whitty	150,000	—	—	150,000	366.5p	3.6.98
B. H. Whitty	30,000	—	—	30,000	377.5p	23.6.00
B. H. Whitty	72,500	—	—	72,500	550.0p	17.7.01
B. H. Whitty	65,000	—	—	65,000	589.0p	8.7.02
B. H. Whitty	80,000	80,000	—	—	470.0p	1.7.03
A. J. Belk	12,500	—	—	12,500	550.0p	17.7.01
A. J. Belk	17,500	—	—	17,500	589.0p	8.7.02
A. J. Belk	36,000	—	—	36,000	466.0p	13.11.02
A. J. Belk	50,000	50,000	—	—	470.0p	1.7.03
R. I. Harley	12,500	—	—	12,500	366.5p	3.6.98
R. I. Harley	50,000	—	—	50,000	407.5p	30.7.99
R. I. Harley	36,000	—	—	36,000	550.0p	17.7.01
R. I. Harley	33,000	—	—	33,000	589.0p	8.7.02
R. I. Harley	46,000	46,000	—	—	470.0p	1.7.03
R. D. Harpin	49,000	—	—	49,000	550.0p	17.7.01
R. D. Harpin	44,000	—	—	44,000	589.0p	8.7.02
R. D. Harpin	60,000	60,000	—	—	470.0p	1.7.03
D. M. Penna	125,000*	—	—	125,000	366.5p	3.6.98
D. M. Penna	25,000*	—	—	25,000	377.5p	23.6.00
D. M. Penna	49,000*	—	—	49,000	550.0p	17.7.01
D. M. Penna	44,000*	—	—	44,000	589.0p	8.7.02
D. M. Penna	55,000*	55,000	—	—	470.0p	1.7.03

Executive Share Options are exercisable between 3 and 10 years from the date of grant.

There were no changes in the options held between 31 March and 25 May 2004.

\* At date of death

Details of the maximum number of shares receivable from conditional awards made under the Restricted Share Plan are as follows:

	31 March 2004	Awarded during year	Lapsed during year	Vested during year	31 March 2003
B. H. Whitty	—	—	2,658	18,602	21,260
D. M. Penna	—*	—	2,273	15,907	18,180

The shares that vested in the year were provisionally awarded on 20 July 2000. The market price on award was £3.47½ and on vesting was £4.95.

\* At date of death

The market price of the Company's shares at 31 March 2004 was £6.27 (2003: £3.89½). During the year the price ranged from £3.85 to £6.27.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

By Order of the Board  
**C G Powell**  
 Company Secretary  
 25 May 2004

# Directors and Advisers

<b>Directors</b>	Brian Howard Whitty, FCA, Chairman Richard David Harpin, BA (Hons), C dipAF John Hunter Maxwell, CA, CCMI Andrew John Belk, BSc (Hons), ACA John Michael Barry Gibson Robert Ian Harley Justin Allen Spaven Jewitt, BA (Hons)
<b>Secretary</b>	Christopher Gary Powell, BComm (Hons), ACA
<b>Registered Office</b>	Cable Drive, Walsall, WS2 7BN. Telephone: 01922 426262. Registered in England, Number 2648297.
<b>Stockbrokers</b>	Cazenove 20 Moorgate, London EC2R 6DA.
<b>Financial Advisers</b>	N.M. Rothschild & Sons Limited New Court, St Swithins Lane, London EC4P 4DU.
<b>Financial PR Advisers</b>	College Hill 78 Cannon Street, London EC4N 6HH.
<b>Auditors</b>	Deloitte & Touche LLP Four Brindleyplace, Birmingham B1 2HZ.
<b>Legal Advisers</b>	Martineau Johnson St Philips House, St Philips Place, Birmingham B3 2PP.  Wragge & Co LLP 55 Colmore Row, Birmingham B3 2AS.
<b>Bankers</b>	HSBC Bank plc 130 New Street, PO Box 68, Birmingham B2 4JU.  Royal Bank of Scotland plc 2 St Philips Place, Birmingham B3 2RB.
<b>Registrars</b>	Computershare Investor Services PLC PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.



# Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out on the following pages, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and the profit or loss of the Group for the financial year.

In preparing these accounts, 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

The Directors have responsibility for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors, having prepared the accounts, are required to provide the auditors with such information and explanation as the auditors think necessary for the performance of their duty.

# Independent Auditors' Report

## Independent Auditors' Report to the Members of Homeserve plc (formerly South Staffordshire Group Plc)

We have audited the financial statements of Homeserve plc for the year ended 31 March 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement and notes to the cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2004 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche LLP**  
**Chartered Accountants**  
**and Registered Auditors**

**Birmingham**  
**25 May 2004**

# Consolidated Profit and Loss Account

For the year ended 31 March 2004

		2004		Total	2003		Total
	Note	Continuing Operations £'000	Discontinued Operations £'000	£'000	Continuing Operations £'000	Discontinued Operations £'000	£'000
Turnover	2	250,575	72,380	322,955	194,366	71,428	265,794
Less share of joint ventures' turnover		(1,147)	(4,173)	(5,320)	(430)	(4,026)	(4,456)
Group turnover		249,428	68,207	317,635	193,936	67,402	261,338
Operating costs including goodwill amortisation	4	(221,204)	(47,777)	(268,981)	(170,898)	(46,103)	(217,001)
Other operating income/(expenses)	7	(144)	1,127	983	(228)	817	589
Operating profit							
Group operating profit		28,080	21,557	49,637	22,810	22,116	44,926
Share of joint ventures' operating loss		(257)	(307)	(564)	(300)	(108)	(408)
Total operating profit before goodwill and exceptional costs	2	37,438	21,250	58,688	28,483	22,008	50,491
Goodwill amortisation		(7,215)	—	(7,215)	(5,973)	—	(5,973)
Exceptional operating costs	3	(2,400)	—	(2,400)	—	—	—
Total operating profit: Group and share of joint ventures	2	27,823	21,250	49,073	22,510	22,008	44,518
Exceptional costs - fundamental reorganisation	3	(4,216)	—	(4,216)	—	—	—
Net interest payable	8	(669)	(6,348)	(7,017)	(1,349)	(4,613)	(5,962)
Profit before tax, goodwill and exceptional costs		36,769	14,902	51,671	27,134	17,395	44,529
Goodwill amortisation		(7,215)	—	(7,215)	(5,973)	—	(5,973)
Exceptional costs		(6,616)	—	(6,616)	—	—	—
Profit on ordinary activities before taxation		22,938	14,902	37,840	21,161	17,395	38,556
Taxation on profit on ordinary activities	9	(11,269)	(3,974)	(15,243)	(8,366)	(4,423)	(12,789)
Profit on ordinary activities after taxation		11,669	10,928	22,597	12,795	12,972	25,767
Minority shareholders' equity interests before exceptional credit				(2,739)			(1,780)
Exceptional credit	3			2,400			—
Minority shareholders' equity interests				(339)			(1,780)
Profit for the financial year				22,258			23,987
Dividends paid and proposed	10			(12,733)			(11,340)
Retained profit for the year	26			9,525			12,647
Earnings per share							
Basic	11			35.2p			38.2p
Basic excluding goodwill and exceptional costs	11			51.0p			45.9p
Diluted	11			34.9p			37.9p
Diluted excluding goodwill and exceptional costs	11			50.6p			45.5p

A statement of movements in reserves is given in note 26 to the accounts.

The accompanying notes are an integral part of these accounts.

# Consolidated Balance Sheet

As at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Goodwill	12	108,223	127,363
Tangible assets	13	186,242	171,122
		294,465	298,485
Current assets			
Stocks	17	6,887	6,103
Debtors	18	90,221	76,527
Cash at bank and in hand		10,497	10,792
		107,605	93,422
Creditors – amounts falling due within one year			
Borrowings	19	(11,355)	(22,892)
Other creditors	20	(120,909)	(99,050)
		(132,264)	(121,942)
Net current liabilities		(24,659)	(28,520)
Total assets less current liabilities		269,806	269,965
Creditors – amounts falling due after more than one year			
Borrowings	19	(92,649)	(91,021)
Other creditors	20	(4,138)	(21,473)
		(96,787)	(112,494)
Provisions for liabilities and charges	22	(10,301)	(9,218)
Accruals and deferred income	24	(19,552)	(18,454)
Net assets		143,166	129,799
Capital and reserves			
Share capital	25	6,366	6,315
Share premium	25	18,902	16,520
Capital redemption reserve		1,200	1,200
Profit and loss account	26	110,532	101,606
Equity shareholders' funds		137,000	125,641
Minority shareholders' equity interests		6,166	4,158
		143,166	129,799

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of Directors on 25 May 2004.

B H Whitty  
A J Belk

# Company Balance Sheet

As at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Investments	16	34,003	21,735
Current assets			
Debtors	18	121,406	121,477
Creditors – amounts falling due within one year			
Borrowings	19	(40,063)	(25,799)
Other creditors	20	(16,184)	(18,535)
		(56,247)	(44,334)
Net current assets		65,159	77,143
Total assets less current liabilities		99,162	98,878
Net assets		99,162	98,878
Capital and reserves			
Ordinary share capital	25	6,366	6,315
Share premium	25	18,902	16,520
Capital redemption reserve		1,200	1,200
Profit and loss account	26	72,694	74,843
Equity shareholders' funds		99,162	98,878

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of Directors on 25 May 2004.

B H Whitty

A J Belk

# Supplementary Statements

For the year ended 31 March 2004

## Consolidated Statement of Total Recognised Gains and Losses

	Note	2004 £'000	2003 £'000
Profit for the financial year		22,258	23,987
Total recognised gains and losses relating to the year		22,258	23,987

## Reconciliation of Movements in Consolidated Shareholders' Funds

Profit for the financial year		22,258	23,987
Dividends		(12,733)	(11,340)
		9,525	12,647
New share capital subscribed	25	1,834	991
Net additions to shareholders' funds		11,359	13,638
Opening shareholders' funds		125,641	112,003
Closing shareholders' funds		137,000	125,641

The accompanying notes are an integral part of these accounts.

# Consolidated Cash Flow Statement

For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	(a)	77,854	66,584
Returns on investments and servicing of finance:			
Interest received		345	235
Interest paid		(4,401)	(3,532)
Interest element of finance lease and hire-purchase rental payments		(393)	(428)
Dividends paid to minority interests		(1,714)	(2,293)
Net cash outflow from returns on investments and servicing of finance		(6,163)	(6,018)
Taxation:			
Corporation tax paid		(12,171)	(12,958)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets		(38,195)	(31,755)
Investment in joint ventures		(492)	(100)
Purchase of own shares		—	(32)
Sale of tangible fixed assets		1,341	1,070
Capital contributions received		4,782	4,795
Net cash outflow from capital expenditure and financial investment		(32,564)	(26,022)
Acquisitions and disposals:			
Investment in subsidiary undertakings		(4,442)	(78,929)
Net cash outflow from acquisitions and disposals		(4,442)	(78,929)
Equity dividends paid		(11,683)	(10,481)
Financing:			
Issue of ordinary share capital		1,834	991
Proceeds from bond issue		—	83,712
Repayment of loan notes		(931)	(3,364)
Capital element of finance lease and hire-purchase rental payments		(1,419)	(1,285)
Net cash (outflow)/inflow from financing		(516)	80,054
Increase in cash		10,315	12,230

The accompanying notes are an integral part of these accounts.



# Notes to the Cash Flow Statement

For the year ended 31 March 2004

## (a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2004		2003	
	£'000	£'000	£'000	£'000
Total operating profit: Group and share of joint ventures		49,073		44,518
Amortisation of goodwill		7,215		5,973
		<u>56,288</u>		<u>50,491</u>
Exceptional costs - demerger of South Staffordshire businesses	(1,030)		—	
Exceptional costs - UITF 17 charge	2,400		—	
Depreciation and amortisation (non-infrastructure assets)	12,743		11,718	
Depreciation and amortisation (infrastructure assets)	5,485		5,016	
Profit on disposal of assets	(547)		(84)	
Provision against investments	—		52	
		<u>19,051</u>		<u>16,702</u>
Share of operating loss in joint ventures		564		408
(Increase)/decrease in stocks	(784)		112	
(Increase)/decrease in debtors	(12,494)		1,784	
Increase/(decrease) in creditors	15,229		(2,913)	
		<u>1,951</u>		<u>(1,017)</u>
Net cash inflow from operating activities		<u>77,854</u>		<u>66,584</u>

## (b) Reconciliation of Movement in Net Debt

	2004	2003
	£'000	£'000
(Reduction)/increase in cash	(295)	3,825
Decrease in bank overdraft	10,610	8,405
	<u>10,315</u>	<u>12,230</u>
Debt repayments	2,350	4,649
Debt issued in respect of acquisitions	—	(3,761)
Assets purchased under finance leases	(527)	(788)
Debt in companies acquired	—	(1,455)
Index-linked bond		
- proceeds from issue	—	(83,712)
- indexation	(2,524)	(1,705)
Decrease/(increase) in net debt in year	9,614	(74,542)
Net debt brought forward	(103,121)	(28,579)
Net debt carried forward	<u>(93,507)</u>	<u>(103,121)</u>

## (c) Analysis of Net Debt

	Balance at 1 April 2003 £'000	Cash flow £'000	Other non cash changes £'000	Balance at 31 March 2004 £'000
Cash at bank and in hand and bank overdraft	(8,097)	10,315	—	2,218
Irredeemable debenture stock	(1,633)	—	—	(1,633)
Index-linked bond	(85,417)	—	(2,524)	(87,941)
Obligations under finance leases and hire-purchase contracts	(5,553)	1,419	(527)	(4,661)
Loan notes	(2,421)	931	—	(1,490)
Net debt	<u>(103,121)</u>	<u>12,665</u>	<u>(3,051)</u>	<u>(93,507)</u>

Other non cash changes included £2,524,000 in respect of indexation on the index-linked bond.

## (d) Analysis of Cash Flows

A summarised consolidated cash flow statement analysed between continuing and discontinued operations is shown below:

	<b>Continuing Operations £'000</b>	<b>2004 Discontinued Operations £'000</b>	<b>Total £'000</b>	<b>Continuing Operations £'000</b>	<b>2003 Discontinued Operations £'000</b>	<b>Total £'000</b>
Net cash inflow/(outflow) from:						
Operating activities	44,887	32,968	77,855	36,490	30,094	66,584
Returns on investment and servicing of finance	(2,355)	(3,808)	(6,163)	(3,634)	(2,384)	(6,018)
Taxation	(9,623)	(2,548)	(12,171)	(8,222)	(4,736)	(12,958)
Capital expenditure and financial investment	(7,044)	(25,520)	(32,564)	(5,729)	(20,293)	(26,022)
Acquisitions and disposals	(4,442)	—	(4,442)	(78,929)	—	(78,929)
Equity dividends paid	(11,684)	—	(11,684)	(10,481)	—	(10,481)
Financing	(74)	(442)	(516)	69,525	10,529	80,054
Increase/(decrease) in cash	9,665	650	10,315	(980)	13,210	12,230

For discontinued operations dividends paid to the Company have been included within financing cash flows.

# Notes to the Accounts

## 1 Statement of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### (a) Basis of Accounting

The accounts have been prepared under the historical cost convention and in accordance with the requirements of the London Stock Exchange and applicable accounting standards.

### (b) Basis of Consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings made up to 31 March each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. The Group makes full provision for the minority interests' share of net liabilities in subsidiary undertakings. Acquisitions are accounted for under the acquisition method.

### (c) Joint Ventures

The Group's share of turnover and profit or loss of joint ventures is included in the consolidated profit and loss account. The Group's share of their net assets or liabilities is included in the consolidated balance sheet.

### (d) Turnover and profit recognition

Homeserve turnover includes amounts receivable from the sale of policies, stated net of underwriting, commissions payable and Insurance Premium Tax. Turnover is recognised on sale of the policy except where an obligation exists to provide future services where an appropriate proportion of monies received in advance are treated as deferred income and recognised over the relevant period. Member acquisition costs are recognised in full on sale of the policy.

Turnover in commercial outsourcing represents amounts receivable, excluding VAT, from the sale of goods and services.

Regulated Water turnover includes amounts billed together with an estimation of amounts unbilled at the year end.

### (e) Goodwill

Goodwill arising on acquisitions, represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. From the year ended 31 March 1999 goodwill has been capitalised on the balance sheet and amortised over its estimated useful life of up to 20 years. Prior to this period goodwill was written off to reserves in accordance with the accounting standard then in force. This would be charged to the profit and loss account in the event of the disposal of the relevant business.

### (f) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise infrastructure assets (consisting of water mains, impounding and pumped raw water storage reservoirs and dams), operational structures (being pumping stations, treatment stations, boreholes and service reservoirs) and other assets.

## Infrastructure Assets

Infrastructure assets comprise a network of systems that, as a whole, is intended to be maintained in perpetuity at a specified level of service by the continuing replacement and refurbishment of its components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks and on maintaining the operating capability of the network in accordance with defined standards of service are treated as additions which are included at cost.

The depreciation charge for infrastructure assets is the level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan.

# Notes to the Accounts

## Operational Structures and Other Assets

Operational structures and other assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on a straight line basis to write off the cost less estimated residual value over the estimated useful lives of the assets, with the exception of land which is not depreciated. The estimated useful lives of assets are as follows:

Buildings and Service Reservoirs	50-80 years
Fixed Plant	20-30 years
Meters	15 years
Mobile Plant	5 years
Motor Vehicles	3-7 years
Office Equipment	5-7 years
Envelope and Mailing Equipment	7-10 years

## (g) Capital Contributions

Capital contributions, which arise in the regulated water business, are treated as deferred income and amortised over the estimated useful lives of the assets concerned, except in the case of contributions towards the cost of infrastructure assets. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as it is not possible to amortise contributions to the profit and loss account over the lives of the fixed assets concerned, as infrastructure assets do not have determinable finite lives.

## (h) Leased Assets

Assets financed by leasing and hire-purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are included in tangible fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis.

## (i) Investments

Investments held as fixed assets are stated at cost less amounts written off and any provision for impairment.

## (j) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes an appropriate element of overheads. Provision is made for obsolete, slow moving or defective items where appropriate.

## (k) Pensions

For the defined benefit scheme the cost of pension contributions is charged to the profit and loss account on a systematic basis over the average service lives of the employees, in accordance with the advice of an independent actuary. For defined contribution schemes the amount charged to the profit and loss account is the contributions payable in the year.

## (l) Research and Development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

## (m) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred tax is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the current rate of tax. The liability is discounted, using the yield to maturity on government gilts, to reflect the time value of money over the period between the balance sheet date and the date on which the timing differences are expected to reverse.

## (n) Index-linked bond

The index-linked bond is carried in the balance sheet at an amount equal to the sum of the proceeds received on issue and indexation to date, less issue costs. The premium/discount and costs of issue are amortised over the life of the bond and included in net interest payable in the profit and loss account, together with interest paid for the period and indexation.

## 2 Segmental Information

### Turnover

	2004			2003		
	Continuing Operations £'000	Discontinued Activities £'000	Total £'000	Continuing Operations £'000	Discontinued Activities £'000	Total £'000
Homeserve domestic	169,236	—	169,236	121,267	—	121,267
Commercial outsourcing	86,975	24,691	111,666	77,436	26,590	104,026
Inter-division	(5,636)	(12,738)	(18,374)	(4,337)	(13,998)	(18,335)
Support services	250,575	11,953	262,528	194,366	12,592	206,958
Regulated water supply	—	60,427	60,427	—	58,836	58,836
	250,575	72,380	322,955	194,366	71,428	265,794

Inter-division turnover relates wholly to commercial outsourcing.

### Operating Profit

	2004			2003		
	Continuing Operations £'000	Discontinued Activities £'000	Total £'000	Continuing Operations £'000	Discontinued Activities £'000	Total £'000
Homeserve domestic	32,384	—	32,384	23,997	—	23,997
Commercial outsourcing	5,054	4,228	9,282	4,486	5,494	9,980
Support services	37,438	4,228	41,666	28,483	5,494	33,977
Regulated water supply	—	17,022	17,022	—	16,514	16,514
	37,438	21,250	58,688	28,483	22,008	50,491
Amortisation of goodwill	(7,215)	—	(7,215)	(5,973)	—	(5,973)
Exceptional operating costs	(2,400)	—	(2,400)	—	—	—
	27,823	21,250	49,073	22,510	22,008	44,518

The 2004 exceptional costs of £2,400,000, as described in note 3, relate to Homeserve domestic.

### Net Operating Assets

	2004 £'000	2003 £'000
Homeserve domestic	10,919	8,296
Commercial outsourcing	24,560	27,641
Support services	35,479	35,937
Regulated water supply	132,792	121,365
	168,271	157,302
Net debt	(93,507)	(103,121)
Deferred consideration	(10,000)	(26,367)
Goodwill	108,223	127,363
Proposed dividend	(10,506)	(9,239)
Corporation tax	(9,014)	(6,921)
Provisions for liabilities and charges	(10,301)	(9,218)
Net assets	143,166	129,799

Substantially all turnover, operating profit and net operating assets arise in the United Kingdom.

# Notes to the Accounts

## 3 Post Balance Sheet Events - Demerger of South Staffordshire Plc and Related Transactions

On 6 April 2004, subsequent to the balance sheet date, the following transactions were effected:

- (i) South Staffordshire Water PLC and a number of related businesses were demerged from the continuing group by way of a dividend in specie.
- (ii) The share capital of the Company was consolidated, with existing shareholders entitled to receive four shares in the continuing group for every five shares previously held.
- (iii) The Company acquired the 24.98 per cent. minority shareholding in the Homeserve division in a share for share exchange resulting in the issue of 11,600,000 new shares in the Company.

On 5 April 2004 South Staffordshire Group Plc changed its name to Homeserve plc.

The results of the demerged businesses have been reported within discontinued operations for the year ended 31 March 2004 and the previous year. The amounts presented for discontinued operations take account of certain consolidation eliminations and adjustments which are necessary to fully reflect the results of the discontinued operations within Homeserve plc.

The estimated total costs of completing these transactions of £4,216,000 have been accrued in full at 31 March 2004 and are included in the profit and loss account as exceptional costs as they relate to a fundamental reorganisation of the activities of the Group. No corporation tax relief on these costs has been assumed as the amount of any such deduction is currently uncertain. These exceptional costs have had no impact on the minority interest charge.

In addition to the exceptional transaction costs described above, an exceptional operating cost of £2,400,000 has been incurred as a consequence of the decision to acquire the minority interest in Homeserve. The fair value of shares issued by the Company in 2001 in respect of a previous transaction in Homeserve was being amortised, in accordance with UITF 17, over a five year period ending on 31 March 2006. The exceptional charge represents the write-off of the unamortised balance at 31 March 2004. This exceptional charge is mirrored by an exceptional credit to the minority interest charge of £2,400,000 in connection with the same transaction. The result of these two exceptional items is that there is no net impact on reported profit for the financial year or earnings per share.

The Group's acquisition of the minority shareholding in the Homeserve division will result in additional goodwill of £66.9m which will be amortised over twenty years.

The Group's principal subsidiary undertakings and joint ventures before and after the demerger are set out in note 16.

A proforma unaudited consolidated balance sheet as at 31 March 2004 illustrating the effect of the above transactions on group net assets is included on page 69.

## 4 Operating Costs

	2004			2003		
	Continuing Operations £'000	Discontinued Operations £'000	Total £'000	Continuing Operations £'000	Discontinued Operations £'000	Total £'000
Raw materials and consumables	47,233	3,465	50,698	36,722	3,622	40,344
Manpower costs (note 5)	83,879	14,680	98,559	63,633	15,258	78,891
Depreciation (infrastructure assets)	—	5,485	5,485	—	5,016	5,016
Depreciation (non-infrastructure assets)	6,758	6,244	13,002	5,935	5,991	11,926
Amortisation of goodwill	7,215	—	7,215	5,973	—	5,973
Other operating costs	76,119	17,903	94,022	58,635	16,216	74,851
	221,204	47,777	268,981	170,898	46,103	217,001

Other operating costs for 2004 include exceptional costs of £2,400,000 within continuing operations as described in note 3.

Other operating costs include £4,497,000 (2003: £4,357,000) in respect of operating lease rentals which relate principally to land and buildings and motor vehicles.

Auditors' remuneration comprised:

	2004 £'000	2003 £'000
Audit services:		
Statutory audit	190	159
Audit related regulatory reporting	88	18
Further assurance services:		
Reporting Accountant	432	15
Tax services:		
Compliance	62	52
Advisory	165	32
	937	276

Included within further assurance services and tax advisory services are amounts of £582,000 (2003: £nil) relating to the demerger and related transactions.

## 5 Staff Costs

	2004 £'000	2003 £'000
Wages and salaries	86,831	70,575
Social security costs	8,863	6,334
Pension costs	2,865	1,982
	98,559	78,891

### Average number of employees

	2004			2003		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Homeserve domestic	2,252	—	2,252	1,579	—	1,579
Commercial outsourcing	1,155	184	1,339	1,018	209	1,227
Support services	3,407	184	3,591	2,597	209	2,806
Regulated water supply	—	337	337	—	318	318
	3,407	521	3,928	2,597	527	3,124

# Notes to the Accounts

## 6 Directors' Emoluments

	2004 £'000	2003 £'000
Emoluments	1,523	1,192
Contributions to money purchase pension schemes	252	213
Value of shares vested under restricted share plan	171	175
Gain on exercise of SAYE options	13	20

The emoluments of the Directors are analysed in the Remuneration Report. There were 5 Directors accruing benefits under defined benefit schemes and 5 Directors accruing benefits under money purchase schemes (2003: 7 and 6 respectively).

The highest paid Director received emoluments of £408,000 (2003: £300,000). He is a member of a defined benefit pension scheme which provided for accrued pension of £10,800 (2003: £9,400) and accrued lump sum of £32,300 (2003: £28,200) at 31 March 2004. In addition, the cost of providing benefits under the South Staffordshire Group Funded Unapproved Retirement Benefit Scheme on his behalf was £162,000 (2003: £80,000).

## 7 Other Operating Income

	2004		Total £'000	2003		Total £'000
	Continuing Operations £'000	Discontinued Operations £'000		Continuing Operations £'000	Discontinued Operations £'000	
Profit/(loss) on disposal of fixed assets	(144)	691	547	(228)	312	84
Rental income	—	436	436	—	505	505
	(144)	1,127	983	(228)	817	589

## 8 Net Interest Payable

	2004		Total £'000	2003		Total £'000
	Continuing Operations £'000	Discontinued Operations £'000		Continuing Operations £'000	Discontinued Operations £'000	
Interest payable and similar charges:						
Index-linked bond	—	5,843	5,843	—	3,614	3,614
Bank overdraft and other interest	904	122	1,026	1,524	551	2,075
Finance charges in respect of finance leases and hire-purchase contracts	75	318	393	34	394	428
Debentures	—	67	67	—	67	67
Share of joint venture interest payable/(receivable)	34	(1)	33	26	(13)	13
	1,013	6,349	7,362	1,584	4,613	6,197
Interest receivable on short-term deposits	(344)	(1)	(345)	(235)	—	(235)
	669	6,348	7,017	1,349	4,613	5,962

Bank overdrafts, cash deposits and other debt instruments are held within the individual subsidiary or other undertakings to which they relate and have been analysed between continuing and discontinued operations accordingly.



## 9 Taxation

	2004			2003		
	Continuing Operations £'000	Discontinued Operations £'000	Total £'000	Continuing Operations £'000	Discontinued Operations £'000	Total £'000
Corporation tax	11,625	2,534	14,159	8,278	3,738	12,016
Adjustment in respect of prior years	(14)	119	105	(319)	(711)	(1,030)
	11,611	2,653	14,264	7,959	3,027	10,986
Deferred tax						
Origination and reversal of timing differences	(182)	1,745	1,563	449	1,441	1,890
Increase in discount	—	(266)	(266)	(90)	(152)	(242)
Adjustment in respect of prior years	(160)	(158)	(318)	48	107	155
	(342)	1,321	979	407	1,396	1,803
	11,269	3,974	15,243	8,366	4,423	12,789

The analysis of the tax charge between continuing and discontinued operations is based on tax computations prepared for each entity.

The principal differences between the current corporation tax rate for the Group shown above and the standard rate of corporation tax are as follows:

	2004	2003
Standard rate of corporation tax	30.0%	30.0%
Goodwill not deductible for tax purposes	5.6%	4.5%
Other expenses not deductible for tax purposes	5.4%	1.4%
Capital allowances in excess of depreciation	(3.6%)	(4.7%)
Adjustments in respect of prior years	0.3%	(2.7%)
Current corporation tax rate for the year	37.7%	28.5%

## 10 Dividends Paid and Proposed

	2004 £'000	2003 £'000
Equity interests		
Interim dividend paid of 6.1p (2003: 5.6p) per share	3,859	3,516
Proposed dividend equivalent to 13.9p (2003: 12.4p) per share	8,874	7,824
	12,733	11,340

A nominal dividend of 0.01 pence per share is proposed in respect of 3,314 shares held by the South Staffordshire Water Employee Trust in accordance with a Deed of Waiver dated 31 December 1992.

Due to the demerger, £4.5m of the final dividend will be paid by Homeserve plc and £4.4m by South Staffordshire Plc to shareholders on their respective registers. As a result of the post year end share consolidation at Homeserve plc and share split at South Staffordshire Plc, the amounts payable will be 8.8p per Homeserve share and 34.4p per South Staffordshire share held. These combined payments are equivalent to 13.9p per share in the Company in issue on 31 March 2004.

## 11 Earnings per Share

The calculation of earnings per share is based on profit after tax and minority interests divided by the weighted average number of shares in issue during the financial period. Diluted earnings per share takes into account the dilution effect of the full exercise of all share options granted by the Company by comparing the difference between the weighted average exercise price of exercisable share options with the average share price over the period.

Adjusted earnings per share has been calculated by excluding the amortisation of goodwill and exceptional costs. This is considered to be a better indicator of performance by the Company.

# Notes to the Accounts

The calculations of earnings per share are based on the following profits and numbers of shares:

	2004		2003	
	Continuing Operations £'000	Total £'000	Continuing Operations £'000	Total £'000
Profit for the financial year	11,330	22,258	11,015	23,987
Amortisation of goodwill				
- total	7,215	7,215	5,973	5,973
- relating to minority shareholders	(1,423)	(1,423)	(1,145)	(1,145)
Exceptional costs	6,616	6,616	—	—
Exceptional credit - minority interest	(2,400)	(2,400)	—	—
Profit for adjusted earnings per share	21,338	32,266	15,843	28,815

	2004 Number of shares	2003 Number of shares
Weighted average number of shares		
For basic and adjusted earnings per share	63,208,359	62,772,234
Exercise of share options	523,564	546,703
For diluted earnings per share	63,731,923	63,318,937

## 12 Goodwill

	Group £'000
Cost	
At 1 April 2003	136,302
Adjustments	(11,925)
At 31 March 2004	124,377
Amortisation	
At 1 April 2003	8,939
Charge for the year	7,215
At 31 March 2004	16,154
Net Book Value	
At 31 March 2004	108,223
At 31 March 2003	127,363

At 31 March 2004 the cumulative amount of goodwill written off directly to reserves amounted to £11,826,000 (2003: £11,826,000).

The adjustments to goodwill in the year of £11,925,000 relate to an anticipated reduction in the amount of deferred consideration payable principally in respect of Highway Emergency Services Limited which was acquired in July 2002.

## 13 Tangible Fixed Assets

Group	Land and Buildings £'000	Infra-structure Assets £'000	Operational Structures £'000	Fixed Plant £'000	Mobile Plant & Equipment £'000	Total £'000
<b>Cost</b>						
At 1 April 2003	28,809	105,103	23,091	63,472	82,392	302,867
Additions	2,048	14,319	3,826	4,085	14,444	38,722
Capital contributions received	—	(4,321)	—	—	—	(4,321)
Disposals	(18)	(570)	(40)	(1,004)	(4,107)	(5,739)
At 31 March 2004	<b>30,839</b>	<b>114,531</b>	<b>26,877</b>	<b>66,553</b>	<b>92,729</b>	<b>331,529</b>
<b>Depreciation</b>						
At 1 April 2003	3,493	60,091	4,500	22,549	41,112	131,745
Charge for the year	708	5,485	382	2,902	9,010	18,487
Disposals	(8)	(570)	(38)	(812)	(3,517)	(4,945)
At 31 March 2004	<b>4,193</b>	<b>65,006</b>	<b>4,844</b>	<b>24,639</b>	<b>46,605</b>	<b>145,287</b>
<b>Net Book Value</b>						
At 31 March 2004						
Owned	26,646	45,298	21,622	38,997	44,255	176,818
Leased	—	4,227	411	2,917	1,869	9,424
	<b>26,646</b>	<b>49,525</b>	<b>22,033</b>	<b>41,914</b>	<b>46,124</b>	<b>186,242</b>
At 31 March 2003						
Owned	25,316	40,785	18,174	37,852	38,671	160,798
Leased	—	4,227	417	3,071	2,609	10,324
	<b>25,316</b>	<b>45,012</b>	<b>18,591</b>	<b>40,923</b>	<b>41,280</b>	<b>171,122</b>

Infrastructure renewals expenditure and the charge to the profit and loss account are included within infrastructure assets cost and accumulated depreciation. The net book value of infrastructure assets is stated net of capital contributions. The balance of capital contributions at 31 March and movements in the year are set out in note 15 below.

Tangible fixed assets financed by leasing and hire-purchase amounted to £14,816,000 (2003: £14,338,000) less accumulated depreciation of £5,392,000 (2003: £4,014,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £1,269,000 (2003: £881,000). Tangible fixed assets include freehold land of £2,085,000 (2003: £2,085,000) which is not subject to depreciation.

## 14 Capital Commitments

Capital commitments outstanding at 31 March 2004 were £3,728,000 (2003: £9,431,000).

# Notes to the Accounts

## 15 Capital Contributions

	<b>Infrastructure Assets £'000</b>	<b>Other Assets £'000</b>
Balance at 1 April 2003	52,244	4,352
Capital contributions received	4,321	461
Disposals	(283)	—
Amortised in year	—	(259)
Balance at 31 March 2004	<b>56,282</b>	<b>4,554</b>

Capital contributions in respect of other assets are included in accruals and deferred income (note 24).

## 16 Investments

	<b>Group</b>		<b>Company</b>		
	<b>Own shares £'000</b>	<b>Own shares £'000</b>	<b>Shares in subsidiary undertakings £'000</b>	<b>Loans to subsidiary undertakings £'000</b>	<b>Total Company £'000</b>
<b>Cost</b>					
At 1 April 2003	181	181	11,735	10,000	21,916
Additions	—	—	12,268	—	12,268
Disposals	(166)	(166)	—	—	(166)
At 31 March 2004	<b>15</b>	<b>15</b>	<b>24,003</b>	<b>10,000</b>	<b>34,018</b>
<b>Provision</b>					
At 1 April 2003	181	181	—	—	181
Disposals	(166)	(166)	—	—	(166)
At 31 March 2004	<b>15</b>	<b>15</b>	<b>—</b>	<b>—</b>	<b>15</b>
<b>Net Book Value</b>					
At 31 March 2004	<b>—</b>	<b>—</b>	<b>24,003</b>	<b>10,000</b>	<b>34,003</b>
At 31 March 2003	—	—	11,735	10,000	21,735

As part of the pre demerger reorganisation, the Company subscribed for new ordinary share capital in South Staffordshire Plc, a wholly owned subsidiary undertaking, for cash consideration of £12,268,000.

At 31 March 2004 the Trust held 4,143 shares in the Company (2003: 48,963) which were unallocated. The market value of the shares at 31 March 2004 was £25,977 (2003: £190,711). The cost of shares conditionally allocated to employees is written off over the period to which the performance criteria relate. As stated in note 10, dividends have been waived by the Trust. Any costs of administration are included in the profit and loss account as they accrue. Following the share consolidation the Trust held 3,314 shares.

The Company's principal subsidiary undertakings and joint ventures, all of which have only ordinary shares in issue, except Highway Emergency Services which has preference shares in issue, are as follows:

	Proportion of Shares Held		Nature of Business
	Direct	Indirect	
<b>Homeserve</b>			
Homeserve Assistance plc		75%*	Intermediate holding company
Home Service (GB) Ltd		75%*	Plumbing, heating and electrical home assistance
Home Hotline Ltd		75%*	Claims handling
Highway Emergency Services Ltd		75%*	Emergency glazing & door repair
Regency Financial Holdings Ltd		75%*	Intermediate holding company
Regency Warranties Ltd		75%*	Furniture warranties & repairs
Servowarm Ltd		75%*	Warranties service and repair for domestic boilers
Domeo S.A.		40%	Plumbing home assistance joint venture registered in France
Home Service USA Corp		75%*	Plumbing home assistance registered in USA
Affinity Partners Ltd		75%*	Insurance captive registered in Guernsey
<b>Commercial Outsourcing</b>			
Mail Solutions Ltd		100%	Mailing services
OnSite Resources Ltd		100%	Water & wastewater services
OnSite Central Ltd		100%	Water treatment, distribution and sewerage network services
OnSite South Ltd		100%	Wastewater services
Middleton Maintenance Services Ltd		100%	Building infrastructure maintenance
Homeserve Enterprises Ltd	100%		Intermediate holding company

The following companies which were subsidiary undertakings and joint ventures of the Company at 31 March 2004 were demerged from the continuing group on 6 April 2004:

South Staffordshire Plc	100%		Intermediate holding company
South Staffordshire Water PLC		100%	Water supply
Echo Managed Services Ltd		100%	Customer management
Echo South West Ltd		50%	Customer management joint venture
Rapid Systems Ltd		100%	Development and sale of software

The demerged businesses also include Underground Pipeline Services Ltd, previously part of OnSite Central Ltd.

Subsidiaries marked \* became wholly owned subsidiaries of Homeserve plc following the demerger and share exchange.

## 17 Stocks

	Group	
	2004 £'000	2003 £'000
Stores and raw materials	4,498	4,133
Work in progress	1,904	1,851
Finished goods	485	119
	<b>6,887</b>	<b>6,103</b>

# Notes to the Accounts

## 18 Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts recoverable within one year				
Trade debtors	62,802	54,546	—	—
Other debtors	21,174	16,342	113	80
Amounts owed by joint ventures - loans	629	784	—	—
Amounts owed by Group undertakings	—	—	121,223	121,269
Prepayments and accrued income	5,470	4,782	70	128
	<b>90,075</b>	<b>76,454</b>	<b>121,406</b>	<b>121,477</b>
Amounts recoverable after more than one year				
Other debtors	146	73	—	—
	<b>90,221</b>	<b>76,527</b>	<b>121,406</b>	<b>121,477</b>

## 19 Borrowings

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Bank loans and overdrafts	8,279	18,889	40,063	25,799
Obligations under finance leases and hire purchase contracts	1,586	1,582	—	—
Loan notes	1,490	2,421	—	—
	<b>11,355</b>	<b>22,892</b>	<b>40,063</b>	<b>25,799</b>
Amounts falling due after more than one year				
Index-linked bonds	87,941	85,417	—	—
Irredeemable debenture stock (note 21)	1,633	1,633	—	—
Obligations under finance leases and hire-purchase contracts:				
Payable between one and two years	1,386	1,446	—	—
Payable between two and five years	1,689	2,323	—	—
Payable after five years	—	202	—	—
	<b>92,649</b>	<b>91,021</b>	<b>—</b>	<b>—</b>

The £85,000,000 3.75% Retail Price Index-linked unsecured bonds are repayable in 2025.

The bonds are included in the balance sheet at an amount equal to the sum of the proceeds received on issue and indexation to date, less issue costs.

The obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

## 20 Other Creditors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Trade creditors	51,305	46,195	—	—
Payments received in advance	7,410	6,868	—	—
Amounts owed to group undertakings	—	—	4,587	6,125
Other creditors	34,075	22,573	6,717	1,935
Deferred consideration in respect of acquisitions	5,862	4,894	—	—
Proposed dividends	8,874	7,824	4,494	7,824
Proposed dividends payable to minority interests	1,632	1,415	—	—
Corporation tax payable	9,014	6,921	246	2,558
Other taxation and social security	2,737	2,360	140	93
	<b>120,909</b>	<b>99,050</b>	<b>16,184</b>	<b>18,535</b>
Amounts falling due after more than one year				
Deferred consideration in respect of acquisitions	4,138	21,473	—	—

Deferred consideration of £4,138,000 is payable after 31 March 2006.

## 21 Irredeemable Debenture Stock

	Group	
	2004 £'000	2003 £'000
3½%	476	476
4%	627	627
5%	500	500
	<b>1,603</b>	<b>1,603</b>
Net premium on irredeemable debenture stock	30	30
	<b>1,633</b>	<b>1,633</b>

## 22 Provisions for Liabilities and Charges

	Deferred tax £'000	Share of joint venture net liabilities £'000	Total £'000
At 1 April 2003	8,648	570	9,218
Profit and loss account charge	979	596	1,575
Investment in the period	—	(492)	(492)
At 31 March 2004	<b>9,627</b>	<b>674</b>	<b>10,301</b>

The Group's share of gross assets and gross liabilities in joint ventures was £1,518,000 (2003: £1,010,000) and £2,192,000 (2003: £1,580,000) respectively.

An analysis of deferred tax is set out in note 23.

# Notes to the Accounts

## 23 Deferred Tax

	2004 £'000	2003 £'000
Deferred tax is provided as follows:		
Accelerated capital allowances	17,756	16,576
Other timing differences	(67)	(132)
Undiscounted provision for deferred tax	17,689	16,444
Discount	(8,062)	(7,796)
Discounted provision for deferred tax	9,627	8,648

There is no deferred tax liability in the Company.

There is unprovided deferred tax of £525,000 (2003: £525,000) in respect of capital gains which have been rolled over against the cost of other assets held by the Group.

## 24 Accruals and Deferred Income

	2004 £'000	2003 £'000
Capital contributions (note 15)	4,554	4,352
Other deferred income	14,998	14,102
	19,552	18,454

Other deferred income relates to policy receipts from members in respect of which the Group has an obligation to provide future services.

## 25 Called up Share Capital

	2004 £'000	2003 £'000
Authorised		
88,000,000 Ordinary shares of 10p each	8,800	8,800
Issued and fully paid		
63,666,000 (2003: 63,151,756) Ordinary shares of 10p each	6,366	6,315

	Ordinary Share Capital £'000	Share Premium £'000
Balance at 1 April 2003	6,315	16,520
Shares issued in the year	51	1,783
Transfer from profit and loss reserve	—	599
Balance at 31 March 2004	6,366	18,902

During the year 337,347 Save As You Earn (SAYE) scheme options were exercised for which external consideration of £961,000 was received, including a share premium of £928,000. 176,897 Executive Share Option Scheme (ESOS) options were also exercised for which external consideration of £873,000 was received, including a share premium of £855,000.

On 6 April 2004, the share capital of the Company was consolidated with existing shareholders entitled to receive four ordinary shares of 12½p each for every five ordinary shares of 10p each previously held as described in note 3.



## Options

Details of outstanding share options are shown below:

	<b>Date of Grant</b>	<b>Date Exercisable</b>	<b>Number of Shares</b>	<b>Exercise Price</b>
Executive Scheme	3.6.98	3.6.01	316,820	£3.665
Executive Scheme	30.7.99	30.7.02	105,000	£4.075
SAYE Scheme	22.12.99	1.2.05	73,365	£3.000
Executive Scheme	23.6.00	23.6.03	227,500	£3.775
Executive Scheme	30.11.00	30.11.03	55,183	£4.100
SAYE Scheme	21.12.00	1.2.06	133,373	£3.280
Executive Scheme	17.7.01	17.7.04	486,500	£5.500
Executive Scheme	9.1.02	9.1.05	10,000	£5.915
SAYE Scheme	16.1.02	1.2.05	134,445	£4.760
SAYE Scheme	16.1.02	1.2.07	121,263	£4.760
Executive Scheme	8.7.02	8.7.05	546,000	£5.890
Executive Scheme	13.11.02	13.11.05	36,000	£4.660
SAYE Scheme	10.12.02	1.2.06	121,443	£4.660
SAYE Scheme	10.12.02	1.2.08	154,833	£4.660
Executive Scheme	1.7.03	1.7.06	930,500	£4.700
Executive Scheme	30.9.03	30.9.06	15,000	£5.375

Options granted under the SAYE Scheme are exercisable for a six month period from the date indicated which is at the end of either a 3 year or 5 year savings period. Executive Scheme options are exercisable between 3 and 10 years from the date of grant.

Details of options granted to Directors are included in the Remuneration Report.

## 26 Profit and Loss Account

	<b>Group £'000</b>	<b>Company £'000</b>
Balance at 1 April 2003	101,606	74,843
Transfer to share premium reserve	(599)	—
Retained profit/(loss) for the year	9,525	(2,149)
Balance at 31 March 2004	<b>110,532</b>	<b>72,694</b>

As provided by s230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company's profit for the financial year was £6,204,000 (2003: £77,980,000).

# Notes to the Accounts

## 27 Operating Lease Commitments

Annual commitments under non-cancellable operating leases at 31 March were as follows:

	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	381	887	586	613
Between two and five years	716	2,169	1,029	2,550
After five years	290	—	238	104
	<b>1,387</b>	<b>3,056</b>	<b>1,853</b>	<b>3,267</b>

## 28 Financial Liabilities

The Group's financial liabilities included below comprise borrowings and creditors falling due after more than one year. These do not include short term debtors and creditors. The main purpose of these financial instruments is to raise finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group's policy in respect of cash and borrowings, is to maintain flexibility with a balance between fixed and floating rates and long and short term debt. The Group has no significant exposure to foreign currencies.

### Interest Rate Risk Profile

	2004 £'000	2003 £'000
Retail Price Index-linked bonds	87,941	85,417
Fixed rate financial liabilities	6,294	7,186
Floating rate financial liabilities	9,769	21,310
	<b>104,004</b>	<b>113,913</b>
Financial liabilities on which no interest is paid	4,138	21,473
	<b>108,142</b>	<b>135,386</b>

South Staffordshire Water PLC issued £85,000,000 Retail Price Index-linked bonds in 2002, repayable in 2025. The bonds provide a source of long-term funding for that company. The revenues of the regulated water business are linked to the Retail Price Index and provide an effective hedge against the index-linked element of the interest charge on the bonds. Interest rates in respect of the Group's remaining debt were weighted towards floating rates and short-term debt.

For all debt, assets and liabilities, the book values and fair values are not materially different, except for the £85,000,000 index-linked bonds, the fair value of which based on market value at 31 March 2004 was £99,634,000 (31 March 2003: £89,939,000).

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed years	Weighted average period until maturity years
2004			
Sterling	7.3%	3.0	1.1
2003			
Sterling	7.9%	2.9	2.8

The floating rate financial liabilities comprise sterling denominated loan notes, bank loans and overdrafts that bear interest at rates based on LIBOR and base rate. The Group's cash balances earn interest at floating rates linked to LIBOR.

## Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities at 31 March was as follows:

	2004 £'000	2003 £'000
In one year or less, on demand	11,355	22,892
In more than one year, but not more than two	1,386	9,397
In more than two years, but not more than five	5,827	15,845
In more than five years	—	202
In more than twenty years	89,574	87,050
	108,142	135,386

## Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been made at that date were as follows:

	2004 £'000	2003 £'000
Expiring in one year or less	34,350	18,650
Expiring in more than one year but not more than two years	20,000	8,720
Expiring in more than two years	—	11,000
	54,350	38,370

Subsequent to the year end and as a result of the demerger the above facilities were cancelled and replaced with new facilities totalling £54m for the continuing group. These facilities comprise £20m expiring in between two and five years and £34m expiring in between one and two years.

# Notes to the Accounts

## 29 Pension Retirement Benefits

The Group operates a number of funded pension schemes for the benefit of its employees. The Group participates in the Water Companies Pension Scheme, by way of a separate sub-fund, which provides benefits based on final pensionable pay. The Group also operates a number of defined contribution Money Plan Pension Schemes. The assets of these schemes are held separately from those of the Group, being invested by discretionary fund managers.

The contributions to the defined contribution schemes are charged against profits as incurred. The amount charged to the profit and loss account for the defined benefit scheme is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost.

The regular cost of the defined benefit scheme is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over 13 years, being the estimated average remaining working life of Scheme members. The regular cost and the variations are determined by a qualified actuary on the basis of triennial valuations, using the current unit method for death in service benefits and the projected unit method for other benefits.

The most recent actuarial valuation at 1 April 2002 showed the market value of the Group's sub-fund as £121.3 million, and that the actuarial value of those assets represented 113% of the benefits that had accrued to members after allowing for expected future increases in earnings.

As required by SSAP 24, the figures included in the accounts in respect of the defined benefit pension scheme are based on the 1 April 2002 actuarial valuation. This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation as at 1 April 2005 based upon which subsequent pension costs will be determined until the adoption of FRS 17.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, wages and pensions. The valuation at 1 April 2002 assumed that equity returns would be 7.2% per annum, that salary and wage increases would average 4.8% per annum and that present and future pensions would increase at the rate of 2.8% per annum.

In accordance with the recommendations of the actuary, the amount charged to the profit and loss account for the defined benefit scheme in 2004 was £1,890,000 (2003: £1,189,000) representing an employer's contribution rate of 9.6%. The amount charged to the profit and loss account for the various defined contribution schemes in 2004 was £975,000 (2003: £793,000).

The employer's contribution rate from 1 April 2004 is to be increased to 16.3%. The Trustee of the Water Companies Pension Scheme has requested this increase following advice from the Scheme actuary.

### Changes to pension arrangements following the demerger

Following the demerger, a separate sub-fund is being established within the Water Companies Pension Scheme for Homeserve plc. The rules and the benefit basis for employees are to be replicated for the new sub-fund. Homeserve plc will be the designated employer.

Active members employed in the companies remaining with the continuing Group will be transferred into the new fund, as will any deferred members who were previously employed in those companies. All pensioners will remain in the existing South Staffordshire Water sub-fund. 68 active members will be transferred to the new sub-fund along with 58 deferred members.

For the purposes of the allocation of assets and liabilities between the two sub-funds a valuation has been carried out on an ongoing funding basis as at 30 November 2003. This will result in the new Homeserve sub-fund taking £8m of assets and £0.4m of the deficit leaving the South Staffordshire Water sub-fund with £113m of assets and £2.5m of the deficit. The assets will first be allocated to pensioner liabilities and then in proportion to the non-pensioner liabilities.

Inland Revenue approval was received on 26 January 2004 for Homeserve plc to join the Water Companies Pension Scheme. Trustee approval has been given to the proposal, assets and liabilities are being valued as at 30 April 2004 and the sub-fund is currently being split.

Also following the demerger, a new Money Plan has been established for the employees of South Staffordshire Plc, which exactly mirrors the existing Plan in terms of its rules and benefits. This Plan is called the South Staffordshire Money Plan and the old Plan has become the Homeserve Money Plan. 36 active members were transferred to the new Plan.

## Financial Reporting Standard 17

Additional disclosures regarding the Group's defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the third year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in due course. The Accounting Standards Board has delayed the mandatory full implementation of the Standard, which will not now be required before 2005.

The actuarial valuation described above has been updated at 31 March 2004 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued for this purpose at market value.

The major assumptions used were as follows:

	<b>31 March 2004</b>	<b>31 March 2003</b>	<b>31 March 2002</b>
Rate of increase in salaries	4.9%	4.5%	4.8%
Rate of increase in pensions	2.9%	2.5%	2.8%
Discount rate	5.5%	5.6%	6.1%
Inflation	2.9%	2.5%	2.8%

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	<b>2004</b>		<b>2003</b>		<b>2002</b>	
	<b>Expected rate of return per annum %</b>	<b>Valuation £'000</b>	<b>Expected rate of return per annum %</b>	<b>Valuation £'000</b>	<b>Expected rate of return per annum %</b>	<b>Valuation £'000</b>
Equities	7.9	52,756	7.5	38,702	8.3	40,047
Bonds/gilts	4.7	66,989	4.5	61,050	5.2	76,847
Corporate bonds	—	—	5.6	5,046	6.1	2,309
Property	—	—	6.0	1,172	6.7	1,506
Cash	4.6	(603)	3.8	4,116	5.2	830
Market value of assets		119,142		110,086		121,539
Present value of scheme liabilities		(131,586)		(121,186)		(106,179)
(Deficit)/surplus in the scheme		(12,444)		(11,100)		15,360
Related deferred tax asset/(liability)		3,733		3,330		(4,608)
(Deficit)/surplus after deferred tax		(8,711)		(7,770)		10,752

Had FRS 17 been implemented in full throughout the financial year the following amounts would have been charged to the profit and loss account:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Amounts included within operating profit:		
Current service cost	3,198	2,500
Past service cost	—	1,400
	<b>3,198</b>	<b>3,900</b>
Amounts included as other finance income:		
Expected return on scheme assets	6,051	7,500
Interest on scheme liabilities	(6,716)	(6,400)
(Charge)/credit	(665)	1,100

In addition the following amounts would have been recognised in the statement of total recognised gains and losses:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Actual return less expected return on scheme assets	6,899	(15,200)
Experience gain on scheme liabilities	3,727	1,000
Effect of changes in assumptions relating to the present value of scheme liabilities	(9,982)	(10,500)
Actuarial gain/(loss)	644	(24,700)

The movement in the scheme deficit during the year was as follows:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
(Deficit)/surplus in the scheme brought forward	(11,100)	15,360
Current service cost	(3,238)	(3,100)
Contributions	1,915	1,640
Past service cost	—	(1,400)
Finance (charge)/credit	(665)	1,100
Actuarial gain/(loss)	644	(24,700)
Deficit in the scheme carried forward	<b>(12,444)</b>	<b>(11,100)</b>

The impact of FRS 17, if implemented in full throughout the financial year, would have been to increase the amount charged to the profit and loss account by £1,973,000 (2003: £1,611,000) and to reduce the reserves of the Group at 31 March 2004 by £8,711,000 (2003: £7,770,000) from £110,532,000 (2003: £101,606,000) to £101,821,000 (2003: £93,836,000).

The following disclosures relate to amounts which would have been charged in the statement of total recognised gains and losses.

	<b>2004</b>		<b>2003</b>	
	<b>% of scheme assets/(liabilities)</b>	<b>£'000</b>	<b>% of scheme assets/(liabilities)</b>	<b>£'000</b>
Actual return less expected return on scheme assets	6%	6,899	(14%)	(15,200)
Experience gains on scheme liabilities	3%	3,727	1%	1,000
Actuarial loss	—	644	(20%)	(24,700)

# Proforma Consolidated Balance Sheet

Continuing Group as at 31 March 2004

	Note	Existing Group (b) £'000	Demerger of South Staffordshire Plc (c) £'000	Acquisition of Minority Interest (d) £'000	Other Adjustments (g) £'000	Proforma Continuing Group £'000
<b>Fixed assets</b>						
Goodwill		108,223	—	66,940	—	175,163
Tangible assets		186,242	(153,360)	—	(854)	32,028
		294,465	(153,360)	66,940	(854)	207,191
<b>Current assets</b>						
Stocks		6,887	(1,047)	—	—	5,840
Debtors		90,221	(8,820)	—	—	81,401
Cash at bank and in hand		10,497	(1,022)	(664)	—	8,811
		107,605	(10,889)	(664)	—	96,052
<b>Creditors - amounts falling due within one year</b>						
(Borrowings)/cash		(11,355)	3,264	—	—	(8,091)
Other creditors		(120,909)	27,606	—	742	(92,561)
		(132,264)	30,870	—	742	(100,652)
<b>Net current liabilities</b>		(24,659)	19,981	(664)	742	(4,600)
<b>Total assets less current liabilities</b>		269,806	(133,379)	66,276	(112)	202,591
<b>Creditors - amounts falling due after more than one year</b>						
(Borrowings)/cash		(92,649)	91,816	—	—	(833)
Other creditors		(4,138)	—	—	—	(4,138)
		(96,787)	91,816	—	—	(4,971)
<b>Provisions for liabilities and charges</b>		(10,301)	8,654	—	—	(1,647)
<b>Accruals and deferred income</b>		(19,552)	4,554	—	—	(14,998)
<b>Net assets</b>	(f)	143,166	(28,355)	66,276	(112)	180,975
<b>Capital and reserves</b>						
Share capital		6,366	—	1,450	—	7,816
Share premium/merger reserve		18,902	—	70,992	—	89,894
Capital redemption reserve		1,200	—	—	—	1,200
Profit and loss account	(e)	110,532	(28,355)	—	(112)	82,065
<b>Equity shareholders' funds</b>		137,000	(28,355)	72,442	(112)	180,975
<b>Minority shareholders' equity interests</b>		6,166	—	(6,166)	—	—
		143,166	(28,355)	66,276	(112)	180,975

Notes to the proforma consolidated balance sheet are set out on page 70.

# Proforma Consolidated Balance Sheet

## Notes

- (a) This unaudited proforma consolidated balance sheet is presented to illustrate the effect on the continuing Group balance sheet of the demerger of South Staffordshire Plc and related businesses and the acquisition of the minority interest in the Homeserve division which took place on 6 April 2004 as set out in note 3 to the financial statements, as if these transactions had taken place on 31 March 2004. This information has been prepared for illustrative purposes only and because of its nature, may not give a true picture of the financial position of the continuing Group following completion of the above transactions.
- (b) The existing Group balance sheet is the audited consolidated balance sheet of the combined Group at 31 March 2004 as shown on page 43. No account has been taken of trading of any constituent part of the combined Group between 31 March 2004 and 6 April 2004.
- (c) The balance sheet of the demerged activities at 31 March 2004 is audited and is as presented in the separate Report and Accounts of South Staffordshire Plc.
- (d) The increase in goodwill of £66,940,000 arising on the acquisition of the 24.98% minority interest in the Homeserve division is calculated as follows:

	<b>£'000</b>
Fair value of new shares issued	72,442
Cash consideration	300
Costs	364
Fair value of consideration	73,106
Minority interest at 31 March 2004	(6,166)
Goodwill	66,940

The increase in share capital and share premium of £1,450,000 and £70,992,000 respectively reflect the issue of 11,600,000 new shares on the acquisition of the minority interest in the Homeserve division at a nominal value of 12½p per share and a share price immediately preceding the issue of £6.24½ per share.

- (e) The net reduction in the balance on the profit and loss account of £28,467,000 has been distributed to shareholders by way of a dividend in specie and reflects the following movements:

	<b>£'000</b>
Book value of the net assets of the discontinued operations at 31 March 2004	28,355
Other adjustments	112
	28,467

- (f) A reconciliation of the movement in net assets as at 31 March 2004 before and after reflecting the demerger and the acquisition of the minority interest is summarised below:

	<b>£'000</b>
Group net assets before adjustment	143,166
Fair value of new shares issued less minority interest	66,276
Book value of the net assets of the discontinued operations	(28,355)
Other adjustments	(112)
Adjusted group net assets	180,975

- (g) Other adjustments comprise certain consolidation eliminations and adjustments necessary to fully reflect the effect of the demerger of South Staffordshire Plc on the balance sheet of the existing Group.



# Five Year Summary

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Continuing operations					
Turnover					
Home Service	105,750	77,328	60,281	45,516	34,767
Other Homeserve domestic businesses	63,486	43,939	—	—	—
Homeserve domestic	169,236	121,267	60,281	45,516	34,767
Commercial outsourcing	86,975	77,436	54,878	50,292	32,526
Inter-division	(5,636)	(4,337)	(4,723)	(3,261)	(2,730)
	250,575	194,366	110,436	92,547	64,563
Operating profit					
Home Service	27,416	19,301	14,117	10,799	7,425
Other Homeserve domestic businesses	4,968	4,696	—	—	—
Homeserve domestic	32,384	23,997	14,117	10,799	7,425
Commercial outsourcing	5,054	4,486	3,182	3,254	2,535
	37,438	28,483	17,299	14,053	9,960
Net interest payable	(669)	(1,349)	(898)	(915)	(217)
Profit before tax (excluding goodwill and exceptional costs)	36,769	27,134	16,401	13,138	9,743
Goodwill	(7,215)	(5,973)	(1,256)	(1,243)	(449)
Exceptional costs	(6,616)	—	(611)	—	—
Profit before tax	22,938	21,161	14,534	11,895	9,294
Average number of employees	3,407	2,597	1,301	955	661
Capital expenditure (£'000)	9,704	6,505	10,644	8,409	2,615

Note: Other Homeserve domestic businesses include Regency Financial Holdings and Highway Emergency Services.

# Shareholder Analysis following Demerger on 6 April 2004

Number of Shares	Number of Shareholders	% of Total Shareholders	% of Shares
1-1,000	995	50.43%	0.74%
1,001-10,000	738	37.40%	3.71%
10,001-500,000	217	11.00%	28.30%
500,001-1,000,000	14	0.71%	16.06%
over 1,000,000	9	0.46%	51.19%
	1,973	100.00%	100.00%
Individuals			35.19%
Unit Trusts			25.18%
Pension funds			15.48%
Other			14.43%
Insurance companies			8.58%
Investment Trusts			1.14%
			100.00%

# Financial Calendar

## 2004

23 July	Annual General Meeting
26 July	Final dividend for the year ending 31 March 2004 to be paid
November	Interim results for the six months ending 30 September 2004 to be announced

## 2005

2 January	Interim dividend for the year ending 31 March 2005 to be paid
May	Preliminary announcement of results for the year ending 31 March 2005
June	2005 Report and Accounts circulated

# Service Finder

Drain down and isolate leaking cold water tank



Repair failed wiring to wall light



Replace thermostatic radiator valve



Repair broken boiler



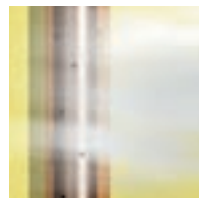
Replace failed fuse box



Replace faulty room thermostat



Replace ruptured gas pipe



Replace leaking gas pipe to boiler



Locate, excavate and repair supply pipe leak





Remove wasps' or hornets' nest



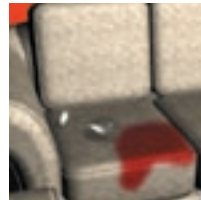
Financial assistance after injury



Replace broken window



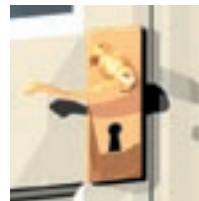
Repair pipework following a DIY accident



Removal of stain following a spillage



Removal of scratches



Replace broken lock



Financial assistance after electrocution



Repair/replace a collapsed drain



Unblock drain by jetting

# Company Contact Details

## Homeserve plc

Cable Drive  
Walsall  
WS2 7BN  
Telephone No: 01922 426262  
Fax No: 01922 427904  
Web Site: [www.homeserve.co.uk](http://www.homeserve.co.uk)

## Home Service

Cable Drive  
Walsall  
WS2 7BN  
Telephone No: 01922 659705  
Fax No: 01922 659719  
Web Site: [www.homeserve.co.uk](http://www.homeserve.co.uk)

## Home Hotline

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Lords Walk  
Preston  
Lancashire  
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Telephone No: 01772 208844  
Fax No: 01772 208821  
Web Site: [www.homeserve.co.uk](http://www.homeserve.co.uk)

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Telephone No: 00 33 472 448910  
Fax No: 00 33 472 448673  
Web Site: [www.homeserve.co.uk](http://www.homeserve.co.uk)

## Home Service USA

3401 NW 82 Ave Suite 220  
Miami  
Florida  
FL33122  
US  
Telephone No: 00 1 305 477 2764  
Fax No: 00 1 305 477 2862  
Web Site: [www.homeserve.co.uk](http://www.homeserve.co.uk)

## The Regency Group

Alpha House  
Sunnyside Road North  
Weston Super Mare  
BS23 3PZ  
Telephone No: 01934 631111  
Fax No: 01934 637146  
Web Site: [www.regencygroup.co.uk](http://www.regencygroup.co.uk)

## Highway Emergency Services

Cathedral House  
16 Cathedral Street  
Norwich  
NR1 1LX  
Telephone No: 01603 218600  
Fax No: 01603 619292  
Web Site: [www.highway-glass.co.uk](http://www.highway-glass.co.uk)

## Servowarm

9 The Gateway Centre  
Coronation Road  
Cressex Business Park  
High Wycombe  
HP12 3SU  
Telephone No: 01494 474474  
Fax No: 01494 473152  
Web Site: [www.servowarm.co.uk](http://www.servowarm.co.uk)

## OnSite

Green Lane  
Walsall  
WS2 7PD  
Telephone No: 0845 6012244  
Fax No: 01922 618104  
Web Site: [www.onsite.co.uk](http://www.onsite.co.uk)

## Mail Solutions

Stafford Park 9  
Telford  
TF3 3BZ  
Telephone No: 01952 290922  
Fax No: 01952 239175  
Web Site: [www.mailsolutions.com](http://www.mailsolutions.com)



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