Homeserve plc

Report & Accounts 2005

Contents

Homeserve plc

Highlights of the Year

Continuing Operations	2005	2004	Increase
Turnover†	£223.1m	£169.2m	31.8%
Operating profit*	£42.4m	£32.4m	30.8%
Profit before tax*	£42.0m	£32.5m	29.3%
Earnings per share*	46.7p	36.0p°	29.7%

Total Group	2005	2004
Turnover†	£283.3m	£323.0m
Operating profit	£31.0m	£49.1m
Basic (loss) / earnings per share	(34.3p)	35.2p
Earnings per share*	48.7p	51.0p

- Homeserve now focused on home emergency services following completion of disposal programme
- 29.3% increase in profit before tax* from continuing operations to £42.0m
- Underlying earnings per share* increased by 29.7%
- Record year for utility branded policy growth, up 32% to 3.88m
- Further development of our repair network with the acquisition of Sergon and post year end acquisition of Chem-Dry
- Strong profit performance from employed network
- International progressing well with France in profit and policies of 0.3 million
- Acquisition of 41,000 United Water Leakguard policies in the USA

† including share of joint ventures (see note 2)
* excluding goodwill and exceptional costs (see profit & loss account and notes 2 and 10)
° adjusted to reflect the 4 for 5 share consolidation

Chairman's Statement

Brian Whitty, Executive Chairman

Homeserve has made significant progress in its first 12 months following the demerger of its Water Supply operation. The core home emergency businesses have continued to deliver outstanding organic growth in both profitability and policy membership. To support this, we have been investing in the depth of management we require to continue to deliver sustained growth both in the UK and overseas.

We have completed our programme of disposals relating to the Commercial Outsourcing businesses. These have been replaced in the year with investment in a number of complementary acquisitions, principally relating to our Emergency Repair businesses, broadening the range of skills that we offer to our Household Insurer customers. We have also recently rebranded our Emergency Repair businesses as Homeserve, to provide increased clarity of service delivery for our customers.

Results

Turnover from continuing operations, including share of joint ventures, increased by 31.8% to £223m (2004: £169m). Profit before tax* increased by 29.3% to £42.0m (2004: £32.5m) and earnings per share* increased by 29.7% to 46.7p (2004: 36.0p).

When the impact of the discontinued operations is included, turnover including share of joint ventures decreased by 12.3% to £283m (2004: £323m) and adjusted earnings per share* decreased by 4.7% to 48.7p (2004: 51.0p). Exceptional costs totaling £41.9m principally result from the execution of our strategic decision to dispose of our Commercial Outsourcing operations. These changes will enable us to focus on our Home Emergency businesses, where we see better opportunities for growth and higher operating margins. These exceptional costs combined with goodwill amortisation of £10.4m (2004: £7.2m) result in a statutory loss before tax for the year of £8.6m (2004: profit £37.8m).

The Board is proposing a final dividend of £6.8m (being 10.9p per share). This, combined with Homeserve's interim dividend of £3.2m (being 5.1p per share) brings the total for the year to £10.0m, representing a total dividend per share of 16.0p. In 2004, total dividends payable were £12.7m, of which the demerged Water Supply operation paid £5.9m. After taking into account the share consolidation on 6 April 2004 and the dividend paid by the Water Supply operation, the current year dividend per share of 16.0p represents a 19.4% increase compared to the prior year.

* pre goodwill and exceptional items (see profit & loss account and notes 2 and 10)

Net cash at 31 March 2005 amounted to £11.2m (2004: net debt of £93.5m, of which £94.1m related to the Water Supply operation).

In line with Homeserve's current internal reporting structure, we have now analysed our core Home Emergency businesses between "Policy Membership" and "Emergency Repair".

Policy Membership

The Policy Membership business has increased turnover to £131m (2004: £100m), with operating profits* increasing by 26.3% to £37.5m (2004: £29.7m). This increase is principally the result of continued organic profit growth in the utility branded businesses.

International is progressing well, with France reporting a full year operating profit for the first time having achieved policy growth of 75% to 0.28 million. In the US we have just signed our third partner, United Water, which included the acquisition of 41,000 existing service line policies.

As reported at the interim results, our furniture warranty business has been affected by the difficult trading conditions in that market. In particular, the appointment of an administrator to Courts Plc has resulted in an exceptional operating cost of £2.8m relating to provisions against amounts owing to Homeserve. We do however believe that there continue to be significant new business opportunities in both retail and manufacturer warranty schemes.

Emergency Repair

The Emergency Repair business has increased turnover to £100m (2004: £73m), with operating profits* increasing by 80.7% to £4.8m (2004: £2.7m). This increase is principally due to the continuation of the improved performance in our directly employed network for glazing, locks, plumbing and drainage repairs, resulting in an operating profit* in that business of £3.1m (2004: £0.3m). The improvement has been achieved by better branch management and engineer productivity, together with growth in the directly employed network of plumbing and drainage engineers working for our Household Insurer customers.

We have made progress this year in extending our service offering to insurers through two key acquisitions. In December 2004 we invested £11.4m in the acquisition of Sergon BRM, one of the UK's leading home insurance sub-contract repair networks for water, fire, storm and other accidental damage.

Additionally, in April 2005, we acquired Chem-Dry, one of the UK's leading fire and flood disaster restoration and carpet and upholstery franchise cleaning networks, for £18.9m.

The integration of these trades into our overall service offering is progressing well.

"The core home emergency businesses have continued to deliver outstanding organic growth in both profitability and policy membership."

Chairman's Statement

Demerged and disposed businesses

The Water Supply operation was demerged on 6 April 2004, and in the period to demerger, contributed turnover of £1.0m (2004: £72m), and an operating profit* of £0.2m (2004: £21.3m). The Commercial Outsourcing businesses contributed turnover of £59m (2004: £81m) and operating profit of £1.7m (2004: £5.0m). The sale proceeds from the disposal of the Commercial Outsourcing businesses amount to £22.4m.

Board Changes

On 30 November 2004 Ian Carlisle was appointed to the Board as an executive director, with responsibility for the Emergency Repair business. Ian joined Homeserve in 2003 as Chief Executive of the glazing and locks network and was previously the Managing Director of Autoglass Ltd.

Following the disposal of the Commercial Outsourcing businesses, Robert Harley stepped down as a director of Homeserve on 24 March 2005. On behalf of the Board, I should like to thank Robert for his significant contribution to the business during his four years as a director.

Employees

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

Prospects

Homeserve is now focused on developing its Home Emergency businesses where we believe there are substantial opportunities for continued growth.

Our Policy Membership business is expected to continue to increase its market penetration in the UK and expand its international operations, particularly in the USA. This policy model continues to generate high levels of recurring revenue which provide good visibility of future profits.

Our Emergency Repair business is continuing to generate improved margins. The broader range of services we now provide support both our Policy Membership operation and create a unique offering for our Household Insurer customers.

Over the coming year we will seek to complement our expected organic growth with strategic acquisitions both for Policy Membership and Emergency Repair operations. We will continue to invest in our International businesses and in strengthening our management teams to support sustained growth in the longer term.

Brian Whitty
Executive Chairman
23 May 2005


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Chief Executive's Review

Richard Harpin, Chief Executive

Our vision is for Homeserve to be "Your Home Emergency Service Worldwide". This means selling policies to cover home emergencies and carrying out high quality repairs for a complete range of home emergencies.

Having disposed of all of our Commercial Outsourcing operations in the year we are now focusing all of our resource on developing our core Home Emergency business. The acquisition of Sergon and, subsequent to the year end, of Chem-Dry, significantly enhance our repair service offering and place Homeserve in a unique position to provide a fully integrated service to our Household Insurance Business Partners.

Our Policy Membership business provides underwritten cover for a range of domestic emergencies including plumbing and drains, electrical wiring, gas, central heating, electrical and other appliances and furniture. We also reinsure half of the risks underwritten for water and utilities branded policies, through our offshore captive insurance company to share in the insurance profits from these policies. Our own membership policies are affinity branded to our Business Partners in the utilities, appliance manufacturing and retail sectors.

Our Emergency Repair business is now a clear market leader in carrying out a broad range of claims repairs on behalf of Household Insurers, from fire and flood restoration, glazing, locks, window and door frames, drainage repairs and permanent building repairs (plastering, painting and decorating). These trades are delivered through a combination of employed, subcontract and franchised repairers. In April 2005, we rebranded our directly employed Emergency Repair operation as Homeserve in order to increase awareness of our name for home emergency repairs.

Homeserve now has over 3,300 employees, including over 700 directly employed engineers and operates a network of over 4,600 subcontract and franchised engineers providing a comprehensive range of trades nationally.

Homeserve has again delivered strong operating profit* performance and record levels of new customer and policy membership growth with continuing operations generating turnover including share of joint ventures of £223m and operating profits* of £42.4m.

* pre goodwill and exceptional items (see profit & loss account and notes 2 and 10)

"Our vision is for Homeserve to be "Your Home Emergency Service Worldwide". This means selling policies to cover home emergencies and carrying out high quality repairs for a complete range of home emergencies."

Chief Executive's Review

Policy Membership

Turnover including share of joint ventures and operating profit* from these businesses increased by 30.1% and 30.8% to £131m and £42.4m respectively.

Homeserve GB

Our utilities branded policy business is the market leader in the provision of plumbing and drainage cover as well as a range of other emergency policies, to customers of water and energy companies. This business had an outstanding year for policy, customer and profit growth, achieving excellent response rates for both direct mail and telesales operations. Total UK policies increased by 32% from 2.93m to 3.88m;

- 2.76m in plumbing and drains (2004: 2.10m)
- 0.60m in electrical (2004: 0.57m) and
- 0.52m in other including gas supply pipe and domestic heating policies (2004: 0.26m).

The record level for new policies sold of 1.36m (2004: 0.93m) reflects a healthy increase in the number of customers of 21% to 2.36m and an improved average number of policies per customer of 1.65 compared with 1.50 last year.

Successful new creative styles for our direct mailings were introduced during the year. These were one page mailings, containing an application form without a leaflet, which cost less to produce but resulted in increased take up. In addition, our water supply pipe mailings performed well, bringing in new customers as well as being cross sold to existing plumbing and drains members, with 0.5m new policies added during the year. The recently expanded gas supply pipe cover, sold through our Energy Partners and as a cross sell product to water company customers, has also started well with 0.1m new policies sold in the year.

Average acquisition costs per policy were lower reflecting the improved performance of the new mailings, particularly water supply pipe, and reduced mail pack prices. This has been combined with the continued cost effective use of outbound telesales where the number of agents has increased to 220 from 200 last year, achieving over 0.4m sales.

We have maintained our high policy retention rate at 88%, reflecting our focus on increasing the proportion of customers using continuous payment methods such as direct debit and the excellent performance of our repair networks. We continually monitor our repair performance and customer satisfaction using 48 hour call backs and achieved 96% customer satisfaction levels on the core plumbing product.

During the year we successfully renewed 14 of the 17 long term marketing agreements with our water company affinity partners. The renewed agreements represent 92% of our water company policy customer base. The exceptions were Wessex Water, Bristol Water and Welsh Water (representing 0.27m policies in total), where contracts expire in June 2005, July 2005 and November 2005, and will not be renewed. We will retain ownership and revenue for all of the existing policies and shall continue to renew these policies without paying a commission to these water companies.

"Our utilities branded policy business is the market leader in the provision of plumbing and drainage cover as well as a range of other emergency policies."

Chief Executive's Review

International

The development of Homeserve International is progressing well. Our strategy is to replicate the proven UK model of water company branded plumbing and drainage and water supply pipe cover offered via direct marketing, with fully underwritten policies. Our organic growth will be supplemented by the acquisition of home assistance policies which can be integrated into our existing operations. Turnover from the international operations increased by 124% to £3m with total policies of 0.3m.

Doméo, the joint venture in France with Veolia Water, in which our share increased to 49% from 40% in November 2004, made its first full year operating profit and grew the number of policies by 75% to 0.28m (2004: 0.16m). Doméo now employs 49 staff, including 12 outbound telesales agents. There are approximately 12 million owner occupied houses in France of which Veolia provides water to 4.5 million using the Generale Des Eaux brand. During the year we sent out 11 million door to door and solus mailings across the whole of France, marketing to 8.3 million households of which 40% were in areas where water is supplied by Generale des Eaux, achieving satisfactory take up rates in all areas. We have successfully cross sold the full plumbing and drains policy to existing supply pipe members and introduced an emergency electrical policy. Retention rates and customer satisfaction both remained at high levels.

The US business, which is based in Miami with 18 employees, completed its first full year of trading with 33,000 (2004: 13,000) policies and in the second half signed its second business partner, Connecticut Water Services Inc. Connecticut Water is relatively small with less than 0.1m households, but is nevertheless important at this early stage of development.

The water supply pipe product has been complemented by the successful launch of the full plumbing and drains product as a cross sell and is achieving satisfactory take up rates. Our 48 hour call backs are reporting similar levels of customer satisfaction to those achieved in the UK.

In May 2005 we acquired United Water's Leakguard business in New Jersey and Idaho, including 41,000 existing policies, similar to the water supply pipe product marketed in the UK. This acquisition includes a 10 year marketing agreement to use the United Water brand providing access to over 0.5 million households in eight States with the potential to extend the offer out of area and upsell plumbing and drains cover.

The US market offers enormous potential for Homeserve, with 57 million owner occupied houses and a general propensity to purchase insurance products. However, progress in signing up new water company partners has been slower than expected, although we are in discussions with a number of the larger water companies and interest from potential partners is high. The market is fragmented and our ability to sign up new water company partners will determine the speed of our success. We plan to significantly strengthen our management and resources in this business during the coming year.

During the year we commenced test marketing in Australia with our first partner, South Australian Water, which provides access to almost 0.5 million households. This operation is still at an early stage and is dependent on reaching agreement with other Australian water companies.

Our ongoing objective is to test in one new country each year.

"The development of Homeserve International is progressing well. Our ongoing objective is to test in one new country each year."

Chief Executive's Review

Retail and Manufacturer Warranties

During the year we significantly strengthened our resource in this business, combining our small but developing appliance manufacturer warranty operation and the existing furniture warranty business, under a newly recruited and highly experienced CEO. These businesses share the same characteristics of longer-term policies (three to five years compared to annual) and significant potential for direct marketing to 'in box' registrations for manufacturer warranty and to customers who chose not to purchase retail furniture warranties at the point of sale.

We have significantly strengthened our manufacturer appliance warranty operation, which operates out of our new London office. Additional senior management has been appointed with specific manufacturer warranty sales and marketing experience. In September, we won the business of The Vaillant Group, now the largest boiler manufacturer in the UK, and are due to begin marketing policies for Rangemaster, part of Aga Foodservice Group in June 2005. The services we provide include the marketing and administration of their 'in box' first year warranty scheme, direct mail campaigns and outbound telesales together with initial claim verification and out of hours call handling. Our existing clients include Ideal Boilers, Mira Showers, Creda Heating, Sime Boilers, Redring and Xpelair. We have now signed up 359,000 (2004: 138,000) customers on our warranty programmes and now have 90,000 (2004: nil) extended warranty policies.

Our furniture warranty business provides fully underwritten furniture cover, supported by an employed network of 110 upholsterers and cleaners providing a service for furniture retailers and manufacturers. This business suffered a set back following the appointment of administrators to Courts, its largest customer, combined with the difficult furniture retail market. Our priority is to develop existing sales opportunities with our existing Retailer Business Partners and to secure new national and regional retailers to replace the lost business. We have appointed a new Sales Director with significant experience in selling to national retailers and are progressing discussions with a number of leading national retailers and larger independents for furniture warranty. In addition we are developing our range of warranty products to include cover for fitted kitchen cabinets and appliances. The manufacturer and retail warranty markets are an important element of our overall warranty strategy, where we believe there are significant opportunities for growth.

"The manufacturer and retail warranty markets are an important element of our overall warranty strategy, where we believe there are significant opportunities for growth."

Chief Executive's Review

Emergency Repair

Turnover and operating profit* from these businesses increased by 37.2% and 80.7% to £100m and £4.8m respectively, including £12.9m of turnover from Sergon, acquired in December 2004.

Homeserve Emergency Services is now a market leader in providing repairs to homeowners relating to insurance claims paid for by Household Insurers. The Household Insurance repairs market is worth an estimated £2bn and is highly fragmented with most claims still being carried out by local jobbing builders with a long cycle time from start to finish. Homeserve's ability to offer fire and flood restoration followed by permanent repair puts us in a unique position to provide a complete repair service to Household Insurers. We operate a combination of employed, sub contract and franchised networks which enables us to achieve optimum efficiency and provide capacity for exceptional peaks in insurance claims.

Glazing, Locks, Plumbing and Drains

Homeserve's glazing and locks network is the UK's largest national directly employed repair network working for Household Insurers, providing a range of services including the repair and replacement of glass, frames, locks, garage doors, greenhouses and conservatories. This business has over 500 directly employed engineers operating from 37 branches nationally and has continued to achieve a strong turnaround in operating and profit performance despite the continued industry wide reduction in claims, particularly for crime and weather related damage. The conversion of insurance leads to invoiced sales has increased from 80% to 85% reflecting improved workflow management systems following the successful implementation of major IT system changes. This has resulted in better job tracking, taking over one million pieces of paper out of the business together with more efficient branch management and reduced administration. Eleven of the branches now have new branch managers and this is reflected in the improvement in all aspects of branch and engineer performance.

Our business model is local branches with managers controlling an average of 12 engineers and three deployment staff for a single trade with national coverage and consistency of quality and pricing for insurers.

"Homeserve Emergency Services is now a market leader in providing repairs to homeowners following insurance claims paid for by Household Insurers."

Chief Executive's Review

The glazing and locks operation has won a number of important new accounts during the year with potential turnover of up to £9m once the accounts reach their full run-rate. We were recently awarded 75% of the Royal Bank of Scotland Insurance glazing volumes, having previously serviced one third; this additional work will commence in June 2005. In addition, we secured further volumes from Royal and Sun Alliance for small scale commercial glazing repairs, where we already provide services for domestic emergencies.

The directly employed plumbing and drainage network working for Household Insurers, established two years ago, is now one of the market leaders, performing work last year for Norwich Union, Royal and Sun Alliance and Royal Bank of Scotland Insurance as well as our own plumbing and drainage policy base. In February 2005 we were awarded one third of the volume for Royal Bank of Scotland Insurance Group's account, including Direct Line, Nationwide and Churchill, as well as securing half of Zurich Insurance's volumes in this market, which began in March 2005.

We plan to increase the productivity and quality of our employed network through the introduction of 'Fitter Package', our engineer incentive scheme, which is currently being trialled in a number of glazing and locks branches. The scheme continues to pay a basic salary but with significant additional payments, calculated on a fortnightly basis, for improved productivity and provides excellent remuneration packages for higher first time fix rates and reduced reattends. The trial results are encouraging and demonstrate that significant increases in productivity combined with higher customer satisfaction are achievable. Our intention is to roll this scheme out to all glazing and locks branches during the coming year, and for plumbing and drains, fire and flood and permanent repair over the next 18 months. In December 2004 we opened our new engineer training and assessment centre in Birmingham for glazing and associated skills and this is already having a significant impact on improving the quality of the work that we perform. Customer satisfaction has also reached record levels, improving significantly during the year, from 94% to 96%.

"Homeserve's glazing and locks network is the UK's largest national directly employed repair network working for Household Insurers."

Chief Executive's Review

Claims Management

Homeserve Claims Management provides claims handling for our own policyholders and a home assistance helpline for emergency repairs for Household Insurers and other financial sector customers. Homeserve Claims Management operates a high quality national subcontract network across a broad range of trades. Last year we received over two million inbound emergency calls, an increase of 20% and managed over 520,000 claims. In order to manage the increase in activity, the planned move to a purpose built call centre close to the original operation in Preston, was completed in July 2004, more than doubling our operational capacity. During the year, we introduced a number of new initiatives to improve further the already high levels of customer service, including performance league tables for individual engineers together with a trial of electronic job tracking to enable better engineer management and customer communication.

Permanent Repair

In December 2004 we acquired Sergon, one of the UK's leading permanent repair networks working for Household Insurers, with over 280 independent contractors completing 5,000 repairs per month. Sergon provides emergency and permanent repairs, such as plastering and decorating, arising from the escape of water, storm, fire and accidental damage. Sergon has established relationships with seven Household Insurers and as part of Homeserve now has access to customer relationships with the majority of Household Insurers.

Sergon currently has 90 employees working from its national control centre near Nottingham. Since its acquisition, we have appointed a new Managing Director and an Operations Director with experience of running a national building trades business. As a result, the number of completed claims by the network have increased significantly, customer service has improved and the average claims cycle time has reduced from 78 to 61 days.

Fire and Flood Restoration

Our range of disaster restoration trades was further complemented by the acquisition of Chem-Dry in April 2005. Chem-Dry is a market leader in the fire and flood restoration market with an estimated 30% share of a market worth £100m. Chem-Dry has 230 franchisees providing national coverage for eight leading Household Insurers for fire and flood restoration and carpet and upholstery cleaning, with the potential to expand the number of insurers Chem-Dry is working with. The ability to deal with fire and flood emergencies enables Homeserve to be one of the first businesses into a customer's home following an emergency. This places us in a unique position to offer a fully integrated service to insurers, from the answering of the initial claim right through to completion of the permanent repair.

Richard Harpin
Chief Executive
23 May 2005

“Homeserve is in the unique position of offering a fully integrated service to insurers, from the answering of the initial claim right through to completion of the permanent repair.”

Financial Review

Andrew Belk, Group Finance Director

On 6 April 2004, Homeserve completed the demerger of its Water Supply operation. In addition, during the year we have completed the programme of disposals in respect of our Commercial Outsourcing businesses. Consequently, the results for the current year are analysed between "continuing" operations, representing those operations still held at 31 March 2005, and "discontinued" operations, being those demerged and disposed of during the year.

As the demerger and the acquisition of the minority interest were completed during the current financial year, the assets and liabilities of the demerged Water Supply operation and the amount attributable to the minority interests are included in the balance sheet of Homeserve at 31 March 2004.

Group Results

Turnover from continuing operations including share of joint ventures was £223m (2004: £169m), an increase of 31.8%. This principally reflects strong growth in the number of policies sold and high retention rates which generate significant renewals income within our utility branded policy membership business. Turnover for the year, including share of joint ventures and discontinued operations, decreased by 12.3% to £283m (2004: £323m) reflecting the fact that the prior year results include the discontinued operations for a full year.

Total operating profit* for the continuing operations increased by 30.8% to £42.4m (2004: £32.4m), which substantially resulted from organic growth in the policy membership businesses and improved performance in the glazing and locks operation.

As a result of the demerger and disposals, total operating profit*, which includes these discontinued operations, decreased by 24.7% to £44.2m (2004: £58.7m). In line with Homeserve's current internal reporting structure, we have now analysed our core Home Emergency business between "Policy Membership" and "Emergency Repair".

The Policy Membership business achieved operating profit* growth of 26.3% to £37.5m (2004: £29.7m), principally as a result of continued growth of our utility branded policy sales.

The expansion of our affinity branded business model overseas is progressing well, with our first venture in France reporting a full year operating profit* only three years after its commencement.

* pre goodwill and exceptional items (see profit & loss account and notes 2 and 10)

The Emergency Repair business achieved operating profit* growth of 80.7% to £4.8m (2004: £2.7m). This follows the successful turnaround of the glazing, locks, plumbing and drains directly employed business, which contributed an operating profit* of £3.1m (2004: £0.3m), and the continued growth in profits at our claims management business.

The disposed businesses, including the demerged Water Supply and Commercial Outsourcing operation, contributed turnover, excluding inter-divisional turnover, of £60.2m (2004: £153.7m) and operating profit* of £1.8m (2004: £26.3m) prior to their disposal.

Adjusted profit before tax*, including discontinued operations, was £43.7m (2004: £51.7m), a decrease of 15.4% reflecting the demerger and disposals. The net interest charge decreased to £0.5m (2004: £7.0m), reflecting the demerger of the Water Supply operation that included an index linked bond amounting to £87.9m at 31 March 2004.

The goodwill charge increased to £10.4m (2004: £7.2m) principally due to the amortisation of goodwill arising on the acquisition of the minority interests on 6 April 2004.

During the year, exceptional operating costs of £2.8m were incurred relating to the provision of amounts due from Courts Plc following the appointment of an administrator in November 2004. In addition, exceptional costs of £39.1m relating to the disposal of the Commercial Outsourcing businesses have been incurred. The total proceeds received in respect of the disposals amounted to £22.4m. The net book value of assets, excluding goodwill, was £19.7m. In addition, goodwill amounting to £37.9m was attributable to the businesses disposed of during the year.

The carrying value of the goodwill related to the continuing operations has been reviewed based on the current budgets and business plans. No impairment is considered necessary.

After taking account of goodwill amortisation and these exceptional costs, the statutory loss before taxation for the year was £8.6m (2004: profit £37.8m).

Taxation

The effective rate of tax for the year, based on profits excluding goodwill and exceptional costs, was 30.9%. In the prior year, the effective tax rate for the Group, excluding the demerged Water Supply operations, was 30.6%. The increase in the current year reflects the losses experienced in our overseas businesses, which can only be utilised against future profits in those businesses.

Earnings per Share

Earnings per share* after adjusting for the four for five share consolidation, for the continuing operations increased by 29.7%, from 36.0p to 46.7p. Basic earnings per share, which includes the discontinued operations and exceptional costs, was a loss of 34.3p (2004: earnings of 35.2p).

Financial Review

Dividends

The Board is proposing a final dividend of £6.8m being 10.9p per share. This, combined with the Group's interim dividend of £3.2m (being 5.1p per share) brings the total for the year to £10.0m, giving a total dividend per share of 16.0p. After adjusting for the four for five share consolidation and minority dividend, this represents an increase in dividend per share of 19.4% in the year. In 2004, total dividends payable were £12.7m, of which the demerged Water Supply operation paid £5.9m.

Acquisitions

The Group has completed a number of incremental acquisitions during the year, investing £14.1m, net of cash acquired of £1.0m, together with estimated deferred consideration of £0.2m.

As reported in the prior year, on 6 April 2004, we acquired the minority interests in the original Homeserve business through a share for share exchange. We issued 11.6m shares to the minority interest shareholders in return for their 24.98% shareholdings in those businesses. Goodwill amounting to £66.9m arose as a result of this acquisition.

Principal Choice was acquired on 28 May 2004 for cash consideration of £1.3m, net of cash acquired of £0.1m, plus estimated deferred consideration of £0.2m. Goodwill amounting to £1.5m arose as a result of this acquisition.

Disaster Restoration Limited was acquired on 29 July 2004 for cash consideration of £0.8m including expenses. Goodwill amounting to £0.3m arose as a result of this acquisition, which has been fully provided in the current year due to its proposed integration with Chem-Dry.

On 29 November 2004, we acquired a further 9% of the issued share capital of Doméo SA, from our Joint Venture partner in France, for cash consideration of £0.9m. This increases our shareholding to 49%. Goodwill amounting to £1.0m arose as a result of this acquisition.

Sergon BRM Limited was acquired on 21 December 2004 for cash consideration of £10.5m, net of cash acquired of £0.9m. Goodwill amounting to £11.7m arose as a result of this acquisition.

Goodwill in respect of these acquisitions is currently being amortised over its estimated useful economic life, of up to 20 years. As noted below, under International Financial Reporting Standards, goodwill will no longer be amortised, but rather will be tested for impairment every year.

After the year-end, on 14 April 2005, Chem -Dry UK Limited and its related businesses were acquired for cash consideration of £18.9m. Goodwill amounting to an estimated £14.1m arose as a result of this acquisition.

Disposals

On 6 April 2004, the Water Supply operation and closely related businesses were disposed of to the Group's existing shareholders. This transaction resulted in a distribution to shareholders and has been treated as a dividend in specie amounting to £28.5m.

The remaining Commercial Outsourcing businesses were disposed of during the year for cash consideration of £22.4m, less net cash balances of £4.2m, resulting in a total loss on disposal of £37.0m.

Capital Expenditure

Capital expenditure in the year totalled £9.8m (2004: £34.4m). The significant reduction compared to the prior year follows the demerger of the Water Supply operation, which required significant investment in fixed assets.

Cash Flow and Borrowings

Homeserve generated cash of £43.4m in the year from operating activities, £42.9m of which was generated by the continuing operations. The Group achieved a net cash inflow of £9.3m, compared to a cash inflow of £10.3m in the previous year. This was after net capital expenditure of £8.9m, interest, tax and dividends totaling £20.8m, investment in subsidiaries and joint ventures of £20.3m, disposal of subsidiaries of £19.0m, purchase of own shares of £8.4m and financing inflows of £5.3m. Net debt decreased significantly following the demerger of the Water Supply operations, which included the index-linked bond amounting to £87.9m. At 31 March 2005, the Group had net cash of £11.2m.

Share capital

As part of the demerger of the Water Supply operation on 6 April 2004, the Group undertook a share consolidation of four shares for every five 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. As noted above the Group also acquired the minority shareholding in the original Homeserve business, in a share for share exchange involving the issue of 11.6m shares by the Group, equivalent to approximately 18.6% of the enlarged share capital of Homeserve plc.

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. Following the demerger of the Water Supply operation, a separate sub fund was established for Homeserve, replicating the rules and the benefit basis for employees. Active members employed by Homeserve together with the relevant deferred members have been transferred into the new sub fund.

The additional disclosures presented under the transitional arrangements for FRS 17, Retirement Benefits, show a pension deficit net of deferred tax, of £1.8m (2004: £1.6m) in respect of the Homeserve sub fund.

Financial Reporting

We have assessed the impact of International Financial Reporting Standards ("IFRS") on the Group. There are four main impacts:

- Share Based Payments will result in a charge to the profit and loss account over the vesting period, based on the fair value of the awards at grant date;

- The expense of the Group's defined benefit pension scheme on Homeserve's profit and loss account will be similar to that using current accounting standards. However, any pension surplus or deficit will be shown on the balance sheet, with actuarial gains and losses being recognised immediately through reserves;

Financial Review

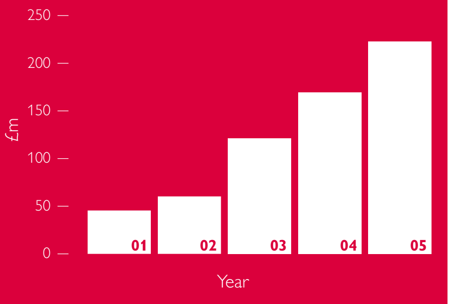
- The routine amortisation of goodwill arising from acquisitions will cease, but will be held on the balance sheet subject to an annual impairment test; and
- Profits arising from Doméo will only be recognised once that business achieves a positive net asset position.

We have completed the restatement of our opening reserves at 1 April 2004. These will form the comparative results that we will disclose in our interim announcement in respect of the six months ending 30 September 2005 and the annual report in respect of the year ending 31 March 2006. For internal reporting purposes, we have been reporting under IFRS since 1 April 2005.

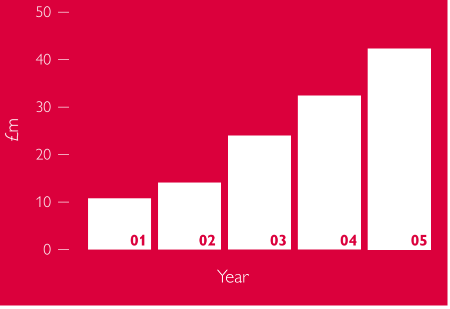
In respect of current UK GAAP, there have been no new accounting standards that have had an impact on the Group's financial statements for the year, except for the adoption of UITF 38. The impact of UITF 38 on Homeserve is the requirement to reclassify the investment in own shares from fixed assets, to a reduction in shareholders' funds.

Andrew Belk
Group Finance Director
23 May 2005

Turnover - Continuing Operations



Operating Profit* - Continuing Operations



Corporate and Social Responsibility

It is recognised that part of Homeserve'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. Homeserve is committed to improving its corporate responsibility activities and will continue to report on them.

Employees

Our employees are key to our success. Homeserve 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 Homeserve grows. Team briefings are held monthly in the majority of Homeserve's businesses to keep employees informed about new developments. Newsletters and special publications are also used to communicate within the businesses and across Homeserve, these were particularly important in communicating the important messages arising from the demerger and the rebranding of the businesses under the Homeserve brand.

A Savings Related Share Option Scheme is operated across Homeserve and is highly successful in involving employees in the Group's performance. As a further means of involving employees in share ownership, a Share Incentive Plan was launched in the year under which employees had the opportunity to apply for £250 worth 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.

Homeserve GB featured for the fourth year in a row in the Sunday Times 100 Best Companies to work for. They ranked 57th 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.

Corporate and Social Responsibility

Health & Safety

Homeserve remains committed to high standards of health and safety across all its business activities. A good safety record is achieved through strong leadership at board level, robust health and safety management systems, the active involvement of employees, and the routine monitoring and audit of safety performance. The positive benefits to the business from reduced risks and liabilities and fewer lost time injuries are self-evident.

Corporate objectives and standards

Homeserve's full time Health and Safety Adviser provides support in setting corporate objectives and formulating Group policy and minimum standards, assisting 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 consistency with statutory requirements.

Homeserve's subsidiaries operate autonomously with their own local health and safety policies and procedures. Each business has appointed a board member to act as champion for health and safety at board level, overseeing 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. Compliance throughout the whole Group is monitored against minimum corporate standards through routine internal health and safety audits, which assess business performance in 15 key areas:

- Health and safety management
- Risk assessment and control
- Plant and equipment
- Employee information and consultation
- Use of hazardous substances
- Personal protective equipment
- Fire and security
- Incidents and injuries
- Monitoring and reporting
- Welfare and the working environment
- Training and competence
- Safety of the public and special risks
- Occupational health
- Working time
- Control of contractors

This ongoing programme of comprehensive health and safety audits at Group level helps ensure minimum standards of compliance are met, and identifies areas where improvement is desirable. Agreed priority action programmes are developed for each business, against which progress is monitored and reported to individual boards for implementation.

Good health and safety performance requires both the commitment and competence of managers and the responsible engagement of employees. There has continued to be good progress in training operational managers in health and safety management systems and techniques, with the programme set to continue for the coming year. The establishment of local health and safety committees to prompt employee involvement and 'buy-in' has helped raise the profile and commitment to health and safety throughout Homeserve.

Performance

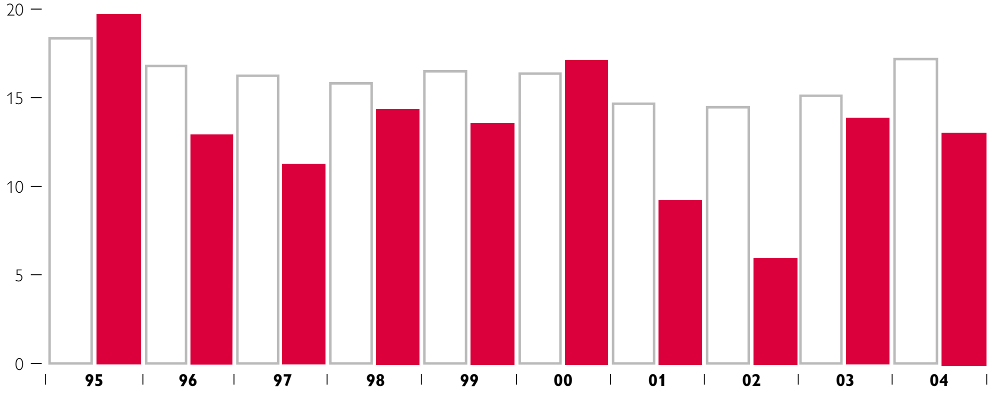
Homeserve has continued to maintain a good health and safety record. During the year, there were 159 recorded incidents requiring first aid, hospital treatment or time lost from work, most involving cuts, bruises or muscular strains. Of this total, 51 were formally reported to HSE under the statutory RIDDOR requirements, with none resulting in life-threatening or disabling injuries. No formal health and safety enforcement action was taken, and no statutory notices were served against any of Homeserve's businesses during the year.

In total, 656 working days were lost through absence, slightly up on the previous year but down as a rate per employee at 0.07% of working days available. Homeserve's overall Reportable Incident Rate compares favourably with an aggregated statistical average from the relevant industry sectors (see chart).

The disposal of Homeserve's remaining Commercial Outsourcing businesses at the end of the year has reduced its exposure to their inherently higher risk activities but the increasing use of sub-contractors and franchisees will continue to be a risk. The refinement of existing management systems and the development of local health and safety expertise within each business remain priorities, to ensure that the current high standards are maintained.

Health and safety is fundamental to the continued success of Homeserve. The development and promotion of good working practices consistent with cost-effective measures to ensure compliance with statutory requirements remains a key focus for future activity.

Reportable Incidents per 1,000 employees over the past 10 years



Notes to chart:

- Aggregated Industry Sector Average based on statistical data from the service, utility and construction sectors aggregated in proportions similar to those represented across the range of Homeserve business activities.
- Homeserve statistics for the years prior to the demerger in April 2004 include Commercial Outsourcing which remained part of Homeserve until March 2005.

Corporate and Social Responsibility

Customers

Excellent customer service is key to Homeserve's success. We aim to ensure that all customers enjoy a high quality service. Homeserve GB, for example, 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 90% 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 Homeserve 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 and the recordings retained.

Environment

Homeserve and its businesses are committed to environmental sustainability. The demerger of the water supply operation and the sale of the commercial businesses means that the environmental impact of Homeserve has changed significantly over the year.

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

Recycling of office materials is encouraged in Homeserve's businesses and local initiatives are devised to help staff take a more responsible view of resources such as the recycling of toner cartridges. Where the business is not exclusively office based for example at Homeserve Emergency Services, efforts are undertaken to manage and recycle waste such as PVC and glass.

Community & Charitable Giving

Homeserve is committed to assisting charities that have a direct impact on the communities in which its businesses operate.

We 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.

Employee support for high profile charity campaigns is also encouraged and in late 2004 the children's charity Childline declared Weston Super Mare based Homeserve Retail Warranties as its Best Supporting Company for the Bristol and North Somerset region.

It is also important for staff that they have the opportunity to support national or international disasters such as the Boxing Day Tsunami. In addition to fundraising, including a sponsored dress-down week during January 2005, Homeserve sponsored a member of staff in assisting the emergency efforts and paid expenses for the flight to South East Asia.

As a large employer, Homeserve's businesses can offer a great contribution to the efforts of the Blood Donor campaigns and this is regularly promoted to staff.

Being a responsible corporate citizen within our communities is valued by our staff and by potential recruits to the company. Homeserve and its businesses operate a generous local sponsorship programme offering financial support to school, sports or charity projects that benefit the community in areas of either education, health or issues of well being. In addition, funds were made available to a number of community sports teams nominated by employees of Homeserve.

Directors' Biographical Details

Main Board

Brian Whitty (51), 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 (40), BA (Hons) CdipAF

Chief executive since April 2004. Appointed to the Board in May 2001 and previously chief executive of the original Homeserve business 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 (41), BSc (Hons) ACA

Group finance director since September 2002, having previously been commercial director of the original Homeserve business. Previously chief executive officer of a UK telecoms company and a corporate finance director with Andersen.

Ian Carlisle (43)

Appointed to the Board in November 2004. Joined the executive team in June 2003 as chief operating officer of Homeserve Assistance and chief executive officer of Highway. Previously managing director of Autoglass Ltd, prior to which he was divisional commercial director at Marks & Spencer plc.

John Maxwell (60), 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 and Provident Financial plc. He is also chairman of DX Services plc.

Barry Gibson (53) †*•✧

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 and Somerfield plc. Previously group retailing director at BAA plc and group chief executive of Littlewoods plc.

Justin Jewitt (51), BA (Hons) †*•✧

Appointed to the Board in 2003. Senior non-executive director of NHS Shared Business Services and a director of a number of private companies. Previously chief executive of Nestor Healthcare Group plc and managing director of two of BET's business services companies. He is visiting professor of healthcare at Glamorgan University.

Emma Thomas (38), MA

Appointed Group company secretary in March 2005. A solicitor, she was previously Group company secretary of Nestor Healthcare Group plc, assistant secretary of Kingfisher plc and company secretary of Hazlewood Foods plc.

Directors' Biographical Details

Executive Board

Jonathan King (44), BSc (Hons) Δ

Managing director of Homeserve GB 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.

Rachael Hughes (34), BA (Hons) Δ

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.

Edward Fitzmaurice (42), MBA, BE (Hons) Δ

Joined the executive team in April 2005 as chief executive of Homeserve Warranties from Dixons Store Group PLC where he was the managing director of Mastercare. Previously he worked in consultancy and engineering.

Simon Hancox (38), BA (Hons) Δ

Managing director of Homeserve Claims Management 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.

Ged Dempsey (53), DMS MSc∆

Appointed as managing director of Homeserve Retail Warranties in July 2004. Previously managing director of Courts Worldwide International. Spent 2 years on the UK Board as operations & sales director and commercial director. Prior to this he was group buying and marketing manager at Comet Plc following a number of years at Thorn EMI in various senior operational and marketing roles.

Martin Bennett (36), BCom (Hons) ∆

Commercial director of Homeserve since November 2003 having joined from Clarity Group where he was finance director. Previously a senior manager with Corporate Finance at Andersen.

Jeremy Middleton (44), BA (Hons) ∆

Non executive director of the original Homeserve business since set up in 1993. director of the Marketing Department Ltd since 1991, a management consultancy specialising in new business development.

Key:

† Non executive
* Audit Committee (Chairman: John Maxwell)
• Nomination Committee (Chairman: Brian Whitty)
✧ Remuneration Committee (Chairman: Justin Jewitt)
∆ Executive Board only

Directors and Advisers

Directors	Brian Howard Whitty, FCA, Executive Chairman Richard David Harpin, BA (Hons), CdipAF John Hunter Maxwell, CA, CCMI Andrew John Belk, BSc (Hons), ACA Ian Carlisle John Michael Barry Gibson Justin Allen Spaven Jewitt, BA (Hons)
Secretary	Caroline Emma Roberts Thomas, MA
Registered Office	Cable Drive, Walsall WS2 7BN Telephone: 01922 426262 Registered in England, Number 2648297
Stockbrokers	JPMorgan Cazenove Ltd 20 Moorgate, London EC2R 6DA
Financial Advisers	N M Rothschild & Sons Ltd New Court, St Swithins Lane, London EC4P 4DU
Financial PR Advisers	Tulchan Communications Group Ltd 6th Floor, Kildare House, 3 Dorset Rise, London EC4Y 8EN
Auditors	Deloitte & Touche LLP Four Brindleyplace, Birmingham B1 2HZ
Legal Advisers	Martineau Johnson No. 1 Colmore Square, Birmingham B4 6AA
	Wragge & Co LLP 55 Colmore Row, Birmingham B3 2AS
Bankers	HSBC Bank plc 130 New Street, PO Box 68, Birmingham B2 4JU
	Royal Bank of Scotland plc 2 St Philips Place, Birmingham B3 2RB
Registrars	Computershare Investor Services PLC PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

Directors' Report

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2005.

Principal Activities and Review of Business

During the year the Group was engaged in the provision of insured repair solutions and emergency services to the home. Details of Group activities are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 18. 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. During the year the Commercial Outsourcing businesses were disposed of. The results of the demerged Group and the businesses disposed in the year have therefore been shown as discontinued 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 52. The directors are recommending the payment on 5 August 2005 of a final dividend of 10.9 pence per ordinary share to shareholders on the register at the close of business on 3 June 2005. For further details of the dividend see note 9 to the accounts.

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 original Homeserve business 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 or 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 original Homeserve business.

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 original Homeserve business.

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 23 May 2005 are given on page 34. Messrs Whitty, Belk, Harpin and Jewitt 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. Ian Carlisle was appointed on 30 November 2004 and Robert Harley resigned on 24 March 2005.

Ian Carlisle, 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 himself for election. Brian Whitty and Andrew Belk retire by rotation and, being eligible, offer themselves for re-election. Messrs Whitty, Belk and Carlisle have one year rolling service contracts terminable on 12 months' notice by either party.

The beneficial interests of the directors in the shares of the Company and the options held as at 31 March 2005 and 23 May 2005 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, at 31 March 2004, held 21,300 ordinary shares of £1 each in Homeserve Assistance plc which represented 19.48% of the share capital of that company. On 5 April 2004 these shares were exchanged for shares in the Company.

Directors' Report

Annual General Meeting

The following special business will be transacted at the Annual General Meeting of the Company, to be held at 30 Old Broad Street, London, EC2N 1HQ on 29 July 2005 at 10.00am.

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

A resolution proposing the reappointment of Deloitte & Touche LLP as auditors and authorising the Board to fix their remuneration will be put to the Annual General Meeting.

Fixed Assets

Capital expenditure on tangible fixed assets amounted to £9.8m during the year.

Donations

Charitable donations of £37,000 (2004: £89,000) were made during the year. No political contributions were made 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 2005 represent 63 days of purchases during the year (2004: 84 days) for the Group and nil for the Company.

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 23 May 2005, except for the following:

	Ordinary Shares	Percentage
Richard Harpin	10,827,697	16.9%
Jeremy Middleton	2,913,397	4.6%

By Order of the Board
Emma Thomas
Company Secretary
23 May 2005

Corporate Governance

Introduction

The Company complied throughout the year with the provisions set out in the Combined Code published by the UK Financial Reporting Council in July 2003 ("the Code") except where indicated on page 38.

The manner in which the Group applies the principles of good governance contained in the Code is described in the appropriate parts of this Report and Accounts. Thus the application by the Company of the Code's principles to remuneration matters at pages 42 to 49 should be read in conjunction with the statement below. A review of the Group's position and prospects is set out in the Chairman's Statement, the Chief Executive's Review and Financial Review on pages 2 to 25.

The Board

The Board of directors leads and controls the Company by holding at least eight meetings a year at which its current and forecast performance is monitored and reviewed. Regular reports on monthly performance and other matters of importance to the Company ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Company's medium and long-term strategic focus and management development strategy. Regular informal presentations are given and meetings held in order to apprise directors of issues of importance affecting the Group.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to election by the Company's shareholders at the Annual General Meeting immediately following appointment and subject to re-election at least every three years thereafter.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters. Matters reserved to the Board include the recommendation or approval of dividends, the approval of final and interim financial statements, major financial commitments, the acquisition of companies or businesses, appointments to the Board and its committees, the Group's future strategy and the Group's internal controls. It also provides that the Board receive regular reports from chairmen of its committees. The Schedule is kept under regular review.

During the year, the Board was led by Brian Whitty, the Executive Chairman. He also served as a member of the Board's Nomination Committee.

The Chairman's responsibilities are clearly defined in a written specification agreed by the Board during the year and which makes clear the division of responsibilities between the Executive Chairman and the Chief Executive. They include the smooth running of the Board, effective communication between executive and non-executive directors and the general progress and long-term development of the Group. His executive responsibilities include major strategic acquisitions, relations with shareholders and those relating to property, legal and governance matters. The Board has established a formal procedure for directors wishing to seek independent legal and other professional advice and all members of the Board have access to the advice and services of the Company Secretary.

The day-to-day running of the Company's business is delegated to an Executive Board, also led by Brian Whitty, and which includes Richard Harpin, Chief Executive, Andrew Belk, Group Finance Director, and Ian Carlisle, Chief Executive of Homeserve Emergency Services, who was appointed as a director in November 2004. Other members of the Executive Board, together with autobiographical details, are listed on pages 30 to 33.

Richard Harpin, the Chief Executive, is responsible for leading business development, operational issues and marketing. He is also responsible for all operational public relations and tactical acquisitions.

During the year, three independent non-executive directors with extensive business, finance and marketing backgrounds provided the Board with a breadth of experience and with independent judgement.

John Maxwell and Barry Gibson were appointed as independent non-executive directors on 6 April 2004. Justin Jewitt served as an independent non-executive director throughout the year.

John Maxwell served as the Company's independent senior non-executive director and Chairman of the Audit Committee from the date of his appointment.

Corporate Governance

From 30 November 2004, the date of Ian Carlisle's appointment to the Board until 24 March 2005, the date of Robert Harley's resignation as a director, the composition of the Board was not compliant with the Code, since it comprised four executive directors and three independent non-executive directors. From 1 April until 6 April 2004, the date of the demerger of the Company's Water Supply operation, the Board did not have a senior independent director, as it had an experienced independent non-executive Chairman. During the same period, the composition of the Remuneration Committee was not compliant with the Code, since John Harris, who resigned on 6 April 2004, was not considered by the Board to be independent. The constitution of the Board and its committees is now fully compliant and it is the Board's intention that they remain so.

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Company and the environment in which it operates; and has recently adopted a formal policy on the induction and training of directors. Newly appointed Board members have undergone an induction programme and have received the opportunity to receive formal training. During the year, the Group's non-executive directors have met with various members of the Group's management teams and have visited several of the operating businesses. Further training for directors is available and offered as appropriate.

During the year, the Board adopted a formal process for reviewing its own effectiveness and that of its individual members. In addition, it continued to ensure that regular meetings of the non-executive directors were held without the executive directors, and at least once a year, without the Chairman present, in order to evaluate his performance. The evaluation process, which was facilitated by external advisers, was completed during the year, comprising one-on-one meetings to discuss the existing and future needs of the Board, its composition and the skills of its members. The results of the process were reviewed by the whole Board in April 2005.

Committees

The Board operates a number of committees to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference. These comprise the Nomination, Audit and Remuneration Committees.

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by Brian Whitty and also comprises Barry Gibson, Justin Jewitt and John Maxwell. The Committee draws on the advice of such professional advisers as it considers necessary and, during the year, met to consider the appointment of Ian Carlisle as a further executive director to the Board.

The Terms of Reference of the Nomination Committee, which were reviewed and updated by the Board during the year, are available on the Company's website.

Audit Committee

The Audit Committee is chaired by John Maxwell, a chartered accountant and the senior independent non-executive director. It comprises only independent non-executive directors; Barry Gibson and Justin Jewitt being its other members.

The Committee meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include agreeing audit strategy, monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors. The external auditors and the Group Finance Director are invited but are not entitled to attend all meetings.

The Committee has implemented a policy relating to the use of the external auditors for non-audit services and monitors fees paid in respect of such services. The external and internal auditors are provided with the opportunity to raise any matters or concerns that they may have, in the absence of the executive directors.

The Terms of Reference of the Audit Committee, which were reviewed and updated during the year by the Board are available on the Company's website. The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness and that of the external audit process.

Remuneration Committee

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chairman and Chief Executive and having received professional advice from remuneration consultants. The Committee is also responsible for approving the grant and exercise of executive long-term incentive arrangements. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality. The Committee's Terms of Reference, which were reviewed and updated during the year, are available on the Company's website.

From his appointment as a director on 6 April 2004 until 13 August 2004 John Maxwell acted as Chairman of the Remuneration Committee. The Committee has been chaired by Justin Jewitt since 13 August 2004. Barry Gibson and John Maxwell also serve as members of the Committee.

The remuneration of non-executive directors is a matter for the Company's Board.

Short biographies of each of the directors, including their membership of the Board's Committees outlined above, may be found on pages 30 to 33.

Attendance at Meetings

The table below sets out the attendance at meetings of the Board and its Committees by each member during the year.

Messrs Bury, Harris, Sankey and Corbett resigned on 6 April 2004, before the date of the first meeting in the year.

	Board	Audit Committee	Remuneration Committee
Number of meetings held	9	4	7
Meetings attended			
B H Whitty	9	—	—
R D Harpin	8	—	—
A J Belk	9	—	—
R I Harley	8	—	—
I Carlisle*	2	—	—
J H Maxwell	8	4	6
J A S Jewitt	9	4	7
J M B Gibson	8	4	6

* Mr Carlisle was appointed on 30 November 2004, between this date and the year end only two Board meetings were held.

Corporate Governance

Relationships with Shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chairman and Group Finance Director meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior independent non-executive director, who is available to discuss any questions which investors may have in relation to the running of the Company. The Board encourages shareholders to attend the Annual General Meeting and is always willing to answer questions, either in the meeting itself or, more informally, afterwards. In addition, shareholders may contact the Company direct, either through its website or by telephoning its offices.

The Board also recognises the need to ensure that all directors are fully aware of the views of major shareholders about the Company. Copies of all analysts' research relating to the Company are circulated to all directors upon publication, monthly analyses of the Company's shareholder register are made available to the Board and written feedback from shareholders and analysts, prepared by the Company's brokers and public relations advisers is provided to all directors after every significant corporate event and at least twice a year.

Going Concern

The directors confirm that, after reviewing the Group's budget for 2005/6, the three year operating plan and projected cash flows, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an established internal control framework in place, which is continually reviewed and updated taking into account the changing nature of the Group's operations. This process has been in place for the whole of the year and up to the date of approval of the Annual Report and Accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a regular basis. Executive Board meetings are held on a monthly basis at which the Group's senior managers report on the progress of the companies or discipline for which they are responsible and share best practice.

- A clearly defined organisation structure is in place 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.

- Three year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.

- 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.

- Financial results and cash flows, including a comparison with budgets and forecasts, are reported to the Board on a monthly basis, with variances being identified to initiate action to mitigate them.

- Appropriate treasury policies are in place.

- During the year, the Committee adopted a formal "whistleblowing" policy for employees who wish to raise any issues of concern relating to the Company's activities on a confidential basis.

- A mechanism exists to extend the Group's formal risk management processes to any significant new business acquired or begun by the Company immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of the year.

- At least twice a year, the Audit Committee reviews a register summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include:

- At the end of the year, the executive directors compile a report identifying the key risks faced by the Group. This report is considered by the Audit Committee and the Board before the Annual Report and Accounts is approved.

- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.

- At each meeting the Audit Committee reviews reports of the executive directors and the internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.

- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.

- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.

- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Remuneration Report

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. 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 Annual General Meeting.

The Act requires the auditors to report on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

Role

The Remuneration Committee is responsible for determining the pay, benefits and contractual arrangements for the executive directors of the Company and the Executive Board. It aims to develop and recommend remuneration strategies that drive performance and reward it appropriately. In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code published in July 2003 by the UK Financial Reporting Council ("the Code"). The Committee operates under the delegated authority of the Board and its Terms of Reference are available on the Company's website – www.homeserve.com.

Membership

During the year, the Committee comprised each of the Board's independent non-executive directors. Justin Jewitt served throughout the year and Messrs Maxwell and Gibson were appointed on 6 April 2004. Justin Jewitt was appointed as Chairman on 13 August 2004 replacing John Maxwell who served as Chairman from 6 April 2004 until 13 August 2004.

Messrs Bury, Harris, Corbett and Sankey resigned on 6 April 2004.

The Committee has also received assistance from Brian Whitty, the Group's Executive Chairman, Richard Harpin, the Chief Executive, Christopher Powell, the former Company Secretary and Anna Maughan, the Assistant Company Secretary, all of whom attended meetings of the Committee as required. Messrs Whitty and Harpin did not take part in discussions in respect of matters relating directly to their own remuneration.

Meetings

Attendance at Committee meetings held during the year and the number of meetings held is set out on page 39.

Advisers

During the year, the Committee appointed Monks Partnership as advisers, in order to undertake an initial review of executive remuneration following the demerger of the Company's Water Supply operation. In November 2004, the Committee appointed Kepler Associates to undertake a comprehensive review of the Board's remuneration policy and to advise the Committee on an ongoing basis. The Company has also instructed Kepler Associates to advise it on certain remuneration matters during the year, for example in relation to the implementation of the new Deferred Bonus Plan. Other than in relation to advice on remuneration, Kepler has no other connections with the Company.

Remuneration Policy

During the year, the Committee established a clear policy for the remuneration of executive directors and senior executives. Its overall aim is to provide a package of remuneration which;

- is sufficient but no more than is necessary to attract, retain and motivate high calibre executives including the Company's executive directors and senior executives;
- aligns rewards with the Company's performance;
- rewards good performance with remuneration that is in line with that payable by broadly comparable businesses i.e. high-growth companies of similar size and services companies with similar operating characteristics;
- rewards exceptional performance in such a way as to align the executives' interests with those of the Group's shareholders, equating to upper quartile rewards for upper quartile performance.

To that end, the Committee structures executive remuneration in two distinct parts: fixed remuneration of basic salary, pension and benefits and variable performance-related remuneration in the form of a cash bonus and long-term incentive arrangements. Remuneration is structured so that the variable pay element forms a significant portion of each director's package. Assuming that shareholders approve the implementation of the Deferred Bonus Plan at the forthcoming Annual General Meeting, the proportion of fixed and variable pay for the Executive Chairman and other executive directors in 2005/6 will be as follows:

	Remuneration Element	Executive Chairman		Other Executive Directors	
		Target/fair value (% of salary)	As % of total remuneration	Target/fair value (% of salary)	As % of total remuneration
Fixed Pay	Salary & benefits	100	55	100	50
	Pension	45		20	
Variable Pay	Annual bonus	40	45	40	50
	ESOP	26		26	
	LTIP	17		17	
	DBP matching opportunity	36		36	

Remuneration for Executive Directors

The main components of the remuneration package for executive directors are:

a) Basic salary

Basic salary for each executive director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual. This is normally reviewed annually with any increase usually being effective from 1 April (unless responsibilities change). Salary levels are set taking into account information from the Committee's advisers on salary levels for similar positions at comparable companies.

b) Annual bonus

The annual bonus is designed to drive the short term performance of the Company and encourage real year on year growth in profitability. No annual bonus is paid unless a very high level of profit performance is achieved. The maximum annual bonus is 75% of basic salary. Previously, the maximum opportunity was 50% of salary but was increased in the year at the same time as the adoption of more stretching performance requirements and in order to better align the directors' bonus opportunities with market practice.

For executive directors, a bonus opportunity of up to 60% of basic salary is available for group financial performance, which is measured by profit before tax, amortisation and exceptional items. The remaining 15% is based on measurable personal targets, which relate to the part of the business or function for which the director is responsible.

Provided their personal objectives are met in full, the normal "on-target" bonus payable to executive directors in any year is expected to be in the region of 40% of their basic salary.

During the year the Committee reviewed the Company's policy on the provision of bonuses and resolved that bonuses should no longer be pensionable. This affected the Executive Chairman, who was entitled to such benefits under the terms of his contract of employment, entered into on his appointment in 1995. From 1 April 2005, his pensionable remuneration will only include basic salary.

In order to encourage executive directors to build up a personal shareholding in the Company, a Deferred Bonus Plan (DBP) is being proposed at the forthcoming Annual General Meeting. Under the terms of the proposed DBP, directors will have the opportunity to invest some or all of their annual bonus into shares and to defer receipt for three years. Matching shares can be earned if the Total Shareholder Return (TSR) of the Company over a three year period exceeds the median of the FTSE 350 index of companies. If the Company's TSR performance is at the median, the matching ratio will be 0.5:1. If performance is in the top decile or above the matching ratio will be 3:1.

Full details on the proposed DBP are contained in the Shareholder Circular.

Remuneration Report

c) Long term incentives

Long term incentives were provided during the year through an Executive Share Option Plan (ESOP) and a Long Term Incentive Plan (LTIP).

The ESOP was approved by shareholders in 2001 and is designed to encourage and reward continuing improvement in the Company's performance over the longer term. Its participants are the executive directors and other senior executives who are best placed to influence Company performance. Options are granted on an annual basis and become exercisable between 3 and 10 years from the date of grant subject to the achievement of stretching performance criteria. The option price is the market price on the last dealing day prior to the date of grant.

Options become exercisable based on a sliding scale and can only be exercised fully if annual average Earnings Per Share (EPS) growth exceeds RPI by at least 10% pa over a three year period. Options are not exercisable if annual average EPS growth is less than RPI + 4% pa. For options granted after 2004 retesting is not permitted but for options granted before this date retesting of the performance criteria is permitted in years four and five with performance measured from a fixed date.

Previously, the Company operated a policy which required directors to hold shares in the Company equal to or exceeding 50% of the number of shares under option to be exercised. During the year, the Committee reviewed this policy. Accordingly, the policy has been amended to require directors to build up a share holding at least equal in value to his annual basic salary. If the holding requirement has not been fulfilled at the point of exercise of any option, the director must retain 50% of the shares exercised (net of tax and exercise costs) until the holding requirement is achieved.

If the DBP is approved the maximum annual grant under the ESOP will be 150% of salary.

Details of options granted in the year are shown on page 49.

The LTIP was approved by shareholders in 2004. One-off awards of 200% of salary were made in the year to executive directors under the LTIP to incentivise them towards specific goals reflecting the Company's aim to deliver exceptional shareholder value over the 5 years from 2004. Awards were granted as nil cost share options.

Awards will only vest in full if the Company's absolute TSR exceeds 180% by the fifth anniversary of the date of grant and the annual average EPS growth in the five year period exceeds RPI by at least 10% pa. No part of the award will vest if absolute TSR growth is less than 130% over the 5 years.

Details of awards made in the year are shown on page 49.

Key executives other than executive directors are able to participate in the Key Executive Incentive Plan (KEIP). This will be a special one-off award to incentivise key executives to deliver the Company's stretching growth plans.

Executive directors may also participate in the Company's Savings Related Share Option Scheme and Share Incentive Plan on the same basis as all other employees. There are no performance criteria attached to these schemes.

d) Benefits

Pensions, company car, medical insurance, holidays and other benefits provided to executive directors are in line with those provided at executive director level in similar businesses. During the year, benefits were included in the pensionable remuneration of the Executive Chairman but this policy has been reviewed since the year end and benefits will be excluded in future years.

Service Contracts

All executive directors' contracts of service are terminable on twelve months' notice by either party. Further details of the executive directors' contracts are summarised in the table below:

Name of director	Date of contract
B H Whitty	28 March 1996
R D Harpin	18 January 2002
A J Belk	20 December 2002
I Carlisle	1 May 2005
R I Harley	15 July 2002

Mr Harley resigned on 24 March 2005.

Liquidated damages are limited to the payment of one year's remuneration, including benefits. Notice periods and payments are not extendable in takeover situations.

Non-executive directors serve under letters of appointment for periods of three years which include provisions in respect of liquidated damages limited to the payment of one year's fee. Their fees are determined by the Board within the limits set by the Articles of Association and based on information on fees paid in similar companies after having consulted remuneration advisers. Details of their current three year appointments are as follows:

Name of director	Date of appointment
J H Maxwell	6 April 2004
J A S Jewitt	1 September 2003
J M B Gibson	6 April 2004

Pensions

Executive directors currently participate in one of two pension arrangements, the Water Companies Pension Scheme or the Homeserve Money Plan. Normal date of retirement for executive directors is at age 60. Both arrangements are non-contributory for directors.

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

- pension at normal retirement 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;
- life assurance of five times pensionable salary or five times basic salary as applicable;
- pension payable in the event of ill health; and
- spouse's pension on death.

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

- employer contributions of up to 20%;
- life assurance of five times basic salary;
- permanent health insurance; and
- spouse's pension on death.

Where the benefits provided to executive directors under these Schemes are restricted as a result of the Inland Revenue 'earnings cap' further provision is made either through a funded unapproved retirement benefit scheme or unapproved money purchase arrangements. For the Executive Chairman, the Company provides compensation for the tax impact of the contributions to the funded unapproved retirement benefit scheme.

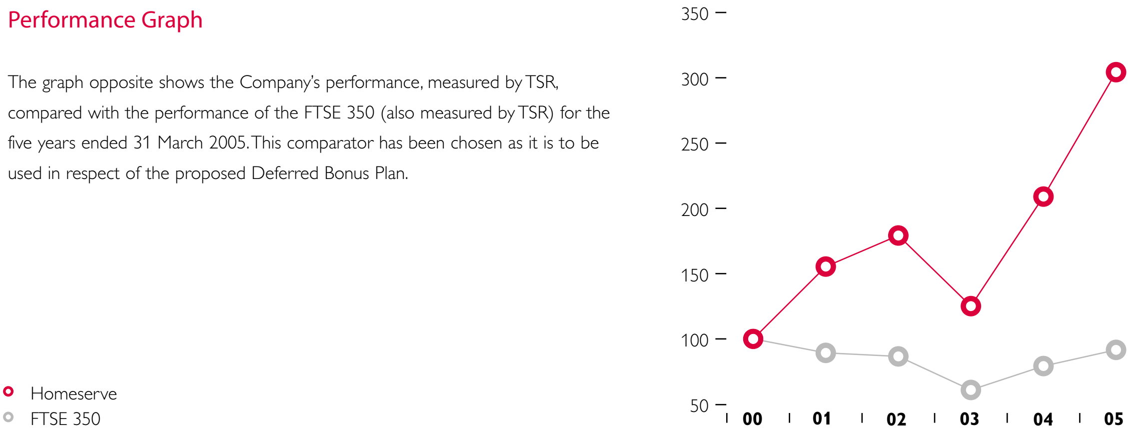
After the year end, the Committee reviewed the pension promise to the Executive Chairman and it has been agreed that from 1 April 2005 his pension will accrue only on basic salary and from 1 April 2006 no further contributions will be made to the funded unapproved retirement benefit scheme.

The Committee is currently reviewing the impact of the Pension Simplification regime that is due to come into effect from April 2006 and will complete the review during 2005.

Remuneration Report

Performance Graph

The graph opposite shows the Company's performance, measured by TSR, compared with the performance of the FTSE 350 (also measured by TSR) for the five years ended 31 March 2005. This comparator has been chosen as it is to be used in respect of the proposed Deferred Bonus Plan.



Audited Information

Directors' Emoluments

	Basic Salary £'000	Benefits £'000	Bonus £'000	Compensation for loss of office £'000	Total Emoluments 2005 £'000	Total Emoluments 2004 £'000
Executive						
B H Whitty	330	23	248	—	601	408
R D Harpin	275	22	206	—	503	309
A J Belk	195	24	146	—	365	235
I Carlisle*	73	7	55	—	135	—
R I Harley*	143	20	107	174	444	202
D M Penna*	—	—	—	—	—	175
Non-executive						
J H Maxwell*	40	—	—	—	40	—
J A S Jewitt*	32	—	—	—	32	13
J M B Gibson*	25	—	—	—	25	—
L C N Bury*	—	—	—	85	85	78
R P Corbett*	—	—	—	—	—	24
J R Harris*	—	—	—	25	25	24
D B Sankey*	—	—	—	—	—	55
Total 2005	1,113	96	762	284	2,255	
Total 2004	1,075	95	353	—		1,523

* Ian Carlisle was appointed on 30 November 2004
Robert Harley resigned on 24 March 2005
David Penna died on 17 December 2003
Messrs Maxwell and Gibson were appointed on 6 April 2004
Justin Jewitt was appointed on 1 September 2003
Messrs Bury, Corbett, Harris and Sankey resigned on 6 April 2004

Directors' Pensions

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

	Accrued pension 31 March 2005 **£'000**	Increase in accrued pension in the year **£'000**	Accrued pension 31 March 2004 **£'000**	Transfer value of increase **£'000**
B H Whitty	12	1	11	18
R D Harpin	8	2	6	10
I Carlisle	2	1	1	12

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.

	Transfer value 31 March 2005 **£'000**	Contributions made by the Director **£'000**	Increase in transfer value in the year net of Contributions **£'000**	Transfer value 31 March 2004 **£'000**
B H Whitty	172	—	30	142
R D Harpin	64	—	14	50
I Carlisle	20	—	15	5

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:

	2005 £'000	**2004 £'000**
B H Whitty	283	162
R D Harpin	35	21
A J Belk	39	31
R I Harley	14	12
I Carlisle	8	—

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:

	31 March 2005	6 April 2004	31 March 2004
B H Whitty	58,938	58,901	73,627
R D Harpin	10,827,697	9,926,877	1,101,522
A J Belk	4,037	—	—
I Carlisle	2,090	—	2,053*
J H Maxwell	10,000	—	—*
J A S Jewitt	3,021	—	—
J M B Gibson	3,675	—	—*

*At date of appointment

Directors' interests in shares have been restated as at 6 April 2004 to show the impact of the share consolidation. There were no changes in the directors' interests in shares between 31 March and 23 May 2005.

Directors' Options and Long Term Incentives

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

	31 March 2005	Granted during year	Exercised during year	31 March 2004	Option price	Date granted	Date exercisable from
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 D Harpin	5,144	—	—	5,144	328.0p	21.12.00	1.2.06
I Carlisle	1,744	1,744	—	—*	543.0p	30.12.04	1.3.08

*At date of appointment

SAYE options are exercisable for a six month period from the date shown.

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

	31 March 2005	Granted during year	Exercised during year	31 March 2004	Option price	Date granted
B H Whitty	150,000	—	—	150,000	366.5p	3.6.98
	30,000	—	—	30,000	377.5p	23.6.00
	72,500	—	—	72,500	550.0p	17.7.01
	65,000	—	—	65,000	589.0p	8.7.02
	80,000	—	—	80,000	470.0p	1.7.03
	99,500	99,500	—	—	661.0p	27.5.04
R D Harpin	49,000	—	—	49,000	550.0p	17.7.01
	44,000	—	—	44,000	589.0p	8.7.02
	60,000	—	—	60,000	470.0p	1.7.03
	83,000	83,000	—	—	661.0p	27.5.04
A J Belk	12,500	—	—	12,500	550.0p	17.7.01
	17,500	—	—	17,500	589.0p	8.7.02
	36,000	—	—	36,000	466.0p	13.11.02
	50,000	—	—	50,000	470.0p	1.7.03
	59,000	59,000	—	—	661.0p	27.5.04
I Carlisle	42,500	—	—	42,500*	470.0p	1.7.03
	65,000	—	—	65,000*	661.0p	27.5.04

*At date of appointment

Executive Share Options are exercisable between three and ten years from the date of grant.

There were no changes in the options held between 31 March and 23 May 2005.

Details of the maximum number of shares receivable from conditional awards made under the Long Term Incentive Plan are as follows:

	31 March 2005	Awarded during year	Lapsed during year	Vested during year	31 March 2004
B H Whitty	99,500	99,500	—	—	—
R D Harpin	83,000	83,000	—	—	—
A J Belk	59,000	59,000	—	—	—
I Carlisle	65,000	—	—	—	65,000*

*At date of appointment

The market price of the Company's shares at 31 March 2005 was £8.92½ (2004: £6.27). During the year the price ranged from £5.83 to £9.00.
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

Emma Thomas
Company Secretary
23 May 2005

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 page, 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
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

We have audited the financial statements of Homeserve plc for the year ended 31 March 2005 which comprise the consolidated profit and loss account, the balance sheets, the supplementary statements, the consolidated cash flow statement and notes to the cash flow statement, and the related notes 1 to 31. 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 nine provisions of the July 2003 FRC 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 2005 and of the loss 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
23 May 2005

Consolidated Profit and Loss Account

For the year ended 31 March 2005

	Note	2005 Results for the year before goodwill amortisation and exceptional charges £'000	2005 Goodwill amortisation and exceptional charges £'000	2005 Results for the year £'000	2004 Results for the year before goodwill amortisation and exceptional charges £'000	2004 Goodwill amortisation and exceptional charges £'000	2004 Results for the year £'000
Group and share of joint ventures' turnover	2	**283,265**	**—**	**283,265**	**322,955**	**—**	**322,955**
Less share of joint ventures' turnover - continuing		(2,375)	—	(2,375)	(1,147)	—	(1,147)
Less share of joint ventures' turnover - discontinued		—	—	—	(4,173)	—	(4,173)
		280,890	**—**	**280,890**	**317,635**	**—**	**317,635**
Group turnover							
Continuing operations		205,086	—	205,086	168,089	—	168,089
Acquisitions		15,625	—	15,625	—	—	—
		220,711	—	220,711	168,089	—	168,089
Discontinued operations		60,179	—	60,179	149,546	—	149,546
	2	**280,890**	**—**	**280,890**	**317,635**	**—**	**317,635**
Operating costs	4	(236,693)	(13,193)	(249,886)	(258,383)	(9,615)	(267,998)
Group operating profit							
Continuing operations		41,802	(11,411)	30,391	32,641	(7,974)	24,667
Acquisitions		551	(697)	(146)	—	—	—
		42,353	(12,108)	30,245	32,641	(7,974)	24,667
Discontinued operations		1,844	(1,085)	759	26,611	(1,641)	24,970
		44,197	**(13,193)**	**31,004**	**59,252**	**(9,615)**	**49,637**
Share of joint ventures' operating profit/(loss) - continuing		5	—	5	(257)	—	(257)
Share of joint ventures' operating loss - discontinued		—	—	—	(307)	—	(307)
Total operating profit including joint ventures		**44,202**	**(13,193)**	**31,009**	**58,688**	**(9,615)**	**49,073**
Loss on disposal of subsidiary undertakings - discontinued	26	—	(39,149)	(39,149)	—	—	—
Cost of fundamental reorganisation - continuing	3	—	—	—	—	(4,216)	(4,216)
Net interest payable	7	(483)	—	(483)	(7,017)	—	(7,017)
Profit/(loss) on ordinary activities before taxation		**43,719**	**(52,342)**	**(8,623)**	**51,671**	**(13,831)**	**37,840**
Taxation on profit/(loss) on ordinary activities	8	(13,525)	836	(12,689)	(15,243)	—	(15,243)
Profit/(loss) on ordinary activities after taxation		**30,194**	**(51,506)**	**(21,312)**	**36,428**	**(13,831)**	**22,597**
Equity minority interests		—	—	—	(4,162)	3,823	(339)
Profit/(loss) for the financial year		**30,194**	**(51,506)**	**(21,312)**	**32,266**	**(10,008)**	**22,258**
Dividends paid and proposed	9	(10,033)	—	(10,033)	(12,733)	—	(12,733)
Dividend in specie	26	(28,522)	—	(28,522)	—	—	—
Retained (loss)/profit for the year		**(8,361)**	**(51,506)**	**(59,867)**	**19,533**	**(10,008)**	**9,525**
(Loss)/earnings per share							
Basic	10			(34.3p)			35.2p
Basic before goodwill and exceptional charges	10	48.7p			51.0p		
Diluted	10			(34.3p)			34.9p
Diluted before goodwill and exceptional charges	10	47.7p			50.6p		

Consolidated Balance Sheet

As at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Goodwill	11	154,008	108,223
Tangible assets	12	22,613	186,242
		176,621	294,465
Current assets			
Stocks	16	1,985	6,887
Debtors	17	88,556	90,221
Cash at bank and in hand		14,753	10,497
		105,294	107,605
Creditors – amounts falling due within one year			
Borrowings	18	(3,537)	(11,355)
Other creditors	19	(97,628)	(120,909)
		(101,165)	(132,264)
Net current assets/(liabilities)		4,129	(24,659)
Total assets less current liabilities		180,750	269,806
Creditors – amounts falling due after more than one year			
Borrowings	18	—	(92,649)
Other creditors	19	(4,421)	(4,138)
		(4,421)	(96,787)
Provisions for liabilities and charges	21	(939)	(10,301)
Accruals and deferred income	23	(15,109)	(19,552)
Net assets		160,281	143,166
Capital and reserves			
Share capital	24	7,987	6,366
Share premium	24	26,576	18,902
Merger reserve	25	70,992	—
Capital redemption reserve		1,200	1,200
Own shares	25	(8,447)	—
Profit and loss account	25	61,973	110,532
Equity shareholders' funds		160,281	137,000
Minority shareholders' equity interests		—	6,166
		160,281	143,166

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of directors on 23 May 2005.

Brian Whitty

Andrew Belk

Company Balance Sheet
As at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	15	18,476	34,003
Current assets			
Debtors	17	119,104	121,406
Creditors – amounts falling due within one year			
Borrowings	18	(52,085)	(40,063)
Other creditors	19	(14,824)	(16,184)
		(66,909)	(56,247)
Net current assets		52,195	65,159
Total assets less current liabilities		70,671	99,162
Net assets		70,671	99,162
Capital and reserves			
Ordinary share capital	24	7,987	6,366
Share premium	24	26,576	18,902
Capital redemption reserve		1,200	1,200
Own shares	25	(8,447)	—
Profit and loss account	25	43,355	72,694
Equity shareholders' funds		70,671	99,162

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of directors on 23 May 2005.

Brian Whitty
Andrew Belk

Supplementary Statements

For the year ended 31 March 2005

Consolidated Statement of Total Recognised Gains and Losses

	Note	2005 £'000	2004 £'000
(Loss)/profit for the financial year		(21,312)	22,258
Total recognised gains and losses relating to the year		(21,312)	22,258

Reconciliation of Movements in Consolidated Shareholders' Funds

	Note	2005 £'000	2004 £'000
(Loss)/profit for the financial year		(21,312)	22,258
Dividends		(38,555)	(12,733)
		(59,867)	9,525
Goodwill previously written off included in retained loss for the year	26	11,409	—
Investment in own shares	25	(8,447)	—
Merger reserve	25	70,992	—
New share capital subscribed	24	9,194	1,834
Net additions to shareholders' funds		23,281	11,359
Opening shareholders' funds		137,000	125,641
Closing shareholders' funds		160,281	137,000

The accompanying notes are an integral part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	Note	£'000	2005 £'000	£'000	2004 £'000
Net cash inflow from operating activities	(a)		43,408		77,854
Returns on investments and servicing of finance:					
Interest received		536		345	
Interest paid		(898)		(4,401)	
Interest element of finance lease and hire-purchase rental payments		(97)		(393)	
Dividends paid to minority interests		(1,632)		(1,714)	
Net cash outflow from returns on investments and servicing of finance			(2,091)		(6,163)
Taxation:					
Corporation tax paid			(10,996)		(12,171)
Capital expenditure and financial investment:					
Purchase of tangible fixed assets		(9,331)		(38,195)	
Loan to joint ventures		—		(492)	
Sale of tangible fixed assets		458		1,341	
Capital contributions received		—		4,782	
Net cash outflow from capital expenditure and financial investment			(8,873)		(32,564)
Acquisitions and disposals:					
Investment in subsidiary undertakings		(20,384)		(4,442)	
Increase in investment in joint ventures		(864)		—	
Net cash acquired with subsidiary undertakings		995		—	
Disposal of subsidiary undertakings		21,958		—	
Net cash disposed with subsidiary undertakings		(2,927)		—	
Net cash outflow from acquisitions and disposals			(1,222)		(4,442)
Equity dividends paid			(7,686)		(11,683)
Financing:					
Issue of ordinary share capital		7,744		1,834	
Purchase of own shares		(8,447)		—	
Repayment of loan notes		(1,180)		(931)	
Capital element of finance lease and hire-purchase rental payments		(1,319)		(1,419)	
Net cash outflow from financing			(3,202)		(516)
Increase in cash			9,338		10,315

The accompanying notes are an integral part of these accounts.

Notes to the Cash Flow Statement

For the year ended 31 March 2005

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

	£'000	2005 £'000	£'000	2004 £'000
Total operating profit: Group and share of joint ventures		31,009		49,073
Amortisation of goodwill		10,406		7,215
		41,415		56,288
Exceptional costs - bad debt charge	2,787		—	
Exceptional costs - demerger of South Staffordshire businesses	(3,186)		(1,030)	
Exceptional costs - UITF 17 charge	—		2,400	
Depreciation and amortisation (non-infrastructure assets)	6,893		12,743	
Depreciation and amortisation (infrastructure assets)	—		5,485	
Loss/(profit) on disposal of assets	384		(547)	
		6,878		19,051
Share of operating (profit)/loss in joint ventures		(5)		564
Increase in stocks	(796)		(784)	
Increase in debtors	(17,827)		(12,494)	
Increase in creditors	13,743		15,229	
		(4,880)		1,951
Net cash inflow from operating activities		43,408		77,854

(b) Reconciliation of Movement in Net Funds/(Debt)

	2005 £'000	2004 £'000
Increase/(reduction) in cash	4,256	(295)
Decrease in bank overdraft	5,082	10,610
	9,338	10,315
Demerged companies	92,757	—
Disposed companies	605	—
Debt repayments	2,499	2,350
Assets purchased under finance leases	(476)	(527)
Index-linked bond	—	(2,524)
Decrease in net debt in year	104,723	9,614
Net debt brought forward	(93,507)	(103,121)
Net funds/(debt) carried forward	11,216	(93,507)

Notes to the Cash Flow Statement

For the year ended 31 March 2005

(c) Analysis of Net (Debt)/Funds

	Balance at 1 April 2004 £'000	Cash flow £'000	Acquisitions and disposals £'000	Other non cash changes £'000	Balance at 31 March 2005 £'000
Cash at bank and in hand and bank overdraft	2,218	9,338	—	—	11,556
Irredeemable debenture stock	(1,633)	—	—	1,633	—
Index-linked bond	(87,941)	—	—	87,941	—
Obligations under finance leases and hire-purchase contracts	(4,661)	1,319	605	2,707	(30)
Loan notes	(1,490)	1,180	—	—	(310)
Net (debt)/funds	(93,507)	11,837	605	92,281	11,216

Other non cash changes principally result from the demerger of the Water Suppy operation on 6 April 2004.

(d) Analysis of Cash Flows

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

			2005			2004
	Continuing Operations £'000	Discontinued Operations £'000	Total £'000	Continuing Operations £'000	Discontinued Operations £'000	Total £'000
Net cash inflow from:						
Operating activities	42,923	485	43,408	35,737	42,117	77,854
Returns on investment and servicing of finance	(1,579)	(512)	(2,091)	(1,462)	(4,701)	(6,163)
Taxation	(10,247)	(749)	(10,996)	(8,511)	(3,660)	(12,171)
Capital expenditure and financial investment	(7,789)	(1,084)	(8,873)	(3,860)	(28,704)	(32,564)
Acquisitions and disposals	(1,222)	—	(1,222)	(4,442)	—	(4,442)
Equity dividends paid	(7,686)	—	(7,686)	(11,683)	—	(11,683)
Financing	(2,121)	(1,081)	(3,202)	(580)	64	(516)
Increase/(decrease) in cash	12,279	(2,941)	9,338	5,199	5,116	10,315

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 with the exception of the policy for the accounting for the ESOP trust which is explained in note 15.

(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

Turnover in respect of the Policy Membership businesses include 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 the Emergency Repair and Commercial Outsourcing businesses 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 has been 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, operational structures 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.

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

Notes to the Accounts

(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

	Continuing Operations £'000	Acquisitions £'000	Discontinued Operations £'000	2005 Total £'000	Continuing Operations £'000	Discontinued Operations £'000	2004 Total £'000
Homeserve domestic							
- Policy Membership	129,794	778	—	130,572	100,337	—	100,337
- Emergency Repair	85,396	14,847	—	100,243	73,079	—	73,079
Inter-division	(7,729)	—	—	(7,729)	(4,180)	—	(4,180)
	207,461	15,625	—	223,086	169,236	—	169,236
Commercial Outsourcing	—	—	59,537	59,537	—	111,666	111,666
Inter-division	—	—	(494)	(494)	—	(18,374)	(18,374)
	—	—	59,043	59,043	—	93,292	93,292
Regulated water supply	—	—	1,136	1,136	—	60,427	60,427
Total turnover	207,461	15,625	60,179	283,265	169,236	153,719	322,955
Share of joint ventures							
- Policy Membership	(2,375)	—	—	(2,375)	(1,147)	—	(1,147)
- Commercial Outsourcing	—	—	—	—	—	(4,173)	(4,173)
Group turnover	205,086	15,625	60,179	280,890	168,089	149,546	317,635

Profit Before Tax

	Continuing Operations £'000	Acquisitions £'000	Discontinued Operations £'000	2005 Total £'000	Continuing Operations £'000	Discontinued Operations £'000	2004 Total £'000
Homeserve domestic							
- Policy Membership	37,146	363	—	37,509	29,701	—	29,701
- Emergency Repair	4,661	188	—	4,849	2,683	—	2,683
	41,807	551	—	42,358	32,384	—	32,384
Commercial Outsourcing	—	—	1,683	1,683	—	9,282	9,282
Regulated water supply	—	—	161	161	—	17,022	17,022
	41,807	551	1,844	44,202	32,384	26,304	58,688
Amortisation of goodwill	(8,624)	(697)	(1,085)	(10,406)	(5,574)	(1,641)	(7,215)
Exceptional operating costs	(2,787)	—	—	(2,787)	(2,400)	—	(2,400)
Total operating profit	30,396	(146)	759	31,009	24,410	24,663	49,073
Net interest payable	(342)	(1)	(140)	(483)	113	(7,130)	(7,017)
Loss on disposal of subsidiaries	—	—	(39,149)	(39,149)	—	—	—
Cost of fundamental reorganisation	—	—	—	—	(4,216)	—	(4,216)
Profit/(loss) before tax	30,054	(147)	(38,530)	(8,623)	20,307	17,533	37,840

Within Homeserve domestic - Policy Membership, acquisitions include the results of Principal Choice (turnover £778,000 and operating profit £363,000).

Within Homeserve domestic - Emergency Repair, acquisitions include Disaster Restoration Limited (turnover £1,990,000 and operating profit £72,000) and Sergon BRM Limited (turnover £12,857,000 and operating profit £116,000).

In 2005 the exceptional costs of £2,787,000 are in respect of a provision for bad and doubtful debts and relate to the Homeserve domestic - Policy Membership business.

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

Notes to the Accounts

Net Operating Assets

	2005 £'000	2004 £'000
Homeserve domestic		
- Policy Membership	(919)	1,868
- Emergency Repair	9,424	10,603
Holding companies/Commercial Outsourcing	8,667	23,008
Support services	17,172	35,479
Regulated water supply	—	132,792
	17,172	168,271
Net funds/(debt)	11,216	(93,507)
Deferred consideration	(5,309)	(10,000)
Goodwill	154,008	108,223
Proposed dividend	(6,830)	(10,506)
Corporation tax	(9,037)	(9,014)
Provisions for liabilities and charges	(939)	(10,301)
Net assets	160,281	143,166

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

3 Demerger of South Staffordshire Plc and Related Transactions

On 6 April 2004 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 domestic division in a share for share exchange resulting in the issue of 11,600,000 new shares in the Company.

The results of the demerged businesses have been reported within discontinued operations for the year ended 31 March 2005 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 total costs of completing these transactions amounted to £4,216,000 and were accrued in full at 31 March 2004 and were 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 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 was incurred as a consequence of the decision to acquire the minority interest in the Homeserve domestic division. 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.

4 Operating Costs

	Continuing Operations £'000	Discontinued Operations £'000	2005 Total £'000	Continuing Operations £'000	Discontinued Operations £'000	2004 Total £'000
Other operating income	—	—	—	—	(436)	(436)
Raw materials and consumables	28,238	20,144	48,382	19,776	30,922	50,698
Staff costs (note 5)	63,421	23,822	87,243	53,476	45,083	98,559
Depreciation (infrastructure assets)	—	—	—	—	5,485	5,485
Depreciation (non-infrastructure assets)	4,739	2,154	6,893	3,184	9,818	13,002
Amortisation of goodwill	9,321	1,085	10,406	5,574	1,641	7,215
Other operating costs	84,747	12,215	96,962	61,412	32,063	93,475
	190,466	59,420	249,886	143,422	124,576	267,998

Other operating costs for 2005 include exceptional costs of £2,787,000 within continuing operations as described in note 2.

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

Other operating costs include £4,013,000 (2004: £4,497,000) in respect of operating lease rentals which relate principally to land and buildings and motor vehicles.

Operating costs in respect of the major acquisitions include:

	Principal Choice £'000	Disaster Restoration Ltd £'000	Sergon BRM Ltd £'000	Total £'000
Raw materials and consumables	148	1,681	25	1,854
Manpower costs	214	151	676	1,041
Depreciation	—	23	40	63
Other operating costs	53	63	12,000	12,116
	415	1,918	12,741	15,074

Auditors' remuneration comprised:

	2005 £'000	2004 £'000
Audit services:		
Statutory audit	135	190
Audit related regulatory reporting	10	88
Further assurance services:		
Advice on accounting matters	27	—
Reporting accountant	—	432
Tax services:		
Compliance	35	62
Advisory	129	165
	336	937

Included within further assurance services and tax advisory services are amounts of £nil (2004: £582,000) in respect of the demerger and related transactions.

The audit fee relating to the Company is £14,000 (2004: £12,000).

Notes to the Accounts

5 Staff Costs

	2005 £'000	2004 £'000
Wages and salaries	77,362	86,831
Social security costs	8,208	8,863
Pension costs	1,673	2,865
	87,243	98,559

Average number of employees

	2005 Continuing Operations	2005 Acquisitions	2005 Discontinued Operations	2005 Total	2004 Continuing Operations	2004 Discontinued Operations	2004 Total
Homeserve domestic							
- Policy Membership	1,054	—	—	1,054	713	—	713
- Emergency Repair	1,758	24	—	1,782	1,609	—	1,609
Commercial Outsourcing	—	—	890	890	—	1,269	1,269
Support services	2,812	24	890	3,726	2,322	1,269	3,591
Regulated water supply	—	—	—	—	—	337	337
	2,812	24	890	3,726	2,322	1,606	3,928

6 Directors' Emoluments

	2005 £'000	2004 £'000
Emoluments	2,255	1,523
Contributions to money purchase pension schemes	379	252
Value of shares vested under restricted share plan	—	171
Gain on exercise of SAYE options	—	13

The emoluments of the directors are analysed in the Remuneration Report. There were three directors accruing benefits under defined benefit schemes and five directors accruing benefits under money purchase schemes (2004: five and five respectively).

The highest paid director received emoluments of £601,000 (2004: £408,000). He is a member of a defined benefit pension scheme which provided for accrued pension of £12,400 (2004: £10,800) and accrued lump sum of £37,100 (2004: £32,300) at 31 March 2005. In addition, the cost of providing benefits under the South Staffordshire Group Funded Unapproved Retirement Benefit Scheme on his behalf was £283,000 (2004: £162,000).

7 Net Interest Payable

	2005 Continuing Operations £'000	2005 Discontinued Operations £'000	2005 Total £'000	2004 Continuing Operations £'000	2004 Discontinued Operations £'000	2004 Total £'000
Interest payable and similar charges:						
Index-linked bond	—	—	—	—	5,843	5,843
Bank overdraft and other interest	852	48	900	197	829	1,026
Finance charges in respect of finance leases and hire-purchase contracts	5	92	97	—	393	393
Debentures	—	—	—	—	67	67
Share of joint venture interest payable/(receivable)	22	—	22	34	(1)	33
	879	140	1,019	231	7,131	7,362
Interest receivable on short-term deposits	(536)	—	(536)	(344)	(1)	(345)
	343	140	483	(113)	7,130	7,017

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, acquisitions and discontinued operations accordingly.

8 Taxation

	Continuing Operations	Acquisitions	Discontinued Operations	2005 Total	Continuing Operations	Discontinued Operations	2004 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK corporation tax	12,474	46	512	13,032	10,244	3,915	14,159
Adjustment in respect of prior years	137	—	—	137	(116)	221	105
	12,611	46	512	13,169	10,128	4,136	14,264
Deferred tax							
Origination and reversal of timing differences	(418)	(6)	(65)	(489)	(2)	1,565	1,563
Increase in discount	133	—	—	133	—	(266)	(266)
Adjustment in respect of prior years	(179)	—	55	(124)	—	(318)	(318)
	(464)	(6)	(10)	(480)	(2)	981	979
	12,147	40	502	12,689	10,126	5,117	15,243

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

The principal differences between the total current tax shown above and the amount calculated by applying the standard rate of corporation tax are as follows:

	2005 £'000	2004 £'000
Tax on (loss)/profit at standard rate of corporation tax	(2,587)	11,352
Exceptional costs not deductible for tax purposes	11,745	1,248
Goodwill not deductible for tax purposes	2,966	2,119
Overseas losses not deductible for tax purposes	270	112
Other expenses not deductible for tax purposes	149	690
Depreciation in excess of capital allowances/(capital allowances in excess of depreciation)	489	(1,362)
Adjustments in respect of prior years	137	105
Current corporation tax charge for the year	13,169	14,264

9 Dividends Paid and Proposed

	2005 £'000	2004 £'000
Equity interests		
Interim dividend paid of 5.1p (2004: 6.1p) per share	3,203	3,859
Proposed dividend of 10.9p (2004: 13.9p) per share	6,830	8,874
	10,033	12,733

A nominal dividend of 0.01 pence per share is proposed in respect of 1,191,314 shares held by the Homeserve Employee Trust in accordance with a Deed of Waiver dated 31 December 1992.

Due to the demerger, £4.5m of the final dividend in 2004 was 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 were 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.

10 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.

The underlying 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 the underlying performance by the Company.

Notes to the Accounts

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

	2005 Continuing Operations including acquisitions £'000	2005 Total £'000	2004 Continuing Operations £'000	2004 Total £'000
Profit/(loss) for the financial year	17,720	(21,312)	9,842	22,258
Amortisation of goodwill				
- total	9,321	10,406	5,574	7,215
- relating to minority shareholders	—	—	(1,423)	(1,423)
Loss on disposal of subsidiary undertakings	—	39,149	—	—
Exceptional cost - bad debt charge	2,787	2,787	—	—
Exceptional UITF 17 charge	—	—	2,400	2,400
Fundamental reorganisation	—	—	4,216	4,216
Exceptional credit - minority interest	—	—	(2,400)	(2,400)
Tax impact arising on exceptional items	(836)	(836)	—	—
Profit for adjusted earnings per share	28,992	30,194	18,209	32,266

Weighted average number of shares

	2005 Adjusted earnings per share	2005 Statutory earnings per share	2004 Adjusted earnings per share	2004 Statutory earnings per share
For basic and adjusted earnings per share	62,061,890	62,061,890	63,208,359	63,208,359
Exercise of share options	—	1,175,536	523,564	523,564
For diluted earnings per share	62,061,890	63,237,426	63,731,923	63,731,923

In the current year, the exercise of share options is non-dilutive for statutory purposes.

11 Goodwill

	Group £'000
Cost	
At 1 April 2004	124,377
Adjustments	1,020
Additions	81,656
Disposals	(32,840)
At 31 March 2005	174,213
Amortisation	
At 1 April 2004	16,154
Charge for the year	10,406
Disposals	(6,355)
At 31 March 2005	20,205
Net Book Value	
At 31 March 2005	154,008
At 31 March 2004	108,223

At 31 March 2005 the cumulative amount of goodwill written off directly to reserves amounted to £nil (2004: £11,409,000).

Adjustments relate to the additional deferred consideration payable on the acquisition of Homeserve Emergency Services Ltd in 2002.

Additions to goodwill relate to the acquisitions in the year of £81,349,000 identified in note 26 and the purchase of a franchise at Homeserve Emergency Services Ltd amounting to £307,000.

12 Tangible Fixed Assets

	Land and Buildings £'000	Infra-structure Assets £'000	Operational Structures £'000	Fixed Plant £'000	Mobile Plant & Equipment £'000	Total £'000
Cost						
At 1 April 2004	30,839	114,531	26,877	66,553	92,729	331,529
Additions	1,648	—	—	—	8,159	9,807
Acquisition of subsidiary undertakings	23	—	—	—	244	267
Disposal of subsidiary undertakings	(3,545)	—	—	—	(24,419)	(27,964)
Demerger	(17,230)	(114,531)	(26,877)	(66,553)	(46,430)	(271,621)
Disposals	(134)	—	—	—	(3,169)	(3,303)
At 31 March 2005	11,601	—	—	—	27,114	38,715
Depreciation						
At 1 April 2004	4,193	65,006	4,844	24,639	46,605	145,287
Charge for the year	624	—	—	—	6,269	6,893
Disposal of subsidiary undertakings	(717)	—	—	—	(15,994)	(16,711)
Demerger	(2,704)	(65,006)	(4,844)	(24,639)	(20,214)	(117,407)
Disposals	(40)	—	—	—	(2,421)	(2,461)
Provision for loss on disposal of fixed assets	—	—	—	—	501	501
At 31 March 2005	1,356	—	—	—	14,746	16,102
Net Book Value						
At 31 March 2005						
Owned	9,860	—	—	—	12,341	22,201
Leased	385	—	—	—	27	412
	10,245	—	—	—	12,368	22,613
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
	26,646	49,525	22,033	41,914	46,124	186,242

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 14 below.

Tangible fixed assets financed by leasing and hire-purchase amounted to £989,000 (2004: £14,816,000) less accumulated depreciation of £577,000 (2004: £5,392,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £11,000 (2004: £1,269,000). Tangible fixed assets include freehold land of £618,000 (2004: £2,085,000) which is not subject to depreciation.

13 Capital Commitments

Capital commitments outstanding at 31 March 2005 were £4,113,000 (2004: £3,728,000).

Notes to the Accounts

14 Capital Contributions

	Group	
	Infrastructure Assets **£'000**	Other Assets **£'000**
Balance at 1 April 2004	56,282	4,554
Demerger	(56,282)	(4,554)
Balance at 31 March 2005	—	—

Capital contributions in respect of other assets are included in accruals and deferred income (note 23).

15 Investments

	Company		
	Shares in subsidiary undertakings **£'000**	Loans to subsidiary undertakings **£'000**	Total (Restated) **£'000**
Cost and net book value			
At 1 April 2004	24,003	10,000	34,003
Additions	2,114	—	2,114
Disposals	(17,641)	—	(17,641)
At 31 March 2005	8,476	10,000	18,476

The additions in the year relate to the purchase of the minority interest in Homeserve Assistance Ltd. The disposals relate to the demerger of the Water Supply operation.

Following the adoption of UITF 38 - Accounting for ESOP trusts, the Company's investment in its own shares is now reported as a reduction in shareholders' funds. As the net book value of such shares at 31 March 2004 was £nil, no restatement of the balance sheet is required. In addition, there was no impact on the consolidated profit and loss account or consolidated cash flow statement.

During the year, the Company purchased 1,188,000 shares for cash consideration of £7,973,000 through the Homeserve Employee Trust and 70,411 shares for cash consideration of £474,000 for the Share Incentive Plan.

At 31 March 2005 the Trust held 1,191,314 shares in the Company (2004: 4,143; 3,314 after the share consolidation) 814 of which were unallocated. The market value of the shares at 31 March 2005 was £10,632,477 (2004: £25,977). As stated in note 9, dividends have been waived by the Trust. Any costs of administration are included in the profit and loss account as they accrue.

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

	Proportion of Shares Held Direct	Indirect	Nature of Business
Intermediate Holding Companies			
Homeserve Enterprises Ltd	100%		Intermediate holding company
Homeserve Assistance Ltd	25%	75%	Intermediate holding company
Homeserve Retail Warranties Ltd (formerly Regency Financial Holdings Ltd)		100%	Intermediate holding company
Policy Membership			
Homeserve GB Ltd (formerly Home Service (GB) Ltd)		100%	Plumbing, heating and electrical home assistance
Homeserve Warranties Ltd (formerly Regency Warranties Ltd)		100%	Furniture warranties & repairs
Domeo S.A.		49%	Plumbing home assistance joint venture registered in France
Home Service USA Corp		100%	Plumbing home assistance registered in USA
Home Service Direct Pty Ltd		100%	Plumbing home assistance registered in Australia
Affinity Partners Ltd		100%	Insurance captive registered in Guernsey
Emergency Repair			
Homeserve Claims Management Ltd (formerly Home Hotline Ltd)		100%	Claims handling
Homeserve Emergency Services Ltd (formerly Highway Emergency Services Ltd)		100%	Emergency glazing, door repair, plumbing and drains
Homeserve at Home Ltd (formerly Regency at Home Ltd)		100%	Furniture repairs
Homeserve Servowarm Ltd (formerly Servowarm Ltd)		100%	Warranties service and repair for domestic boilers
Homeserve Sergon Ltd (formerly Sergon BRM Ltd)		100%	Building repair and maintenance

Name changes were effective on 18 April 2005.

16 Stocks

	Group 2005 £'000	Group 2004 £'000
Stores and raw materials	123	4,498
Work in progress	662	1,904
Finished goods	1,200	485
	1,985	6,887

17 Debtors

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts recoverable within one year				
Trade debtors	54,017	62,802	1,292	—
Other debtors	31,256	21,174	207	113
Amounts owed by joint ventures - loans	652	629	—	—
Amounts owed by Group undertakings	—	—	117,268	121,223
Prepayments and accrued income	2,626	5,470	337	70
	88,551	90,075	119,104	121,406
Amounts recoverable after more than one year				
Other debtors	5	146	—	—
	88,556	90,221	119,104	121,406

Notes to the Accounts

18 Borrowings

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts falling due within one year				
Bank loans and overdrafts	3,197	8,279	52,085	40,063
Obligations under finance leases and hire purchase contracts	30	1,586	—	—
Loan notes	310	1,490	—	—
	3,537	11,355	52,085	40,063

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts falling due after more than one year				
Index-linked bonds	—	87,941	—	—
Irredeemable debenture stock (note 20)	—	1,633	—	—
Obligations under finance leases and hire-purchase contracts:				
Payable between one and two years	—	1,386	—	—
Payable between two and five years	—	1,689	—	—
	—	92,649	—	—

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

19 Other Creditors

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts falling due within one year				
Trade creditors	35,043	51,305	1,242	—
Payments received in advance	208	7,410	—	—
Amounts owed to group undertakings	—	—	3,465	4,587
Other creditors	43,357	34,075	2,491	6,717
Deferred consideration in respect of acquisitions	888	5,862	—	—
Proposed dividends	6,830	8,874	6,830	4,494
Proposed dividends payable to minority interests	—	1,632	—	—
Corporation tax payable	9,037	9,014	645	246
Other taxation and social security	2,265	2,737	151	140
	97,628	120,909	14,824	16,184

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts falling due after more than one year				
Deferred consideration in respect of acquisitions	4,421	4,138	—	—
	4,421	4,138	—	—

20 Irredeemable Debenture Stock

	Group 2005 £'000	Group 2004 £'000
3½%	—	476
4%	—	627
5%	—	500
	—	1,603
Net premium on irredeemable debenture stock	—	30
	—	1,633

21 Provisions for Liabilities and Charges

	Group		
	Deferred tax £'000	Share of joint venture net liabilities £'000	Total £'000
At 1 April 2004	9,627	674	10,301
Profit and loss account charge	(480)	17	(463)
Demerged/disposed companies	(8,603)	(369)	(8,972)
Acquisitions	(33)	106	73
At 31 March 2005	511	428	939

The Group's share of gross assets and gross liabilities in joint ventures was £2,312,000 (2004: £1,518,000) and £2,740,000 (2004: £2,192,000) respectively.

An analysis of deferred tax is set out in note 22.

22 Deferred Tax

	Group 2005 £'000	Group 2004 £'000
Deferred tax is provided as follows:		
Accelerated capital allowances	698	17,756
Other timing differences	(60)	(67)
Undiscounted provision for deferred tax	638	17,689
Discount	(127)	(8,062)
Discounted provision for deferred tax	511	9,627

There is no deferred tax liability in the Company.

There is unprovided deferred tax of £nil (2004: £525,000) in respect of capital gains which have been rolled over against the cost of other assets held by the Group.

Notes to the Accounts

23 Accruals and Deferred Income

	Group	
	2005 £'000	**2004 £'000**
Capital contributions (note 14)	—	4,554
Other deferred income	15,109	14,998
	15,109	19,552

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

24 Called up Share Capital

	2005 £'000	**2004 £'000**
Authorised		
88,000,000 Ordinary shares of 10p each	—	8,800
70,400,000 Ordinary shares of 12.5p each	8,800	—
Issued and fully paid		
63,901,000 Ordinary shares of 12.5p each (2004: 63,666,000 Ordinary shares of 10p each)	7,988	6,366

	Ordinary Share Capital **£'000**	Share Premium **£'000**
Balance at 1 April 2004	6,366	18,902
Shares issued in the year	1,621	7,573
Transfer from profit and loss reserve	—	101
Balance at 31 March 2005	7,987	26,576

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.

On 6 April 2004 the Company issued 11,600,000 ordinary shares of 12.5p each in a share for share exchange in order to acquire the 24.98% minority shareholding in the original Homeserve business. In accordance with s131 of the Companies Act 1985 this transaction was recorded by the Company at the nominal value of the shares issued.

During the year the Company through the Homeserve Employee Trust, purchased 1,188,000 ordinary shares of 12.5p each. The average price paid per share was £6.66, and amounted to a total of £7,973,000. These shares were purchased to satisfy the exercise of share options in the future. The Company also purchased 70,411 ordinary shares of 12.5p each for the Share Incentive Plan. The average price paid per share was £6.68, and amounted to a total of £474,000.

During the year 299,612 Save As You Earn (SAYE) scheme options were exercised for which external consideration of £1,516,000 was received, including a share premium of £1,478,000. 1,068,378 Executive Share Option Plan (ESOP) options were also exercised for which external consideration of £6,330,000 was received, including a share premium of £6,196,000.

Options

Details of outstanding share options are shown below:

	Date of Grant	Date Exercisable	Number of Shares	Exercise Price
SAYE Scheme	22.12.99	1.2.05	3,375	£3.00
	21.12.00	1.2.06	41,594	£3.28
	16.1.02	1.2.05	478	£4.76
	16.1.02	1.2.07	17,445	£4.76
	10.12.02	1.2.06	60,620	£4.66
	10.12.02	1.2.08	87,208	£4.66
	30.12.04	1.3.08	188,186	£5.43
	30.12.04	1.3.10	132,053	£5.43
ESOP	3.6.98	3.6.01	162,500	£3.665
	30.7.99	30.9.02	50,000	£4.075
	23.6.00	23.6.03	87,500	£3.775
	30.11.00	30.11.03	8,600	£4.100
	17.7.01	17.7.04	262,500	£5.500
	9.1.02	9.1.05	10,000	£5.915
	8.7.02	8.7.05	289,500	£5.915
	13.11.02	13.11.05	36,000	£4.660
	1.7.03	1.7.06	611,000	£4.700
	30.9.03	30.9.06	15,000	£5.375
	27.5.04	27.5.07	759,000	£6.610
	18.8.04	18.8.07	50,000	£5.950

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.

25 Reserves

	Merger reserve Group **£'000**	Profit and Loss Group **£'000**	Own shares Group and Company **£'000**	Profit and Loss Company **£'000**
Balance at 1 April 2004	—	110,532	—	72,694
Goodwill previously written off to reserves	—	11,409	—	—
Increase in merger reserve	70,992	—	—	—
Purchase of own shares	—	—	(8,447)	—
Transfer to share premium reserve	—	(101)	—	—
Retained loss for the year	—	(59,867)	—	(29,339)
Balance at 31 March 2005	70,992	61,973	(8,447)	43,355

As provided by s230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company's loss for the financial year was £875,000 (2004: profit of £6,204,000).

26 Acquisitions and disposals

During the year, the Group acquired the entire issued share capital of Disaster Restoration Ltd and Sergon BRM Ltd and certain of the trade and assets of Principal Choice Ltd. In addition, the Group acquired the remaining 24.98% minority interest in the Homeserve domestic businesses. Finally, the Group increased its investment in the existing joint venture, Domeo S.A., acquiring 9% of the issued share capital from the joint venture partner. Details of the consideration, the fair value of the assets and liabilities acquired and any adjustments thereto and the goodwill on these acquisitions are set out below. The acquisition method of accounting has been adopted in all cases.

	Minority Interest	Principal Choice	Disaster Restoration Ltd	Domeo S.A.	Sergon BRM Ltd	Total
Date acquired:	6 Apr 2004	28 May 2004	29 Jul 2004	29 Nov 2004	21 Dec 2004	
Acquired by:	Homeserve plc	Homeserve GB Ltd	Homeserve at Home Ltd	Homeserve International Ltd	Homeserve Assistance Ltd	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Consideration:						
Cash including acquisition expenses	664	1,394	750	864	11,408	15,080
Issue of shares	72,442	—	—	—	—	72,442
Deferred consideration payable in cash	—	150	—	—	—	150
	73,106	1,544	750	864	11,408	87,672
Fair value of net assets:						
Tangible fixed assets	—	—	87	—	180	267
Cash at bank and in hand	—	105	—	—	890	995
Other net current assets/(liabilities)	—	(97)	410	(105)	(1,313)	(1,105)
Minority interests	6,166	—	—	—	—	6,166
	6,166	8	497	(105)	(243)	6,323
Goodwill on acquisition	66,940	1,536	253	969	11,651	81,349

Except in respect of Sergon BRM Ltd, the above fair values are equal to the book values at the date of acquisition.

Fair value adjustments of £274,000 were made on the acquisition of Sergon BRM Ltd in order to align the accounting policy in respect to revenue recognition.

In addition, a franchise was purchased by Homeserve Emergency Services Ltd giving rise to goodwill of £307,000.

Goodwill is being amortised over its estimated useful life of up to 20 years.

A summarised profit and loss account in respect of the substantial acquisition is set out below:

Period to acquisition	Sergon BRM Ltd 1.01.04 to 21.12.04 **£'000**
Turnover	40,474
Operating profit	763
Net interest receivable	43
Profit before taxation	806
Taxation	(242)
Profit after taxation	564

The profit after taxation from 1 April 2004 to 29 July 2004 for Disaster Restoration Ltd was £44,000.

Previous financial period	Disaster Restoration Ltd Year ended 31 Mar 2004 **£'000**	Sergon BRM Ltd Year ended 31 Dec 2003 **£'000**
(Loss)/profit before taxation	(87)	506
Taxation	12	(156)
(Loss)/profit after taxation	(75)	350

As only certain of the trade and net assets of Principal Choice were acquired, it is not possible to identify the profit after tax of Principal Choice prior to the date of acquisition.

There were no material recognised gains and losses in the periods above other than the profit on ordinary activities after taxation.

The net cash outflow and increase in net debt in respect of the acquisitions comprised:

	£'000
Cash consideration	(15,080)
Less cash balances acquired	995
	(14,085)

The consolidated cash flow statement for the year ended 31 March 2005 includes operating cash inflows with respect to Sergon BRM Ltd of £552,000. The operating cashflows of Principal Choice and Disaster Restoration Ltd are included within the results of existing Group undertakings and are not separately identifiable.

The following disposals were made during the year:

	South Staffordshire Businesses	Mail Solutions Ltd	Onsite South Ltd	Doorman Services Ltd	Middleton Maintenance Services Ltd	Onsite Central Ltd	
	6 Apr 2004	23 Jul 2004	24 Aug 2004	31 Jan 2005	22 Mar 2005	23 Mar 2005	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Tangible fixed assets	154,214	5,889	1,562	942	823	2,037	165,467
Stocks	1,047	1,413	16	564	1,756	902	5,698
Debtors	8,820	4,559	2,002	—	5,759	3,647	24,787
Cash/(overdraft)	(1,301)	441	1,100	950	(318)	2,055	2,927
Other net assets/(liabilities)	(134,258)	(4,936)	(585)	(92)	(6,186)	(4,616)	(150,673)
Net assets disposed of	28,522	7,366	4,095	2,364	1,834	4,025	48,206
Related goodwill	—	13,215	5,052	6,000	6,271	7,356	37,894
Disposal costs	—	87	56	1,112	248	301	1,804
Consideration	—	(7,368)	(3,000)	(6,618)	(1,200)	(4,234)	(22,420)
Dividend in specie/loss on disposal of business	28,522	13,300	6,203	2,858	7,153	7,448	65,484
Net cash inflows/(outflows) in respect of the disposals comprised							
Cash consideration	—	7,368	3,000	6,618	1,200	4,234	22,420
Cash at bank and in hand disposed	—	(441)	(1,100)	(950)	—	(2,055)	(4,546)
Bank overdraft disposed	1,301	—	—	—	318	—	1,619
	1,301	6,927	1,900	5,668	1,518	2,179	19,493
Profit/(loss) before tax in period to disposal	81	(1)	16	157	1,248	1,242	2,743

The disposal of the South Staffordshire businesses was by way of a dividend in specie. The disposal of the other businesses gave rise to an exceptional loss on disposal of £36,962,000. In addition, a provision amounting to £2,187,000 has been recognised in respect of further costs and asset write downs that are expected to be incurred in relation to the disposal and termination of the Commercial Outsourcing businesses. As a result, the total loss in relation to the disposal of these businesses amounts to £39,149,000. There has been no impact on the corporation tax charge of this exceptional loss. Of the related goodwill of £37,894,000, £11,409,000 was previously written off directly to reserves.

Operating costs of £1,039,000 relating to the disposed businesses have been included within discontinued activities.

27 Operating Lease Commitments

Annual commitments under non cancellable operating leases are as follows:

	Group			
		2005		**2004**
	Land and buildings **£'000**	Other **£'000**	Land and Buildings **£'000**	Other **£'000**
Leases which expire:				
Within one year	244	536	381	887
Between two and five years	293	1,395	716	2,169
After five years	717	—	290	—
	1,254	1,931	1,387	3,056

28 Financial Instruments

The Group's financial instruments included below comprise cash balances, 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

	2005 £'000	2004 £'000
Retail Price Index-linked bonds	—	(87,941)
Fixed rate financial liabilities	(30)	(6,294)
Floating rate financial liabilities	(3,507)	(9,769)
Floating rate financial assets	14,753	10,497
	11,216	(93,507)
Financial liabilities on which no interest is paid	(4,421)	(4,138)
	6,795	(97,645)

For all debt, assets and liabilities, the book values and fair values are not materially different, except for the index linked bond which at 31 March 2004 had a fair value of £99,634,000.

	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
2005			
Sterling	15.0	1.0	1.1
2004			
Sterling	7.3	3.0	1.1

The floating rate financial assets and 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:

	2005 £'000	2004 £'000
In one year or less, on demand	3,537	11,355
In more than one year, but not more than two	4,421	1,386
In more than two years, but not more than five	—	5,827
In more than five years	—	—
In more than twenty years	—	89,574
	7,958	108,142

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 met at that date were as follows:

	2005 £'000	2004 £'000
Expiring in one year or less	25,450	34,350
Expiring in more than one year but not more than two years	—	20,000
Expiring in more than two years	70,000	—
	95,450	54,350

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 2005 was £575,000 (2004: £1,890,000) representing an employer's contribution rate of 16.3%. The amount charged to the profit and loss account for the various defined contribution schemes in 2005 was £1,098,000 (2004: £975,000).

Changes to pension arrangements following the demerger

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

Active members employed in the Homeserve group have been transferred into the new fund, as were deferred members. All pensioners at 6 April 2004 remained in the existing South Staffordshire Water sub-fund. 68 active members were 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 was carried out on an ongoing funding basis as at 30 November 2003. This resulted 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.

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 fourth year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in due course.

The actuarial valuation described above has been updated at 31 March 2005 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:

	31 March 2005	31 March 2004	31 March 2003
Rate of increase in salaries	4.9%	4.9%	4.5%
Rate of increase in pensions	2.9%	2.9%	2.5%
Discount rate	5.4%	5.5%	5.6%
Inflation	2.9%	2.9%	2.5%

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:

		2005		2004		2003
	Expected rate of return per annum %	Valuation £'000	Expected rate of return per annum %	Valuation £'000	Expected rate of return per annum %	Valuation £'000
Equities	7.7	7,220	7.9	52,756	7.5	38,702
Bonds/gilts	—	—	4.7	66,989	4.5	61,050
Corporate bonds	—	—	—	—	5.6	5,046
Property	—	—	—	—	6.0	1,172
Cash	4.7	78	4.6	(603)	3.8	4,116
Market value of assets		7,298		119,142		110,086
Present value of scheme liabilities		(9,854)		(131,586)		(121,186)
Deficit in the scheme		(2,556)		(12,444)		(11,100)
Related deferred tax asset		767		3,733		3,330
Deficit after deferred tax		(1,789)		(8,711)		(7,770)

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

	2005 £'000	2004 £'000
Amounts included within operating profit:		
Current service cost	437	3,198
Past service cost	(220)	—
	217	3,198
Amounts included as other finance income:		
Expected return on scheme assets	462	6,051
Interest on scheme liabilities	(457)	(6,716)
Credit/(charge)	5	(665)

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

	2005 £'000	2004 £'000
Actual return less expected return on scheme assets	208	6,899
Experience gain on scheme liabilities	107	3,727
Effect of changes in assumptions relating to the present value of scheme liabilities	(685)	(9,982)
Actuarial (loss)/gain	(370)	644

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

	2005 £'000	2004 £'000
Deficit in the scheme brought forward	(12,444)	(11,100)
Demerged Water business	10,109	—
Current service cost	(558)	(3,238)
Contributions	482	1,915
Past service cost	220	—
Finance credit/(charge)	5	(665)
Actuarial (loss)/gain	(370)	644
Deficit in the scheme carried forward	(2,556)	(12,444)

The impact of FRS 17, if implemented in full throughout the financial year, would have been to decrease the amount charged to the profit and loss account by £363,000 (2004: increase 1,973,000) and to reduce the reserves of the Group at 31 March 2005 by £1,789,000 (2004: 8,711,000) from £61,973,000 (2004: 110,532,000) to £60,184,000 (2004: 101,821,000).

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

	2005		2004		2003	
	% of scheme assets/(liabilities)	£'000	% of scheme assets/(liabilities)	£'000	% of scheme assets/(liabilities)	£'000
Actual return less expected return on scheme assets	3	208	6	6,899	(14)	(15,200)
Experience gains on scheme liabilities	1	107	3	3,727	1	1,000
Actuarial (loss)/gain	(4)	(370)	—	644	(20)	(24,700)

30 Post Balance Sheet Event

Subsequent to the year end, the Group acquired Chem-Dry UK Limited and its related businesses for a cash consideration of £18,900,000 on a debt free basis.

31 Related Party Transactions

During the year, the Group purchased transport services from Harpin Ltd, a company controlled by Richard Harpin. The total value of purchases amounted to £110,000 (2004: £85,000) and the balance due to Harpin Ltd at the year end amounted to £8,000 (2004: £1,000) and is included in trade creditors.

Five Year Summary

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Continuing operations					
Turnover					
Policy Membership	130,572	100,337	81,434	56,401	43,393
Emergency Repair	100,243	73,079	43,450	6,504	4,144
Inter-division	(7,729)	(4,180)	(3,617)	(2,624)	(2,021)
	223,086	169,236	121,267	60,281	45,516
Operating profit					
Policy Membership	37,509	29,701	22,283	13,422	10,424
Emergency Repair	4,849	2,683	1,714	695	375
Total operating profit	42,358	32,384	23,997	14,117	10,799
Net interest (payable)/receivable	(343)	113	75	77	18
Profit before tax (excluding goodwill and exceptional costs)	42,015	32,497	24,072	14,194	10,817
Goodwill	(9,321)	(5,574)	(4,550)	(256)	(256)
Exceptional operating costs	(2,787)	(6,616)	—	—	—
Profit before tax	29,907	20,307	19,522	13,938	10,561

Shareholder Analysis

As at 31 March 2005

Number of Shares	Number of Shareholders	% of Total Shareholders	% of Shares
1–1,000	1,230	55.8	0.7
1,001–10,000	725	32.9	3.5
10,001–500,000	227	10.3	34.2
500,001–1,000,000	12	0.5	12.5
over 1,000,000	11	0.5	49.1
	2,205	100.0	100.0

Unit trusts	34.9
Private investors	34.0
Other	10.4
Pension funds	8.6
Insurance companies	7.7
Other funds	2.5
Investment trusts	1.9
	100.0

Shareholder Information

Financial Calendar

2005

29 July	Annual General Meeting
5 August	Final dividend for the year ended 31 March 2005 to be paid
November	Interim results for the six months ending 30 September 2005 to be announced

2006

January	Interim dividend for the year ending 31 March 2006 to be paid
May	Preliminary announcement of results for the year ending 31 March 2006
June	2006 Report and Accounts to be circulated

Shareholder Helpline

Homeserve's shareholder register is maintained by Computershare Investor Services PLC, who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses. If you have a query about your shareholding in Homeserve, you should contact Computershare by telephone on 0870 702 0000 or in writing to PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.

The Homeserve Website

The Homeserve website at www.homeserve.com provides news and details of the Company's activities plus information for shareholders. The investor section of the website contains real time and historical share price data as well as the latest results and announcements.

Homeserve at a Glance

Policy Membership

Homeserve Warranties

Homeserve GB

Home Service USA

Home Service Australia

Doméo

- Warranties for furniture, electrical appliances and carpets
- Motor warranties
- Water supply pipe cover
- Gas supply pipe cover
- Plumbing and drainage cover
- Gas central heating cover
- Electrical wiring

Utilities

Appliance manufacturing

Retail and household insurance

Furniture retailing

- UK market leader in plumbing and drainage, glazing and locks, upholstery repair and furniture warranties services for household insurers
- UK's 2nd largest provider of central heating and electrical cover services
- Most water companies opt for water policies with Homeserve
- 2005 Outbound Contact Centre of the Year at National Sales Award for Homeserve GB with 95% customer satisfaction
- On average 1 in 11 eligible households in the UK hold a Homeserve GB plumbing and drainage cover policy

Homeserve at a Glance

Emergency Repair

Homeserve Emergency Services

Homeserve Sergon

Homeserve Servowarm

Homeserve Claims Management

ChemDry

- Glass, windows, door and locks repairs
- Emergency repair, annual service and replacement boilers for domestic gas heating systems
- Claims handling and network management
- Home insurance building repair
- Disaster fire and flood restoration
- Carpet and upholstery cleaning network

Household insurers

Support network to policies clients

- Features the largest directly employed repair network for insurers (1,000) with a structure of 37 branches for maximum UK coverage
- Features the UK's largest managed network of repair contractors, with around 4,000 operatives
- Draws on 40 years experience in the gas heating market and expertise from a network of CORGI gas engineers and installers
- Homeserve Claims Management offers 24 hour claims handling taking over 2 million calls and handling over 550,000 claims a year

Making it Happen for Business Partners

The key to the success of the Homeserve model is to simply 'make it happen' for its 100 plus business partners. Whether it delivers quality and speedy repairs or affordable but effective policy membership cover; its business partners want a product that customers can rely on at times of crisis.

Homeserve's infrastructure of skilled contractors and directly employed tradesmen means it can deliver emergency repair services anywhere in the UK for any home emergency. Homeserve's expertise and experience in utility, appliance manufacturing, retail and household insurance and furniture retailing markets grows as more and more business partners opt to work with the company on policy membership. This gives Homeserve a great competitive advantage for partners who want the reassurance of an ally that understands its market and can assist in the marketing, telemarketing, IT, complaint management, regulation & compliance and finance aspects of the relationship.

Policy Membership

In 2004 Cambridge Water made a strategic decision to increase its revenues from non-regulated earnings. It made sense to offer added value to its own customer base without having to reinvent the wheel and without having to invest significant amounts up front.

An affinity partnership with Homeserve GB presented an innovative solution with the introduction of Homeserve's plumbing and drainage cover branded as Cambridge Water. For a small annual premium, Cambridge Water customers would have access to speedy service for emergency plumbing and drainage repairs from Homeserve for up to four call outs a year.

Homeserve developed a product that had a natural synergy with Cambridge Water's to give 'permission' to sell to its customers.

It took the pressure off Cambridge Water and quickly established the systems and processes to the marketing, sale and management of the product on its behalf, resulting in little cost or resource disruption to Cambridge Water.

The risk to Cambridge Water was minimal as payments are made on a per sale basis requiring no cash investment.

Homeserve's experience in the water market as a support service is unrivalled as most water companies already work with Homeserve.

Homeserve was able to make Cambridge Water's objectives happen.

In just less than a year, Cambridge Water achieved around 3% penetration of its customer base and has subsequently extended its relationship with Homeserve, now also offering its customers cover on water supply pipe.

"Homeserve's approved contractors provide us with an invaluable and reliable service for our customers, including guaranteed repairs in all kinds of home emergencies such as repairs to burst pipes, electrical failures and breakdown of heating boilers."

HBOS General Insurance

Emergency Repair

HBOS General Insurance (Halifax and Bank of Scotland) provides its award winning Halifax* Home Insurance to over two million customers and insists on the highest level of customer service standards from all their trusted partners.

HBOS has been working in partnership with Homeserve Claims Management to provide its customers with speedy access to a network of reliable contractors at times of home emergency crisis.

For HBOS, Homeserve Claims Management delivers services to make the home safe or secure or prevent further damage to domestic property.

* Halifax Home Insurance is rated five stars for Buildings and Contents cover for product features and benefits by Defaqto, an independent market research company.

Halifax Home Insurance has been awarded "Best Direct Provider" by Your Money Direct Awards 2004 and "Best Home Insurance Provider" 2004 from Mortgage Advisor and Home Buyer awards. This is in addition to "Claims Initiative of the Year" at the 2004 British Insurance Awards.

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