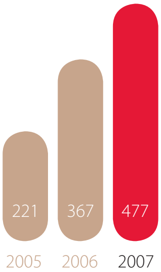
Report & Accounts **2007**

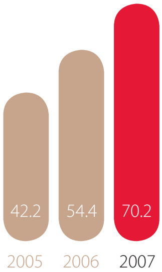
Homeserve plc®

Highlights of the year

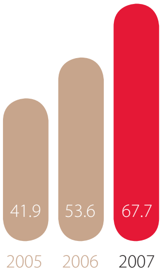
Continuing operations



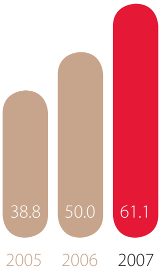
Revenue
Increased by 30% to £477m
2006: £367m



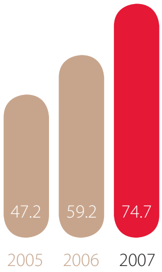
Operating profit*
Increased by 29% to £70.2m
2006: £54.4m



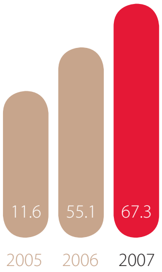
Profit before tax*
Increased by 26% to £67.7m
2006: £53.6m



Profit before tax
Increased by 22% to £61.1m
2006: £50.0m



Earnings per share†
Increased by 26% to 74.7p
2006: 59.2p



Earnings per share
Increased by 22% to 67.3p
2006: 55.1p

- Strong growth across all divisions
- Significant cash flow generated by operations of £73.6m
- Dividend per share increased by 25% to 25p
- Over 7m policies (2006: 5.7m)
- UK new policy sales of 1.6m in line with 2006
- France and USA policy levels doubled to over 1m
- Retail Warranties trading profitably
- Emergency Services multi-trade offering well advanced

* Excluding amortisation of acquisition intangibles and joint venture taxation, see the Financial Review on page 24 and notes 5 and 12 to the accounts.
† Excluding amortisation of acquisition intangibles, see the Financial Review on page 24 and notes 5 and 12 to the accounts.

Homeserve is well positioned for continued organic growth. We will supplement this growth with acquisitions where they enhance our growth profile and advance our strategic goal to become the market leading provider of emergency services to the home.


Homeserve

Chairman's Statement

Homeserve has had another excellent year, delivering strong growth across all of its businesses. The business has again delivered earnings growth well in excess of 20% whilst achieving high levels of new policy sales in the UK, France and USA. The continued investment in an integrated network of tradesmen across the UK has been a key factor in developing a unique offering for Household Insurers.

Results

Revenue from continuing operations increased by 30% to £477m (2006: £367m). Profit before tax* increased by 26% to £67.7m (2006: £53.6m) and earnings per share† increased by 26% to 74.7p (2006: 59.2p).

Statutory profit before tax increased by 22% to £61.1m (2006: £50.0m) and total basic earnings per share increased by 22% to 67.3p (2006: 55.1p).

Continuing its policy of increasing dividends in line with earnings growth, the Board is proposing a final dividend of 17.5p per share to be paid on 6 August 2007, which brings the full year dividend to 25.0p per share, a year on year increase of 25%.

Cash generated by operations of £73.6m (2006: £55.6m), represented 105% (2006: 102%) of operating profit*, leaving net debt at 31 March 2007 of £27.1m (2006: £16.3m). During the year we spent £30.2m (2006: £34.7m) on acquisitions in the year and deferred consideration in respect of prior years.

Policy Membership

The Policy Membership business increased revenue by 19% to £192m (2006: £161m), with operating profit* increasing by 31% to £54.2m (2006: £41.3m). Our utility branded Policy Membership businesses in the UK and overseas, together with our Manufacturer Warranty business, have grown to a total of 7.1m (2006: 5.7m) policies in the year and 3.8m (2006: 3.3m) customers.

The Homeserve GB utility branded policy business combined strong growth in profits of 20%, with new policy sales in the year of 1.6m (2006: 1.6m). Policy renewal rates have remained high at 86% (2006: 87%) with activities in the year being concentrated on increased penetration to existing customers. Average policies per customer are now 1.92 compared to 1.78 last year. Total policy count in the UK reached 5.8m (2006: 5.0m).

The net investment in our international operations was £2.4m (2006: £2.6m). Doméo, our French operation is continuing to perform strongly with our 49% share of the joint venture contributing £1.1m to our operating profits before management recharges with the number of policies doubling to 0.86m (2006: 0.42m). The US operation also doubled its policy base to 0.26m (2006: 0.13m) achieving excellent take up rates, including FirstEnergy with which we signed a five year marketing agreement in August 2006. As initial results of the electrics product test with Endesa in Spain were inconclusive, a further test was agreed and was sent out at the beginning of May 2007.

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> Homeserve has had another excellent year, delivering strong growth across all of its businesses.
>
> **Brian Whitty**, Executive Chairman

The new Warranties management team has made considerable progress in developing our warranty activities. Our Retail Warranties business has achieved an excellent turnaround in performance generating an operating profit of £0.9m (2006: £1.5m loss). This reflects new customer signings combined with improved operational efficiencies.

Emergency Services

The Emergency Services business increased revenue by 36% to £297m (2006: £218m) with operating profit* increasing by 22% to £16.0m (2006: £13.1m).

The Emergency Services businesses have delivered another year of excellent performance, having experienced high levels of activity. Over the last 12 months we have made enormous progress in developing our multi-trade offering and this is set to continue as we complete the roll out of common operating platforms and add content validation and fulfilment to our unique model. Reaching agreement with a major insurer to provide a fully integrated multi-trade and claims management service is a first in the industry and represents a milestone in the development of this business.

Our networks responded well to the sharp increase in claims volumes following the December and January storms, particularly for glazing and building repairs, providing high profile support for our Household Insurer partners.

Employees

Homeserve now has over 4,000 employees including 1,000 directly employed engineers. Each has made a valuable contribution during the year and I should like to thank them all for their commitment, dedication and efforts in another outstanding year.

Board Changes

We are continuing to strengthen the Board with senior level appointments at both executive and non-executive level.

Jon Florsheim joined the Board in March 2007 as Chief Executive of Homeserve GB. Jon was previously Chief Marketing Officer and Managing Director Customer Group at British Sky Broadcasting.

Jonathan Simpson-Dent was appointed on 30 March 2007 as Chief Financial Officer replacing Andrew Belk who resigned from the Board on the same date. Jonathan is a Chartered Accountant with significant commercial experience at General Healthcare Group, PepsiCo and McKinsey.

In January 2007, Ian Chippendale joined the Board as an independent non-executive director, following his retirement as Executive Chairman of RBS Insurance and many years in the insurance services sector. He is currently Senior Independent Director of Thus plc.

Chairman's Statement

We are also announcing today that Andrew Sibbald is to join the Board as an independent non-executive director with effect from 1 June 2007. Andrew is an experienced corporate financier, currently Managing Director and co-founder of Lexicon Partners which specialise in the utility and insurance sectors.

These appointments follow the resignation of Justin Jewitt as a non-executive director in January 2007 having completed his three year term of office.

Prospects

Our Policy Membership businesses in the UK are expected to continue to achieve the high levels of policy sales achieved historically through increased penetration with existing customers and broadening our customer base by expanding product ranges and affinity partnership relationships.

International markets continue to represent an exciting opportunity. International investment will continue to improve the pipeline of new partner prospects in the USA and Spain. We expect the good progress made in our joint venture in France to continue.

We will continue the growth of our network of directly employed tradesmen and we expect to see an increasing demand for Household Insurers in our integrated 'hub' offering.

Homeserve is well positioned for continued organic growth over the coming year. We will supplement this growth with acquisitions where they enhance our growth profile and advance our strategic goal to become the market leading provider of emergency services to the home.

Brian Whitty
Executive Chairman
21 May 2007

Policy Membership is an affordable way of providing peace of mind to over 3 million households in the UK. This membership is supported by a national trade network that delivers high quality services to households.

Chief Executive's Review

Homeserve's value proposition is the provision of quality solutions for domestic emergencies. Policy Membership is an affordable way of providing peace of mind to over 3m households in the UK. This membership is supported by a national trade network that delivers high quality services to households.

We continue to develop strategic partnerships with utilities and Household Insurers. These partnerships provide access to a broad customer base under their well known and trusted brands, and enable the partner to offer additional value-added services to its customers.

Our performance in France and the US clearly demonstrates that the Homeserve model is replicable overseas. We will continue to develop our International business by ensuring that we build firm foundations in carefully selected markets.

I am delighted by the progress we have made in executing this strategy across all our businesses during the last 12 months.

Policy Membership

Our Policy Membership businesses provide underwritten cover for a broad range of domestic emergencies branded to our business partners in the utilities, appliance manufacturing and retail sectors. Our policies include cover for plumbing and drains and water supply pipes, electrical wiring, gas central heating and appliances, gas supply pipe cover, electrical appliances and furniture.

During the year, these businesses increased revenue and operating profit* by 19% and 31% to £192m and £54.2m respectively. Our UK Policy, International and Manufacturer Warranty businesses now have a total of 7.1m policies (2006: 5.7m) and 3.8m customers (2006: 3.3m).

Homeserve GB

Homeserve GB continues to demonstrate strong underlying growth driven by new policy sales of 1.6m (2006: 1.6m) and retention rates of 86% (2006: 87%).

As a result we have continued to increase our penetration in the UK market where policies increased from 5.0m to 5.8m over the year:

- 3.93m in plumbing and drains and water supply pipe (2006: 3.35m)
- 0.77m in electrical (2006: 0.76m)
- 1.09m in other including gas supply pipe and housebuilder (2006: 0.86m)

Homeserve GB's customers increased by 0.21m to 3.0m (2006: 2.79m) achieving 1.92 policies per customer compared to 1.78 in March 2006. Our ability to develop relevant and affordable products, together with the provision of excellent service delivery, is critical to growing the customer base.

* Excluding amortisation of acquisition intangibles and joint venture taxation, see the Financial Review on page 24 and notes 5 and 12 to the accounts.

> I am delighted by the progress we have made in executing our strategy across all our businesses during the last 12 months.
>
> **Richard Harpin**, Chief Executive

We continue to deliver very high levels of customer service as measured by our 48 hour call back process to customers who have made a claim. This enables us to directly measure customer satisfaction following a repair and to monitor and improve the performance of our repair networks. Customer satisfaction for the core plumbing and drains service remains at a high level of 95% (2006: 96%) and importantly, the proportion of customers rating our service as outstanding has increased from 20% to 26%.

The overall policy retention rate for the year remains high at 86% (2006: 87%). Where we have a longer established customer relationship the retention rates continue to perform strongly.

We continue to invest in our product development, with the current focus on Combined Policies. These will assist in enhancing our cross sell opportunities and we expect to roll out this initiative from September 2007.

International

Our International strategy remains one of replicating the proven UK model in markets with similar customer and utility profiles, initially working with water and energy companies to provide emergency policies to householders offered via direct marketing and outbound telesales.

During the year we doubled the number of International policies to 1.12m (2006: 0.55m). Our French joint venture has significantly increased its operating profit and we have increased our investment in the US by £0.8m to £3.2m.

Doméo, our 49% owned joint venture in France with Veolia, performed well during the year, contributing £1.1m to our operating profits* before management recharges (2006: £0.5m). This has been an outstanding year for the business, which more than doubled its policies to 0.86m (2006: 0.42m) and achieved policies per customer of 2.0 (2006: 1.5). Retention rates increased to 88% (2006: 87%) and customer satisfaction levels were in excess of 94% (2006: 95%).

Claims handling was brought in house in February 2006 and since then the focus has been on developing our own network of sub contractors, increasing the quality of service delivery and providing extra credibility to the operations to assist in winning new business partners in France.

Doméo now markets to 10.6m (2006: 9.1m) of the 12m owner occupied houses in France under the water brand of the Veolia group following the agreement during the year to market to a further 1.0m households throughout France. In addition, Doméo markets to a further 0.3m households under the Proxitherm and Gaz de Bordeaux brands.

Leticia manages the IT and telecommunications infrastructure and processes for Home Service USA.

The most enjoyable aspect of my job is the excitement of the rapid growth we are experiencing. It's great to be an integral part of the operation and contribute to the future of Home Service USA. The team work here makes this a fun place to work.

Leticia Larrossa, IT/Telecoms Manager, Home Service USA

Home Service, our business in the US, is continuing to perform well with its existing affinity partners, which provide access to 5m households. Total policies increased to 0.26m (2006: 0.13m).

Over the last 12 months we have clearly demonstrated that that we can add significant value when acquiring existing policy books from both water and energy companies.

We signed our largest affinity partner agreement with FirstEnergy Corp, a power utility, in August 2006 which provided access to 3.4m households. As part of the transaction we acquired 20,000 existing electrical wiring, gas supply pipe, water and sewer line policies, which we have grown by 180% in 7 months to 56,000 policies. In addition, we have continued to grow the number of policies with United Water, which now total 116,000 compared to 41,000 at acquisition in May 2005.

The number of policies per customer in the US remained at 1.2 (2006: 1.2) and retention rates where we are able to 'bill on the bill' or use a continuous payment method are running at 90%. Customer satisfaction as measured by 48 hour call backs following a repair, is consistently running at over 95%.

The prospects for potential new water and power company partners are developing well. The prolonged time to agree final contractual terms reflects the relatively early stage in our development of the model in the US and the conservatism typical of the utility sector worldwide. In addition, we subject all potential transactions to stringent due diligence investigations, trading rapid development for robust commercial arrangements to ensure that we build a US business with solid foundations.

Claims management was successfully brought in house in September 2006 and has enabled us to reduce average repair costs through more direct management of the contractor network. The move to larger premises in Miami to accommodate our planned future growth was successfully completed in September 2006.

The results of our first test in Spain with Endesa over the winter were inconclusive. Further test campaigns, which used more traditional UK style marketing creatives were agreed and sent out at the beginning of May 2007.

Chief Executive's Review

Retail and Manufacturer Warranties

Our retail warranty businesses delivered an excellent turnaround in performance during the year, improving profits by £2.4m year on year. Integral to this improvement has been the development of bespoke service propositions to our customers, backed up by greater efficiency across the operation.

During the year, we have developed our warranty offering expanding into a number of new sectors. In the retail division we have expanded our services into the leisure and internet sectors, including Halfords, Halls, Warehouse Express and a number of independent retailers. In the manufacturer division we have signed agreements with Nikon, DeDietrich, Gainsborough, Halstead and Alpha Boilers.

Within our manufacturer warranties business, we have clearly demonstrated that we can leverage our direct marketing and outbound telesales competencies to increase warranty card registration rates and conversion of those registered customers to fully paid warranties and related service policies.

We have grown the number of manufacturer policies by 32% to 190,000 (2006: 144,000). As with our utility branded policies, these warranty and policy sales are generally on products with longer lifecycles, principally boilers, and therefore have a good renewal income stream thereby creating an attractive business model.

We have been actively cross selling our Homeserve GB policies to our manufacturer warranty customer base using manufacturer brands. These are performing well and we have increased our policies per customer to 1.25 (2006: 1.1).

Emergency Services

We now employ 1,000 of our own engineers, and operate subcontract and franchise networks of over 4,000 engineers. Our strategy is to increase the proportion of work we do using our own Homeserve branded directly employed tradesmen as these enable us to deliver increased customer service, quality and productivity, through more direct control. The use of subcontract and franchise operatives does, however, enable us to reduce the risks of operational leverage associated with a full directly employed model.

During the year, revenue from these businesses increased by 36% to £297m and operating profit* increased by 22% to £16.0m.

Our strategy has been to build a network of businesses offering complementary repair and replacement solutions in order to create a unique integrated range of emergency repair services for homeowners via their Household Insurers, as well as for the Policy Membership division's own customers.

Grégoire manages relationships with Doméo's affinity partners, offering new initiatives and finding synergies.

Homeserve has a very strong and innovative business model which provides true added value to its customers. Being in account management gives me a unique position in the organisation: selling new initiatives to grow the business and understanding and representing the affinity partners within Doméo.

Grégoire Ezanno, Head of Key Account Management, Doméo

In order to deliver a complete multi-trade solution from first notification of loss through to a permanent building repair, we have been investing in the development and implementation of common claims management (based on Guidewires ClaimCenter product) and work flow management (Mercury) systems. These will provide improved functionality and control to our businesses and we expect both systems to be live in Autumn 2007. These will enable us to further enhance the efficiency of claims handling and completion, reduce costs and increase both householder and insurer satisfaction levels.

Operating margins* have decreased slightly to 5.4% (2006: 6.0%) partly reflecting the investments made during the year bringing our multiple businesses together to offer an integrated solution. These investments will allow for greater operational leverage and effectiveness, resulting in improved margins in future years. In addition, we have achieved significant growth through our subcontract business, which has diluted margins overall.

Following on from our multi-trade outsource contract for Liverpool Victoria reported last year, we have achieved a further milestone by reaching agreement for a three year contract with another major insurer to provide a fully integrated multi-trade and claims management service.

As part of this landmark agreement, which is due to commence in Autumn 2007, we will provide claims handling and management through our ClaimCenter and Mercury systems. We will continue to be the solus provider of glazing repairs, and will provide all the building repairs, half the drainage repairs, as well as two thirds of the restoration and recovery services. We are confident that this service will prove to be attractive to other Household Insurers.

The severe weather experienced in December 2006 and January 2007 fully tested the responsiveness of our network. Our employed and subcontractor networks remained open and fully operational at a time when many other networks effectively closed for further business, unable to cope with the demand. As a result, we were able to support our Household Insurer partners during this difficult period. This drove higher activity levels in the final quarter.

Glass and Locks

The operational improvements achieved in this business through the implementation of improved workflow management systems have enabled the conversion of insurance leads to sales to be increased for the fourth year running to 92% from 90%, a key measure of our efficiency.

Chief Executive's Review

During the year we have renewed a number of our key customer contracts, including in January 2007 our glazing contract with Norwich Union, our largest insurance partner, for a further three years.

Pilkington Glazing was acquired in April 2006 with the central functions being merged into our Norwich office during the year enabling benefits to be achieved from sharing our common operating platforms. The acquisition brought a glazing capability for small and medium sized enterprises which is an important step in providing full support to a number of our insurance partners for tenanted premises and small shops.

Plumbing and Drains

We have increased the focus on our Plumbing and Drains network with the appointment of a dedicated Managing Director. We are continuing the expansion of our directly employed capability in this area and have increased the proportion of work undertaken on behalf of our Policy Membership business.

Property Repair

During the year we started the process of fully integrating our two permanent building repair businesses, which is expected to be complete by September 2007. This will create a market leading permanent repair network, providing domestic repairs including plastering and decorating arising from the escape of water, storm, fire and accidental damage. This single building repair business will operate using our common claims handling and job management systems, significantly improving efficiency and reducing the duplication of cost and back office processing.

The Property Repair businesses have experienced a significant increase in the level of claims volumes in the year, particularly as a result of the severe weather noted above, with over 105,000 repairs being performed (2006: 70,000). The majority of this work was completed by the extensive subcontract network, though our strategy is to increase the proportion of repairs completed by our own directly employed engineers.

Fire and Flood Restoration

Chem-Dry operates a national network of over 230 franchisees and provides fire and flood restoration services on behalf of Household Insurers as well as carpet and upholstery cleaning services. This business often provides the first repair service in a home following a disaster, placing us in a unique position to offer a fully integrated service from initial clean up through to a permanent building repair.

Claims Management

With the commencement of our new multi-trade deal in Autumn 2007, this business will undertake the claims handling function for householders for the entire claim, ensuring the smooth passage of the claim through our integrated repair network or the subcontract and franchise networks as appropriate. This is expected to significantly reduce the average cycle time of a claim, increasing customer service and satisfaction.


Homeserve
FN55 MVL

Erick undertakes upholstery inspections and repairs for Homeserve Warranties in Scotland and Ireland.

I enjoy the freedom and variety my role at Homeserve offers. My aim is to do my best to fulfil customers' expectations and hopefully, make their day. Leaving customers happy makes me happy.

Erick Kerr, Technical Field Services Manager, Homeserve Warranties

Over 90% of all claims are now deployed electronically (2006: 80%), which when combined with the investments made by a number of our subcontractors enables them to accept electronic deployment and job management. This speeds up contractor arrival times and improves visibility of a claim from start to finish. As a result of the above investments, we have significantly increased the level of 'customer delight', defined as exceeding expectations, which is running in excess of 50% for both plumbing and drains and electrical repairs.

Contents Services

The acquisition of Digital Insurance Services, now renamed Homeserve Contents Services, has strengthened our offering to Household Insurers, by providing them with claims validation and fulfilment services. Our objectives over the coming year are to develop its Valid8 claims handling and product identification system and extend the range of consumer products covered, rolling this out to other Household Insurers.

Summary

Homeserve's strategy remains clear, leveraging the benefits of our integrated policy and service delivery business in the UK, while replicating it in other carefully defined markets.

We will continue to focus on the organic growth of our existing businesses. In addition we will complement this with acquisitions that broaden and deepen our Policy Membership and Emergency Services offering whilst also meeting our strict appraisal criteria.

We have continued to invest in the recruitment and development of high quality people, ensuring that our management team has the necessary skills and resources to deliver our strategic priorities.

Richard Harpin
Chief Executive
21 May 2007

We have continued to invest in the recruitment and development of high quality people, ensuring that our management team has the necessary skills and resources to deliver our strategic priorities.

Financial Review

These results have been prepared in accordance with International Financial Reporting Standards (IFRS), using policies consistent with the prior year. Accounting standards that have been issued but not yet enacted are not expected to have a significant impact on the Group. The headline financial results are:

	2007	2006
£'million		
Revenue	477.4	367.0
Operating profit (statutory)	63.6	50.8
Profit before tax (statutory)	61.1	50.0
Cash generated by operations	73.6	55.6
Net debt	27.1	16.3
Net assets	230.4	201.1
Pence per share		
Earnings per share (statutory)	67.3	55.1
Dividend per share	25.0	20.0

Group Results

For managerial purposes, we continue to consider that profits before the amortisation of acquisition intangibles and the tax charge of our joint venture in France, represent an important measure for monitoring the performance of the business. The reconciliations between the statutory results and these pro-forma managerial measures are as follows:

£'million	**2007**	**2006**
Operating profit (statutory)	63.6	50.8
Amortisation of acquisition intangibles	6.5	3.6
Tax recognised by joint venture	0.1	-
Operating profit*	**70.2**	**54.4**
Profit before tax (statutory)	61.1	50.0
Amortisation of acquisition intangibles	6.5	3.6
Tax recognised by joint venture	0.1	-
Profit before tax*	**67.7**	**53.6**
Earnings per share (statutory)	67.3p	55.1p
Amortisation of acquisition intangibles	7.4p	4.1p
Earnings per share†	**74.7p**	**59.2p**

Total revenue has increased by 30% to £477m (2006: £367m) reflecting continued growth across our businesses with acquisitions contributing £13m.

* Excluding amortisation of acquisition intangibles and joint venture taxation, see the Financial Review on page 24 and notes 5 and 12 to the accounts.
† Excluding amortisation of acquisition intangibles, see the Financial Review on page 24 and notes 5 and 12 to the accounts.

> The results represent an appropriate balance between double digit growth in profits and investing for future development.
>
> **Jonathan Simpson-Dent**, Chief Financial Officer

Operating profit* has increased by 29% to £70.2m (2006: £54.4m), with operating margins* stable at 15%. The impact of recording the fair value of share scheme awards has reduced operating profit by £3.4m (2006: £2.1m), and remains within our guidance of 5% of operating profit*.

The amortisation of acquisition intangibles amounts to £6.5m (2006: £3.6m) and principally relates to customer and other contracts held by the acquired entities at the time of acquisition. The year on year increase reflects the impact of Pilkington Glazing and DIS acquired during the year and the full year impact of National Property Solutions and Improveline acquired in 2006.

In accordance with IFRS, statutory operating profit includes our share of the operating result of our joint venture in France. For these purposes, the operating result is defined as profit after tax and hence £0.1m (2006: £nil) is reported within operating profit and profit before tax. Statutory operating profit has increased by 25% to £63.6m (2006: £50.8m).

The net interest charge for the year amounts to £2.6m (2006: £0.8m), which was covered 27 times by operating profit*. The year on year increase reflects the increased average net debt during the year driven by the phasing of acquisitions and capital expenditure at the end of 2006 and early 2007.

The effective rate of tax for 2007 is 31.3% (2006: 31.1%) and has increased principally as a result of the additional investment in our US operations.

Earnings per share† is 74.7p (2006: 59.2p), an increase of 26%. Total basic earnings per share, amounts to 67.3p (2006: 55.1p), an increase of 22%.

Acquisitions

Homeserve completed a number of acquisitions during the year, investing £30.2m, including deferred consideration relating to prior years, with estimated deferred and contingent consideration of £6.5m.

On 21 April 2006, the Group acquired certain of the trade and assets of Pilkington United Kingdom Limited relating to the glazing division of Pilkington Building Products. The business undertakes glazing repairs on a nationwide basis. The total consideration amounted to £6.7m and goodwill amounting to £2.7m arose as a result of this acquisition.

On 17 August 2006, the Group acquired 20,000 Home Assistance policies from FirstEnergy and simultaneously signed a marketing agreement with FirstEnergy Corp providing access to up to 3.4m households. The total consideration amounts to £4.3m, of which £1.5m is deferred and is payable over the 5 year life of the marketing agreement. No goodwill arose as a result of this acquisition.

On 26 October 2006, the Group acquired 100% of the share capital of Digital Insurance Services Limited, a provider of home insurance and contents claims validation and fulfilment services. The initial consideration was £3.3m, with up to a further £9.0m payable in the future contingent upon the future profitability of the company. Of the contingent payment, £5.0m is currently included within deferred consideration. Goodwill amounting to £4.9m arose as a result of this acquisition.

Financial Review

In addition, during the year a number of smaller acquisitions have been completed for a combined consideration of £1.1m. Goodwill amounting to £0.1m arose as a result of these acquisitions.

The impact of these acquisitions on the financial performance of the Group for the year was to increase revenues and operating profits* by £13m and £0.3m respectively.

Cash Flow and Net Debt

£'million	2007	2006
Continuing Operations:		
Cash generated by operations	73.6	55.6
Interest, tax, dividends	(33.4)	(25.3)
Net capital expenditure	(16.5)	(15.7)
Acquisitions / disposals	(30.2)	(36.0)
Share purchases	(8.3)	(8.2)
Financing	1.4	3.5
Total Continuing Operations	(13.4)	(26.1)
Discontinued operations, net cash flow	-	1.4
Net movement in cash and bank borrowings	(13.4)	(24.7)

Homeserve continues to achieve strong cash conversion, generating cash from operations of £73.6m (2006: £55.6m). Overall there was a net movement in cash and bank borrowings of £13.4m outflow (2006: £24.7m outflow) after interest, tax and dividends of £33.4m, net capital expenditure of £16.5m, acquisitions and disposals of £30.2m, purchase of shares by the Homeserve Employee Trust of £8.3m and other financing inflows of £1.4m.

Net debt at the year end was £27.1m (2006: £16.3m). Homeserve manages its liquidity principally through a combination of overdrafts and short and medium term revolving credit facilities. Substantially all of the Group's borrowings and undrawn facilities are at floating rates linked to LIBOR. At 31 March 2007, the Group had undrawn, committed facilities amounting to £48m.

Segmental Analysis

Homeserve reports its results under two primary segments: Policy Membership and Emergency Services.

£'million	2007	2006
Revenue		
- Policy Membership	192.0	161.4
- Emergency Services	297.2	218.0
- Elimination of Inter Segment Revenue	(11.8)	(12.4)
	477.4	367.0
Operating profit*		
- Policy Membership	54.2	41.3
- Emergency Services	16.0	13.1
	70.2	54.4

The Policy Membership business achieved an operating profit* of £54.2m (2006: £41.3m), an increase of 31%. This is after a net investment in International of £2.4m (2006: £2.6m) and an operating profit* of £0.9m (2006: £1.5m loss) in Retail Warranties. Homeserve GB increased its operating profit* by 20%. Statutory operating profit of the Policy Membership business was £53.2m (2006: £40.9m).

The Emergency Services businesses achieved an operating profit* of £16.0m (2006: £13.1m), an increase of 22%, including £0.3m from acquisitions made during the year and the full year contribution from acquisitions made in the previous year. Statutory operating profit of the Emergency Services business was £10.4m (2006: £9.8m).

Operating margins* have remained stable during the year at 15% (2006: 15%). Within Policy Membership, operating margin* increased to 28% (2006: 25%) as a result of the increased investment in our International businesses, offset by the move into profit in the year by the Retail Warranties operation and continued margin improvement within Homeserve GB. The Emergency Services' operating margin* decreased to 5.4% (2006: 6.0%) following investment to further develop the fully integrated claims handling and job management systems and increased volumes through our subcontractor network. Share scheme charges increased during the year to £3.4m (2006: £2.1m).

The adjustment necessary to eliminate inter segment revenue is £11.8m (2006: £12.4m) and relates to the activity undertaken by our repair trades on behalf of Policy Membership customers.

In order to assist in the management of the business and to provide evidence of achieving its strategic priorities, the Board regularly reviews a number of key performance indicators as follows:

£'million	2007	2006
Total Group		
Profit before tax*	67.7m	53.6m
Earnings per share†	74.7p	59.2p
Policy Membership		
Operating profit*	£54.2m	£41.3m
Total policy numbers	7.1m	5.7m
Retention rates (UK utility branded)	86%	87%
Emergency Services		
Operating profit*	£16.0m	£13.1m
Completed repairs	1.2m	1.1m
Operating margin*	5.4%	6.0%

Policy numbers represent the total number of policies held by our utility branded businesses in the UK, France, USA and Spain, together with manufacturer warranties where the customer has purchased an extension to the initial manufacturer guarantee period.

The retention rate currently includes only the UK utility branded policies as these have the greatest significance on earnings in the following period. Retention rate is defined as the number of policies renewing divided by the number of active policies in the prior year.

Financial Review

Completed repairs include all repairs performed and closed by our directly employed, subcontract and franchise network during the year.

Financial Risk
As part of its ordinary activities, Homeserve is exposed to a number of financial risks, including liquidity risk, credit risk, interest rate risk and foreign exchange risk. The Group has policies and procedures on how each of these risks will be monitored and managed.

Liquidity risk relates to the Group's ability to meet the cash flow requirements of the operations, while avoiding excessive levels of debt. The Group's borrowings are principally in the form of short and medium term revolving credit facilities, which can be drawn down on demand, providing flexible access to debt when required. The amount of any committed undrawn facilities is closely monitored by the Board on a regular basis.

Credit risk principally relates to trade receivables from customers. Detailed policies and procedures for the assessment of all customers are in place including reviewing credit history and setting appropriate credit limits before trading commences.

Interest rate risk and foreign exchange rate risk are not considered to represent significant risks at this time due to the low levels of net debt held in the business and the absence of significant foreign currency transactions. However, these risks are kept under constant review and policies exist to mitigate them should they increase in significance.

Other Risks and Uncertainties
There are a number of other risks and uncertainties that could have a material impact on the Group's future performance.

Commercial Relationships
Homeserve has close commercial relationships with a number of utility companies, Household Insurers, household appliance manufacturers and furniture retailers. The loss of these contractual commercial relationships could have a significant effect on the Group's future profitability and cash flows. This risk is managed through regular reviews and contact with the senior management of these customers in order to ensure that we respond to their needs and deliver the service that they expect.

Competitor Risk
There are a number of other businesses that provide services that are similar to those of the Group and as such could compete in one or more of our chosen markets. In order to address this risk a regular review of the market and our position is undertaken and the activities of the other participants are closely monitored. The development of innovative products and solutions, addressing the needs of our customers is seen as paramount to maintaining our competitive advantage.

Acquisitions
The Group continues to expand through a combination of organic growth and acquisitions. The ability to effectively manage and integrate the acquired businesses represents a particular risk. Prior to making any acquisition approach a detailed assessment of the market and our existing position, together with that of the target, is undertaken. In addition, the ability to integrate the acquisitions into the existing operation is considered at the outset. We have a dedicated acquisitions team which involves and coordinates functional managers from our existing businesses and draws on the services of independent advisers when necessary. Immediately post acquisition a full internal controls benchmarking assessment is undertaken and the Group's internal control requirements are communicated and implemented as soon as practicable. The performance of acquisitions is reported and reviewed by the Board on a monthly basis.

Summary
The results for the year continue to represent an appropriate balance between the delivery of double digit growth in profits and investing for the future development of all our businesses. Our financial position remains strong, providing a platform for the delivery of our strategy.

Jonathan Simpson-Dent
Chief Financial Officer
21 May 2007

Our employees are the key to our success. Our aim is to become a recognised employer of choice and thereby attract, develop, retain and motivate the best people, which will ensure we achieve our business objectives.

Corporate & 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 developing its activities in engaging with its stakeholders and will continue to report on its progress in implementing its key initiatives.

Employees

Our employees are the key to our success. Our aim is to become a recognised employer of choice and thereby attract, develop, retain and motivate the best people, which will ensure we achieve our business objectives.

As Homeserve continues to grow, we have placed even greater emphasis during the year on improving our channels of communication. We now regularly hold employee forum meetings which ensures we keep our teams appraised of business developments, allows us to gain feedback from them, and act on that feedback quickly.

'Homelife' our in–house magazine, is produced quarterly and is sent to all employees across the Group. It contains news from all of our businesses, allowing our employees to learn more about the company they work for, and also features updates and personal interest articles about our people. During the year, two Group-wide employee surveys were undertaken. We are now working to make sure that the results assist us in making Homeserve an even better place to work. The survey will be repeated to measure progress.

We recognise how important it is to offer a career path for our employees. We have implemented a performance management review process which covers employees' personal development plans, so training needs can be identified and then supported through our training teams in each subsidiary. A key focus is to support the training of our service engineers to ensure they not only have the skills required to perform the task but also understand how to deliver exceptional customer service. In addition to the programmes already in place, work is ongoing to develop apprenticeship schemes.

For our management population, our development plans are personalised to each individual's needs. By nurturing and developing our talent pool we now have succession plans in place and are able to fill senior management roles in line with our growth plans. A Leadership Excellence Framework was launched during the year to encourage senior managers to foster ways of working that will help improve the overall performance of the business.

We believe in sharing the success of our business with our people. A Savings Related Share Option Scheme is operated across the Group which is a great mechanism for involving our employees in Homeserve's performance.

All employees are offered membership of a pension scheme, and staff presentations providing information about the scheme are given where operationally possible to encourage full discussion of this important issue. Childcare vouchers are also offered across the Group.

Nicole deals with complaints for Homeserve GB.

The best thing about my job is that every complaint is different and has its own obstacles to overcome. My role is really varied and I am constantly challenged. The key is that the customer is at the heart of everything I do.

Nicole Southall, Senior Customer Relations Executive, Homeserve GB

Health & Safety

Homeserve remains committed to high standards of health and safety, and the business continues to develop safety management systems and autonomy in local competence and expertise. A consistently 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.

Instances of significant non compliance are few, and are addressed promptly when highlighted through the ongoing programme of health and safety audits. The financial and other positive business benefits from fewer lost time injuries and reduced risks and liabilities are self-evident.

Corporate Objectives and Standards

Homeserve's strategy for health and safety promotes compliance with minimum standards to achieve corporate objectives. The Group Health and Safety Adviser supports each of the Group's businesses in formulating policy and in developing health and safety management systems to meet statutory obligations and to protect employees and others affected by our activities.

Homeserve businesses operate autonomously in accordance with local health and safety policies and procedures. Each business has appointed a director to act as champion for health and safety at local board level, overseeing arrangements for the effective implementation of working practices which meet or exceed statutory requirements.

Compliance is monitored against minimum corporate standards through routine internal health and safety audits at Group level. Jonathan Simpson-Dent is the nominated Board director responsible for reporting on health and safety.

Homeserve's overall exposure to risk has been reduced as a result of greater attention at senior management level to health and safety systems and procedures. A programme of training all directors through the IOSH 'Safety for Senior Executives' course is currently underway, and this is proving to be effective in raising the profile of health and safety at Board level. Excellent progress has been made in training operational managers in safety management principles and techniques through the IOSH 'Managing Safely' course, which actively promotes the commitment and competence of managers in health and safety. Local health and safety committees facilitate the engagement and involvement of employees, helping promote their ownership of health and safety systems and procedures.

Representatives from each business contribute actively to the Group Health and Safety Forum, which meets quarterly and is chaired by the Group Health and Safety Adviser. This forum was established in 2005 to promote common standards and practices, to exchange ideas and expertise, and to share practical health and safety solutions across all Homeserve's businesses. The benefits from this initiative are now in evidence.

Corporate & Social Responsibility

Overview of Performance

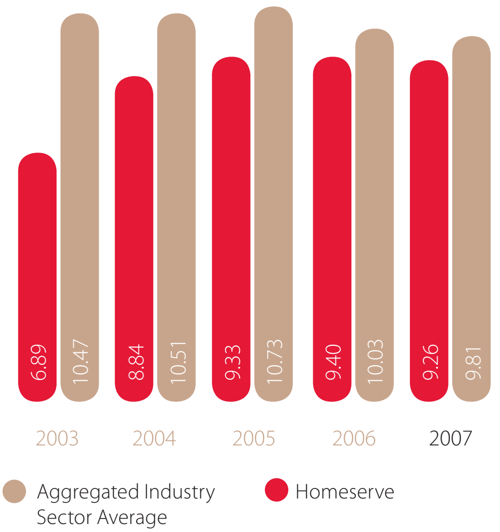
Homeserve has continued to maintain a good standard of health and safety performance throughout the year. There were 93 recorded incidents requiring hospital treatment or substantial time lost from work, most involving cuts, bruises or muscular strains. Of these, 45 were sufficiently serious to require formal statutory reporting to HSE, although none resulted in life-threatening injuries. Most of the more serious incidents involved cuts (predominantly in the Glazing business), and muscular strains from manual handling injuries. These areas are being targeted through local campaigns and 'toolbox talks' to help reduce such injuries in future.

These incidents resulted in 521 working days lost through absence, slightly up on the previous year (507) but down as a rate per employee (now 0.11 days per employee per year). Unsurprisingly, 80% of the incidents and 84% of the total lost working time occurred in the Emergency Services Division.

Overall, the Reportable Incident Rate remains consistent with the commendable trend of recent years, comparing favourably with an aggregated statistical average from the relevant industry sectors (see chart).

Several Homeserve workplaces and sites were visited during the year by HSE and Local Authority Inspectors, who were generally complimentary as to the health and safety standards found and the procedures in place to ensure safe working. Recommendations were mostly of a minor nature, and these were all addressed within the timescale given. Particular commendation was given in areas where there was documented evidence of regular internal monitoring and audit.

Chart showing Reportable Incident Rate for Homeserve over the past 5 years together with comparable industry sector statistics*



* Aggregated Industry Sector Average based on statistical data from the service and construction sectors aggregated in proportions similar to those represented within Homeserve.

Progress and Developments

Health and safety is placed firmly on the Board agenda across all Homeserve's businesses; regular reporting on health and safety performance is now the norm.

Investors and clients now quite properly expect high standards of performance in areas of corporate and social responsibility, including health and safety, and this continues to be a significant business driver.

Corporate & Social Responsibility

Many of the Emergency Services Division's major Household Insurer clients carry out routine health and safety audits of Homeserve's businesses, and we work with our clients to ensure that any issues identified during these audits are resolved as quickly as possible.

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

Customers

Excellent customer service is at the heart of Homeserve's values. We aim to ensure that all customers enjoy a high quality service. 48 hour call backs are used as a key indicator of customer satisfaction and are undertaken consistently across our businesses. Management information on customer service is collated and circulated monthly at Group level and more frequently in each business. A noteworthy measure of satisfaction is that customer retention, already high in Homeserve GB, 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 those needs. Customer focus groups have been established and we regularly use these to test out new products, services and initiatives. We are committed to maintaining and improving customer service levels across Homeserve, and our 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 our outbound sales functions to ensure that customers gain a full understanding of the product offered for sale. All outbound calls are recorded and the recordings retained.

Homeserve's website was relaunched in the year to provide comprehensive information about Homeserve's products and services. Development of the site to provide a fully-interactive service is continuing.

Environment and Climate Change

We take our responsibility towards the environment very seriously. As a service company our direct impact on the environment is low, however, like any business, we use resources. We believe that it is important that environmental responsibility is recognised as being part of how we manage our activities.

Our most visible impact is through the resources we use and we identified recycling as an opportunity to engage our employees. We believe that creating a culture that is environmentally aware will help us meet our responsibilities in this area. Our businesses have established a range of recycling initiatives appropriate to thier different operations. Our offices recycle material such as paper, glass and cans whereas depots focus on recycling material such as glass and PVC. This strategy has been successful and in the latest Sunday Times 100 Best Companies to Work for survey 71% of our staff agreed that our company protects the environment, placing us in the top quartile for this measure.

John assesses property claims and carries out quality checks in respect of ongoing works undertaken by his team.

The best thing about my role is variety. Every day is different, there is nothing more constant than change – it keeps you on your toes, alert and active. We have a great team spirit and the business gives you the opportunity to develop. Training is vital to our success and I feel proud to be involved in training and developing people.

John Blowers, Repair Manager, Homeserve Property Repairs

However, we recognise that there is more to do, particularly in relation to growing concern over changes to the Earth's climate. It is widely accepted that climate change has the potential to be the greatest and widest-ranging market failure ever seen. Last year, the influential Stern Report concluded that the benefits of strong, early action to contain climate change considerably outweigh the costs. It is also widely understood that the changes have occurred mainly as a result of human behaviour rather than natural causes.

It is clear that all businesses, whatever their industry sector, have a role to play in containing climate change. The most pressing area for action is on the release of greenhouse gases and in particular carbon dioxide (CO2). CO2 is a major greenhouse gas and is contributing to the warming of the atmosphere. To this end, we have decided to bring together the different practices of our operating businesses into a comprehensive environmental management system.

As part of the process, we plan to measure our "carbon footprint" – that is the amount of carbon we emit through energy use (electricity, gas and fuel oil); refrigerants used in systems such as air conditioning, business travel (air, rail and company cars) and employee commuting. We intend to report on our progress during this year in 2008.

Community & Charitable Giving

Homeserve is committed to assisting charities that have a direct impact on the communities in which its businesses operate. We are a member of 'Business in the Community' and have participated in a number of projects during the year.

Through its Employee Volunteering Programme, Homeserve GB put forward a team for ITV's Big Clean Up, a day of urban renewal in community areas in need of an environmental makeover. A day was spent at Goscote Valley in Walsall clearing, tidying and planting in this green space. Old Hall Special School and Christ Church Special Needs School have also benefited from the volunteer programme. Chem-Dry sponsored employees to be football coaches in the local community, culminating in a tournament for 600 children which was also sponsored by the business.

Employee support for high profile charity campaigns is encouraged and during the year, Homeserve opened one of its contact centres for Sport Relief to help take some of the thousands of donation pledges generated. The team answered 2,000 calls and collected over £50,000 in donations.

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

Individual charitable support is encouraged and employees can contribute to their chosen charities in a tax efficient manner through the Give As You Earn Scheme. As a large employer, Homeserve can also offer a great contribution to the efforts of the Blood Donor campaigns and this is regularly promoted to staff.

Directors' Biographies








Brian Whitty (53), 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 (42), BA (Hons) CdipAF
Chief Executive since April 2004. Appointed to the Board in May 2001. Founder of Homeserve which was originally a joint venture with South Staffordshire Group set up in 1993. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

Jonathan Simpson Dent (40), FCA, MA
Joined Homeserve as Chief Financial Officer in March 2007. Previously CFO at General Healthcare Group. Prior to that he spent four years at McKinsey followed by seven years at PepsiCo in a number of senior finance roles. Qualified as a chartered accountant with PriceWaterhouseCoopers.

JM Barry Gibson (55) * # ~ °
Appointed to the Board in April 2004. Currently senior non-executive Director of William Hill plc and National Express plc. Previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and non-executive Director of Somerfield plc.

Ian Carlisle (45)
Appointed to the Board in November 2004. Joined Homeserve in June 2003 as Chief Executive of Homeserve Emergency Services. Previously Managing Director of Autoglass Ltd, prior to which he was Divisional Commercial Director at Marks & Spencer plc.

Jon Florsheim (47)
Appointed to the Board and as Chief Executive of Homeserve GB in March 2007. Previously Chief Marketing Officer and Managing Director, Customer Group of British Sky Broadcasting. Prior to joining BSkyB in 1994, he was Marketing Director of Dixons Stores Group (now DSG International plc) and had marketing posts with Tesco.

John Maxwell (62), CA, CCMI, FRSA * # ~ °
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.

Ian Chippendale (58) * # ~ °
Appointed to the Board in January 2007. Currently Senior Independent Director of Thus plc. Previously Chairman of RBS Insurance, Group Chief Executive of the Direct Line Group of companies, Chief Executive of Privilege Insurance and Chairman of the Insurance Division of Provident Financial Ltd.

Emma Thomas (40), 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.

Edward Fitzmaurice (44), MBA, BE (Hons) †
Joined the executive team in April 2005 as Chief Executive of Homeserve Warranties from Dixons Stores Group (now DSG International plc) where he was Managing Director of Mastercare. Previously he worked in consultancy and engineering.

Rachael Hughes (36), BA (Hons) †
Appointed as Chief Executive of Homeserve Europe in 2005 having been Managing Director of Doméo, Homeserve's joint venture with Generale des Eaux Services in France, since its 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.

Jeremy Middleton (46), BA (Hons) †
Non executive Director of the original Homeserve business set up in 1993. Previously a Brand Manager with Procter and Gamble and a Management Consultant with Price Waterhouse. Now acts as a Venture Capitalist specialising in early stage business.

Jonathan King (46), BSc (Hons) †
Appointed as Chief Executive of Home Service USA in 2005 following four years as Managing Director of Homeserve GB and a year as Business Development Director. He previously worked in retail marketing with the Boots Company as Group Brand Manager for No.7 Cosmetics.

Key:
- * Independent Non Executive
- # Audit Committee (Chairman: John Maxwell)
- ~ Nomination Committee (Chairman: Brian Whitty)
- ° Remuneration Committee (Chairman: Barry Gibson)
- † Executive Board only

Directors and Advisers

Directors	Brian Howard Whitty Richard David Harpin John Hunter Maxwell Ian Carlisle Ian Hugh Chippendale Jonathan Florsheim John Michael Barry Gibson Jonathan Simpson-Dent
Secretary	Caroline Emma Roberts Thomas
Registered Office	Cable Drive, Walsall, WS2 7BN Registered in England No 2648297
Stockbrokers	JP Morgan Cazenove Ltd 20 Moorgate, London, EC2R 6DA
Financial Advisers	UBS Investment Bank 1 Finsbury Avenue, London, EC2M 2PP
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	Slaughter & May One Bunhill Row, London, EC1Y 8YY
Bankers	HSBC Bank plc 130 New Street, 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 2007.

Principal activities
During the year the Group was engaged in the provision of insured repair solutions and emergency services to the home. Details of the Group activities and a review of the business are set out in the Chairman's Statement and Chief Executive's Review on pages 4 to 21.

Details of the financial position at the year end and the Key Performance Indicators used by the directors to assist in the management of the business and to provide evidence of the achievement of its strategies are included on pages 24 and 27 in the Financial Review.

A description of the principal risks and uncertainties facing the Group is included on pages 28 and 29 in the Financial Review.

Information relating to the environment and employees is included in the Corporate Social Responsibility report on pages 32 to 37.

Financial results and dividends
The Group's results are shown in the Group income statement on page 68. The directors are recommending the payment on 6 August 2007 of a final dividend of 17.5 pence per ordinary share to shareholders on the register at the close of business on 1 June 2007 which, together with the interim net dividend of 7.5 pence per ordinary share paid on 3 January 2007, results in a total net dividend for the year of 25.0 pence per share (2006: 20.0p). For further details of the dividend see note 11 to the accounts.

Directors
The directors who held office during the year were:

Brian Whitty
Richard Harpin
Andrew Belk (resigned 30 March 2007)
Ian Carlisle
Jon Florsheim (appointed 5 March 2007)
Jonathan Simpson-Dent (appointed 30 March 2007)
Ian Chippendale (appointed 1 January 2007)
JM Barry Gibson
Justin Jewitt (resigned 1 January 2007)
John Maxwell

Having been appointed since the last Annual General Meeting, Jon Florsheim, Jonathan Simpson-Dent and Ian Chippendale, will retire from the Board in accordance with the Articles of Association and, being eligible, will offer themselves for election. Ian Carlisle and John Maxwell retire by rotation and, being eligible, offer themselves for re-election. Messrs Florsheim, Simpson-Dent and Carlisle serve under contracts of employment terminable on 12 months notice by either party. Messrs Chippendale and Maxwell serve under three year renewable letters of appointment which provide for liquidated damages limited to the payment of a maximum of one year's fees in the event of termination by the Company.

The beneficial interests of the directors in the shares of the Company and the options held as at 31 March 2007 and 21 May 2007 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.

Each of the directors confirms that as far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that he has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report

Annual General Meeting
The following special business will be transacted at the Annual General Meeting of the Company, to be held on 30 July 2007 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"). The directors confirm that they presently have no intention to issue more than 7½% of the issued ordinary share capital shown in the latest published annual accounts by way of non pre-emptive issues for cash in any rolling three year period.

They also confirm that, in the event of an issue of shares other than on a pre-emptive basis, the amount of the discount, if any, at which equity is issued for cash other than to shareholders, will be limited to a maximum of 5% of the middle of the best bid and offer prices immediately prior to the announcement of an issue or proposed issue.

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 earnings per share. Any shares purchased would be cancelled.

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

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 £12.6m during the year.

Donations
Charitable donations of £34,000 (2006: £28,000) 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 2007 represent 65 days of purchases during the year (2006: 64 days) for the Group and 45 for the Company (2006: 45 days).

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 21 May 2007, except for the following:

	Ordinary Shares	%
Richard Harpin	10,987,609	16.9
AMVESCAP PLC	9,645,435	14.9
Schroders plc	4,040,299	6.2
Standard Life Investments Ltd	3,528,403	5.4
Jeremy Middleton	3,058,113	4.7
Legal & General Group plc	2,460,437	3.8

Taxation status
The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Employment policies
It is the Group's policy that all persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes, regardless of physical ability, age, gender, sexual orientation, religion or ethnic origin.

Homeserve applies employment policies that are fair and equitable for all employees and which ensure entry into and progression within the Company are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. Homeserve's training and development policies make it clear that it will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties.

Employee involvement

Homeserve attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting its performance and the market in which it operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report. Internal circulars and newsletters are issued on a regular basis and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable. Further details of Homeserve's policies and practices relating to employee involvement may be found on pages 32 of the Corporate & Social Responsibility Report.

Events after the balance sheet date

Other than in respect of the acquisition of 100% of the share capital of Multimaster Limited on 30 April 2007 as detailed in note 32, there have been no events after the balance sheet date.

By Order of the Board

Emma Thomas
Company Secretary
21 May 2007

Corporate Governance

Homeserve 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 for the balance of the Board between executive and non-executive directors between 5 March 2007 and 31 March 2007. As we announced today, Andrew Sibbald will be joining the Board as an independent non-executive director on 1 June 2007.

The manner in which the Company 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 relating to remuneration matters at pages 49 to 64 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 4 to 29.

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 reviewed and monitored. Regular reports on monthly performance and other matters of importance to the Group ensure that the Board is supplied in a timely manner with the information necessary to make informed judgments. In addition, the Board holds regular meetings, also attended by senior operational management, to devise and discuss the Company's medium and long term strategic focus and management development strategy. Regular formal and informal presentations are given and meetings held in order to apprise directors of issues of importance affecting the Group. Occasionally, meetings of the Board are held at the Company's operating sites other than Walsall, in order to afford the Board, particularly the non-executive directors, with the opportunity to meet with local management.

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 his appointment and is 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 of 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 acquisitions of significant companies or businesses, appointments to the Board and its committees, the Company's future strategy and its internal controls. It also provides that the Board receive regular updates from the chairmen of its committees.

During the year the Board was led by Brian Whitty, the Executive Chairman, who 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 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 Homeserve's business is delegated to an Executive Board, also led by Brian Whitty, and which includes Richard Harpin, Chief Executive, Ian Carlisle, Chief Executive of the Emergency Services division, Jon Florsheim, Chief Executive of Homeserve GB (from his appointment on 5 March 2007), Andrew Belk, Group Finance Director (until his resignation on 30 March 2007), and Jonathan Simpson-Dent, Chief Financial Officer (from his appointment on 30 March 2007). Other members of the Executive Board, together with autobiographical details, are listed on page 39.

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 served as the Company's independent senior non-executive director. In anticipation of the appointment of Jon Florsheim to the Board in March 2007, the Board recognised that the number of executive directors would outnumber the number of independent non-executive directors. Accordingly, it commenced a search for an additional independent non-executive director and on 21 May 2007 announced the forthcoming appointment of Andrew Sibbald to the Board from 1 June 2007. In addition, the Board is currently in the process of selecting a further independent non-executive director.

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates; and has adopted a formal policy on the induction and training of directors. Newly appointed Board members are required to undergo an induction programme, which includes obtaining a thorough understanding of the Group's various operations, and have the opportunity to receive formal training. During the year, the 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, offered and provided as appropriate.

The Board has 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 in April 2006, 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 June and October 2006 and a further review is planned to take place in September 2007.

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. The terms of Reference of each of the Board's committees can be viewed on the Company's website.

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by Brian Whitty and Barry Gibson and John Maxwell, independent non-executive directors both served on the committee throughout the year. Until his resignation from the Board on 1 January 2007, Justin Jewitt also served as a member of the Nomination Committee and Ian Chippendale was appointed as a member on the same date. Other members of the Board may be invited, but are not entitled, to attend its meetings. The Committee draws on the advice of such professional advisers as it considers necessary and, during the year, met informally on several occaisions to consider the possible appointment of further non-executive directors, including Ian Chippendale, and Andrew Sibbald, and of executive directors, including Jon Florsheim and Jonathan Simpson-Dent.

Its duties include the review of the size, structure and composition required of the Board, and succession planning for directors and other senior managers. During the year, these duties were undertaken by the Board itself.

Corporate Governance

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 Ian Chippendale are also members of the Committee, as was Justin Jewitt until 1 January 2007.

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 Chief Financial Officer 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 Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness and that of the external audit process; the results of the review were considered by the Board as a whole in June 2006.

Remuneration Committee

The Committee is chaired by Barry Gibson, who became Chairman on 1 January 2007. Justin Jewitt acted as Chairman during the year until his resignation on 1 January 2007. It comprises only independent non-executive directors, Ian Chippendale and John Maxwell being its other members.

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other members of the Executive Board, 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 has also agreed and implemented a procedure for reviewing and assessing its own effectiveness; the results of the review were considered by the Board as a whole in June 2006.

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 38 and 39.

Attendance at meetings

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee
No of meetings held	8	4	6	1
Meetings attended				
B H Whitty	8			1
R D Harpin	8			
A J Belk	8			
I Carlisle	8			
J Florsheim *	1			
J Simpson-Dent *	1			
J H Maxwell	8	4	6	1
J A S Jewitt *	6	3	3	1
J M B Gibson	8	4	6	1
I Chippendale *	2	1	3	

* Mr Chippendale was appointed on 1 January 2007 and Messrs Florsheim and Simpson-Dent were appointed on 5 and 30 March 2007 respectively. Mr Jewitt resigned on 1 January 2007.

Relationships with shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chairman and Chief Financial Officer 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 Homeserve 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 Group. 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 Group'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 2007/8, 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 on internal control published in October 2005 (Turnbull Guidance) 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.

Corporate Governance

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 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 and for local Boards of management, 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.

- The Committee has 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. This policy was reviewed and revised in accordance with best practice during the year.

- 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 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 and has been approved by the Board and the Remuneration Committee. 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 and agreeing with the Board the pay, benefits and contractual arrangements for the executive directors of the Company (including the Executive Chairman) and other members of 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 as updated in June 2006 ("the Code"). The Committee operates under the delegated authority of the Board and its Terms of Reference are available on the Company's website.

Membership

During the year, the Committee comprised each of the Board's three independent non-executive directors. Until his resignation from the Board on 1 January 2007, it was chaired by Justin Jewitt. Since that date, it has been chaired by JM Barry Gibson.

Meetings

Attendance at Committee meetings held during the year and the number of meetings held is set out on page 47.

Advisers

During the year New Bridge Street Consultants LLP (NBSC), a firm of independent remuneration consultants, served as advisers to the Committee. The Company also instructed NBSC to advise it on certain remuneration matters during the year. Other than in relation to advice on remuneration, NBSC has no other connections with the Company. The terms of engagement for NBSC are available on the Company's website.

The Committee has also received assistance from Brian Whitty, the Group's Executive Chairman, Richard Harpin, the Chief Executive, Emma Thomas, the Group Company Secretary and Claire Tiney, the Group HR Director, all of whom attended meetings of the Committee as required. None took part in discussions in respect of matters relating directly to their own remuneration.

Remuneration Report

Remuneration policy

The Committee's remuneration policy for the remuneration of executive directors and other senior executives is based on the following principles;

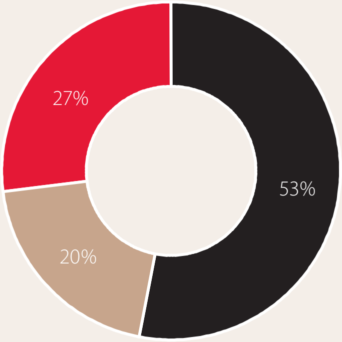
- to provide a remuneration package that is sufficient, but no more than necessary, to attract, retain and motivate high calibre executives;
- to align rewards with the Group's performance;
- to reward good performance with remuneration that is in line with that payable by broadly comparable businesses i.e. high-growth companies of similar size and those with similar operating characteristics;
- to reward exceptional performance in such a way as to align the executives' interests with those of the Company's shareholders, delivering 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 for executive directors is structured so that the variable pay element forms a significant portion of each director's package.

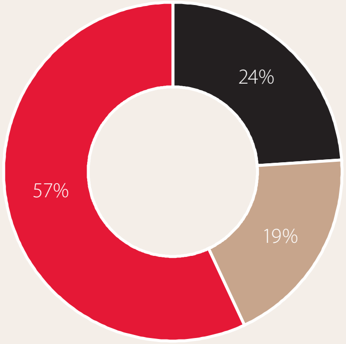
The charts opposite demonstrate the balance between fixed and variable pay at 'on-target' and maximum performance levels, in the case of the long term incentive arrangements assuming certain levels of share price growth. Maximum performance assumes the achievement of maximum bonus and full vesting of shares under the Company's long-term incentive arrangements.

They demonstrate the significant weighting of the package towards variable (performance-related) pay. In particular, the majority of executive directors' total remuneration at the maximum performance level will derive from the Company's long term incentive arrangements, which are strongly aligned to shareholder value creation.

On-target remuneration



Maximum remuneration



Fixed pay
Short term variable pay
Long term variable pay

Summary of components of executive directors' remuneration

Type	Objective	Performance Period	Policy
Basic Salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies	Annual (reviewed on 1 April)	Individual pay is determined by reference to the median pay for FTSE-250 companies for roles of a similar type and for a comparator group of companies of a similar size and growth profile
Performance-Related Bonus	To incentivise the delivery of Group and individual performance-related objectives	Annual (determined after the year-end)	Bonuses are determined by reference to the median for FTSE-250 companies, according to the Group's financial (80%) and individual (20%) performance
Pension	To provide benefits comparable with similar roles in similar companies	N/A	Pension benefits are determined by reference to the median for FTSE-250 companies. Only basic salary is pensionable
Other Benefits	To provide benefits comparable with similar roles in similar companies	N/A	Other benefits comprise a fully expensed car (or cash alternative) private health and (for Messrs Florsheim, Simpson-Dent and Whitty) long-term sickness cover
Long Term Incentives	To drive long-term delivery of the Group's objectives, to align directors' interests with those of the company's shareholders and to encourage exceptional performance with the opportunity to receive upper quartile rewards	3-5 years	Awards under the ESOP deliver rewards for EPS growth, awards under the KEIP deliver rewards for share price growth and profit performance, awards under the LTIP and DBP deliver rewards for TSR growth (subject to satisfactory underlying performance)

Remuneration Report

Remuneration for executive directors

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

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 determined taking into account market data on salary levels for similar positions at comparable companies.

Following a comprehensive review undertaken by NBSC in February 2007, the Committee has determined that the most appropriate comparator group against which to benchmark executive directors' basic salaries remains the FTSE-250 Index, and a comparator group of companies of a similar size and growth profile, taking into account the roles, responsibilities and experience of each director. However, taking into account the fact that executive directors' basic salaries were increased by an average of 10.1% in 2006/7, the Committee has decided to limit base salary increases to 3% in 2007/8, in line with the average of increases awarded to senior managers across the Group.

Annual bonus

The annual bonus is designed to drive and reward excellent short term operating 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 for 2007/8 will be maintained at 100% of basic salary (with the exception of Jon Florsheim (as noted below) whose maximum bonus potential is 150% of salary).

During the year, executive directors were able to earn up to 80% of bonus potential for Group financial performance, measured by profit before tax, amortisation and exceptional items. No bonus was payable unless the Company's profits achieved growth of at least 20% in comparison with the previous year; the remaining 20% of bonus potential was based on measurable personal targets, relating to the part of the business or function for which the director was responsible.

Following NBSC's review of the remuneration payable to executive directors, the Committee has agreed to retain the maximum bonus potential in 2007/8 at 100% of basic salary. This has been agreed on the basis that very demanding performance conditions will continue to apply, which will ensure that significant bonuses will only be payable where performance is well ahead of the budget as determined at the start of the year and that the comparable level of improvement in profit growth required is significantly ahead of bonus plans in the majority of FTSE-250 companies. As demonstrated by the disclosure above relating to annual bonus payments for 2006/7, profit-based targets have been set so as to require substantial improvements in profitability and the targets for 2007/8 are similarly challenging.

Any bonus earned in excess of 75% of basic salary (or, for Jon Florsheim, 100% of basic salary) must be invested in the Company's Deferred Bonus Plan. This share-based deferral element is designed to align further the interests of the executive directors with shareholders and, as the deferred shares are at risk of forfeiture if the executive leaves, is highly retentive.

The weighting between business and personal objectives will remain 80% financial: 20% personal. 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 60% of their basic salary (90% for Jon Florsheim).

Long term incentives

For the 2007/8 financial year, the Committee's policy for the provision of long-term incentives to executive directors will be to grant share options under the Executive Share Option Plan (ESOP) and to provide them with the opportunity to voluntarily invest their bonus into the Deferred Bonus Plan (DBP). The policy in respect of levels of grants under both schemes and the performance conditions pertaining to them has been reviewed by the Committee, which considers them to remain appropriate.

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 the Company's performance. Options are granted on an annual basis and become exercisable between three and ten 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. The maximum annual grant normally awarded to executive directors under the ESOP is 150% of salary, save in exceptional cases, for example on the appointment of a new executive director from outside of the Group.

Options will become exercisable based on the following scale;

Average normalised EPS^ growth per annum over 3 financial years	**Vesting level as percentage of overall award (%)**
RPI + 4%	25
RPI + 6%	50
RPI + 8%	75
RPI + 10%	100

^ EPS is defined as the normalised earnings per share of the Company as defined in FRS14.

In addition, options granted under the ESOP in 2006 will only become exercisable if the Company's share price reaches or exceeds £20.84 by the end of the three year performance period. It is expected that a similarly challenging share price target will be attached to any awards made under the ESOP in 2007. The Committee reviews the performance conditions applying to each new grant of awards and considers them to remain suitably challenging.

Details of awards granted under the ESOP in the year are shown on page 62.

In order to encourage executive directors to build up a personal shareholding in the Company, the DBP was introduced in 2005. Under the terms of the DBP, executive directors are able 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 (excluding investment trusts).

The table below demonstrates the vesting of matching shares under the DBP according to TSR growth;

TSR* performance	**Matching ratio**
Below median	Nil
Median	0.5:1
Median – upper decile	0.5:1-3: on a straight line basis
Upper decile	3:1

* TSR is averaged over the three months prior to the beginning and end of the performance period.

The Committee retains the discretion to decline to permit matching shares to vest if it is not satisfied that there has been a sustained improvement in the underlying financial performance of the Company at the time of vesting.

Shares invested in the DBP by executive directors may be withdrawn at any time during their appointment but any entitlement to matching shares will be forfeit in such circumstances.

Details of awards granted under the DBP in the year are shown on page 64.

Remuneration Report

The Committee considers that the mix of the different types of target offered under the ESOP and the DBP provide a good blend of incentives. Share options require the share price to increase in order to provide any benefit and the DBP requires investment by executives at the outset, providing strong alignment of interests between executives and shareholders. Similarly, the performance conditions (EPS growth for share options and relative TSR for the DBP) provide a good balance between long-term increases to profitability and relative stock market out-performance. The Committee has ensured that a consistent approach is taken to measuring EPS-based performance conditions through the transition from UK GAAP to international accounting standards.

The shares required for share options and awards under the DBP may be fulfilled by the purchase of shares in the market by the Company's employee benefit trust, or through newly issued shares, subject to the dilution limits within each scheme.

The LTIP was approved by shareholders in 2004. One-off awards of 200% of salary were made in that 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 five years from 2004. A further award was made to Mr Carlisle in June 2006 to incentivise him to achieve similar targets over a three year period to May 2009. Awards were granted as nil cost share options.

The table below demonstrates the vesting of awards under the LTIP according to absolute TSR growth;

TSR Performance	**Vesting of Award (%)**
Below 130%	Nil
130%	35
Between 130% and 180%	35 - 100 on a straight line basis
180% or more	100

Additionally the awards will not vest unless there has been EPS growth of at least 10% per annum above RPI over the performance period.

Details of awards under this plan are shown on page 63.

Executive directors may also participate in the Group's Save As You Earn Scheme (where share options are exercisable after three or five years at a discount of up to 20% of the market value of the shares at the time of grant) and in the Share Incentive Plan on the same basis as all other employees. No performance criteria are attached to these schemes.

In 2005, the Key Executive Incentive Plan (2005 KEIP) was introduced in order to incentivise Homeserve's senior executives (other than executive directors) to deliver its stretching growth plans for the three-year period to March 2008. The 2005 KEIP is a share option plan, under which options are only exercisable in full in the event that stretching profit targets (significantly in excess of budget) are achieved in 2007/8 and the Company's share price reaches an average of at least £17.50 for a three-month period during the 2008/9 financial year. Once the performance targets have been met, executives may only exercise 50% of the total amount exercisable; the remaining 50% are not exercisable until two years later.

Most grants under the KEIP were made in June 2005, when the Company's share price was £9.61. Grants under the KEIP have continued to be made to senior executives joining the Company during the year but it is not envisaged that further grants will be made under this scheme.

Executive directors were not eligible to participate in the 2005 KEIP.

Benefits
Non-pension benefits comprise company car and fuel allowance and medical insurance. The range of benefits and their value are considered to be broadly in line with those provided to executive directors in similar companies in the FTSE-250.

Shareholding guidelines
It is the Board's policy that executive directors and certain members of the Company's senior management build up and retain a minimum shareholding in the Company. Each executive director is encouraged to hold shares of at least equal value to his annual basic salary.

Accordingly, if the holding guideline has not been fulfilled at the point of exercise of any option or the vesting of any other long term incentive award, the director must retain 50% of the net proceeds in the Company's shares until the holding requirement is achieved.

Service contracts

The Committee's policy is to offer service contracts with notice periods of one year or less (other than, in exceptional circumstances, where longer initial notice periods may be offered on appointment, and then reduced to one year over time).

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
J Florsheim	5 March 2007
I Carlisle	1 April 2005
J Simpson-Dent	18 May 2007

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

Pensions

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

The WCPS is a funded, Inland Revenue approved occupational defined benefit scheme. Brian Whitty, Richard Harpin and Ian Carlisle are members of the WCPS. In respect of these directors, its main features were:

- 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 on completion of 40 years' service at an accrual rate of 80ths plus 3/80ths cash;
- life assurance of five times pensionable salary for Brian Whitty or five times basic salary for Richard Harpin and Ian Carlisle;
- pension payable in the event of ill health; and
- spouse's pension on death.

Where the benefits provided to executive directors under the WCPS are restricted as a result of an 'earnings cap' based on the Inland Revenue cap, indexed in line with earnings which was implemented by the Board with effect from 6 April 2006, further provision is made through unapproved money purchase arrangements (for Richard Harpin and Ian Carlisle) by making a cash payment of 20% of the amount by which the executive director's basic salary exceeds the cap.

With effect from 6 April 2006, all of Brian Whitty's retirement benefits are provided through the WCPS, on the basis of a pension accrual rate of 45ths of actual basic salary for future service (without any additional lump sum).

The HMP is a funded, Inland Revenue approved occupational defined contribution pension scheme. Jon Florsheim and Jonathan Simpson-Dent are members of the HMP, having joined since the year end. In respect of Jonathan Simpson-Dent, its main features are:

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

In respect of Jon Florsheim, its main features are;

- employer contributions of 8%;
- life assurance of five times basic salary;
- permanent health insurance; and
- spouse's pension on death

Where the benefits provided to executive directors under the scheme are restricted as a result of the 'earnings cap' described above, further provision is made by making a payment of 20% in cash of the amount by which his basic salary exceeds the cap in respect of Jonathan Simpson-Dent, and 8% into the HMP in respect of Jon Florsheim.

Remuneration Report

Jon Florsheim
In March 2007, Jon Florsheim joined the Group as Chief Executive of Homeserve GB, the Group's largest business. He was previously Chief Marketing Officer of British Sky Broadcasting plc (BSkyB). The Committee recognised that, in order to attract a senior executive of his calibre and background, capable of continuing and extending Homeserve GB's consistently exceptional growth, it would be necessary to offer a remuneration package comparable with that previously payable to him at BSkyB. It also recognised that it was necessary to compensate him for awards granted to him under BSkyB's long-term incentive schemes which remained unvested at the time of his joining the Group and would have almost certainly vested had he remained employed.

Accordingly, the Committee, with the support of the Company's executive directors, agreed that it should depart from its existing remuneration policy in devising its strategy for determining the remuneration payable to Mr Florsheim.

His basic annual salary, at £450,000, and annual bonus of 150% of salary, exceeds the upper quartile of those payable to directors with similar roles and responsibilities in the Committee's chosen comparator group but is comparable with that payable to him at BSkyB. In respect of his bonus objectives, up to 100% of his salary will be payable upon the achievement of targets applicable to all other executive directors; the remaining maximum 50% will be entirely dependent upon of the achievement of stretching targets relating to Homeserve GB.

Immediately following his appointment in March 2007, and pursuant to Listing Rule 9.4.2. (2) (LR 9.4.2), the Committee made a grant to Jon Florsheim under a Conditional Share Scheme (CSS) and a grant of shares under a key executive share option plan (the JF KEIP), in order partially to compensate him for the unvested awards under BSkyB's long term incentive plans, which lapsed on his resignation from that company, and to incentivise his performance in alignment with other senior executives in the Company. The conditional shares will vest in tranches, on the first (25%), second (25%) and third (50%) anniversary of grant. The options granted under the JF KEIP are only exercisable in full if the Company's growth plans, which significantly exceed its budget, and a significant increase in the Company's share price are achieved. Once the performance target has been met, 50% of the exercisable option will vest after three years; the remaining 50% are exercisable two years later. These awards were granted on a 'one-off' basis; future awards under the Company's existing long term incentive schemes will be made to Jon Florsheim on the same basis as to other executive directors. Further details of the CSS and JF KEIP are provided opposite.

As noted above, the Committee has determined that the remuneration package payable to Jon Florsheim represents a departure from its current remuneration strategy. It has not and will not be taken into account when determining the remuneration payable to other directors.

Jonathan Simpson-Dent
Immediately following his appointment as a director in March 2007, awards were granted to Jonathan Simpson-Dent under a ket executive share option plan which was also implemented pursuant to LR 9.4.2 (the JSD KEIP). This scheme is identical to the JF KEIP and awards were granted on the same basis. Again, the Committee has no intention of making further awards under the JSD KEIP.

Further details of the JSD KEIP are provided opposite.

Details of CSS, JF KEIP and JSD KEIP

	CSS	JF KEIP	JSD KEIP
Participant	Jon Florsheim	Jon Florsheim	Jonathan Simpson-Dent
Date of grant	12 March 2007	30 March 2007	30 March 2007
Maximum award (shares)	49,207	100,278	66,852
Price of shares at award date (£)	18.29	17.95	17.95
Option exercise price (£)	N/A	17.95	17.95
Pensionable?	No	No	No
Performance conditions			
Performance Period	1 (25%), 2 (25%) and 3 (50%) years from grant	3 (50%) years from grant or satisfaction of all performance of all performance conditions, whichever is later; remaining 50% vest 2 years later	3 (50%) years from grant or satisfaction of all performance of all performance conditions, whichever is later; remaining 50% vest 2 years later
Minimum share price for options to be exercisable (£)	N/A	32.50 (between 1 January and 31 December 2010)	32.50 (between 1 January and 31 December 2010)
Other performance targets	Continued employment at vesting date	Company profit growth, continued employment at vesting date	Company profit growth, continued employment at vesting date

Awards under each of the above schemes will be forfeit if the participant ceases to be a director or employee of the Company unless his employment ceases by reason of death, retirement, injury or disability, or redundancy, the transfer by the Company of a company which at the time of the transfer is his employer, or any other reason determined at the discretion of the Committee. In these circumstances, the Committee may use its discretion to allow the award to vest in full or in part and subject to such conditions as it sees fit, and in relation to the CSS, where the Committee determines that an award may vest, it will pro-rate the number of shares to vest in accordance with the participant's length of service. If the participant is transferred overseas whilst in the Company's employment and as a result of such transfer he will either suffer a tax disadvantage on the exercise of the option or vesting of the award, as the case may be, or become subject to restrictions on his ability to exercise the option or receive the award, due to the laws of the country to which he is transferred, the Committee may permit the early exercise of such options or vesting of such awards, as the case may be.

In the event of a take-over (not being an internal reorganisation) or the voluntary winding-up of the Company, the rules of each of the above schemes provide that awards may vest early, subject to the application of pro-rated reductions to take into account the length of time elapsed since the grant of the award. In the event of an internal reorganisation, the Committee may determine that existing awards be replaced by equivalent new awards over shares in a new holding company.

The awards under each of the above schemes are over shares held by the Employee Benefit Trust and do not confer any shareholder rights until shares thereunder are transferred.

Remuneration Report

The provisions in each of the above-mentioned schemes relating to the participants, the benefits subject to the schemes, the maximum entitlement under the schemes and that basis for determining the benefits to be provided thereunder in the event of any variation of the Company's share capital may not be altered to the advantage of the participant without the prior approval of shareholders in general meeting. However, this prior approval will not be required for any minor alteration to each of the schemes to benefit their administration, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participants or other employee or for any alteration to the performance conditions in the JF KEIP and JSD KEIP following an event which causes the Committee reasonably to consider that it would be appropriate to amend those performance conditions, which, once amended, will in the Committee's reasonable opinion not be materially more or less difficult to satisfy.

Non-executive directors

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. Non-executive directors are not entitled to bonus payments or pension arrangements, nor do they participate in the Company's long term incentive plans.

During the year, following a review of market practice for similar roles in FTSE-250 companies, the fee structure for non-executive directors was revised to reflect the time commitment and responsibility for carrying out non-executive duties. The basic fee for serving as a non-executive director was set at £37,500 per annum, the fee for chairing a committee of the Board was set at £7,500 and the fee payable to members of each committee who are not the Chair agreed at £2,500. An additional fee of £5,000 is payable to the senior independent non-executive director.

Details of their current three year appointments are as follows:

Name of director	Date of contract
J M B Gibson	6 April 2004
J H Maxwell	6 April 2004
I Chippendale	1 January 2007

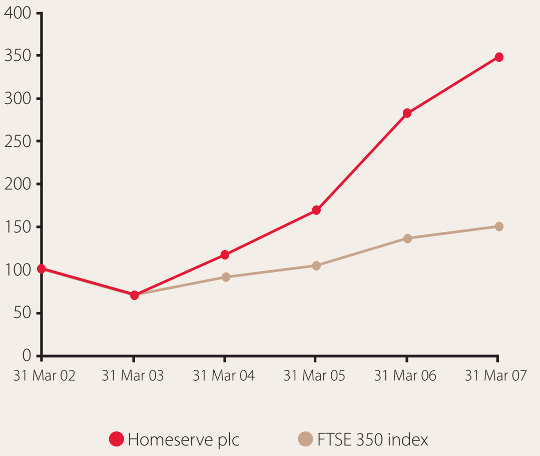
Executive Board

The following table sets out the base salaries of executive members of the Executive Board (other than executive directors) on a banded basis at 31 March 2007.

Base salary range	Number of employees
£200,001 - £250,000	2
£150,001 - £200,000	3

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-350 Index (also measured by TSR) for the five years ended 31 March 2007. This comparator has been chosen as it is used in respect of the Deferred Bonus Plan.



Audited information

Directors' Emoluments

	Basic salary £'000	Benefits £'000	Bonus £'000	Compensation for loss of office £'000	Total emoluments and compensation 2007 £'000	Total emoluments and compensation 2006 £'000
Executive						
B H Whitty	400	32	320	—	752	611
R D Harpin	360	29	288	—	677	579
A J Belk *	240	24	190	345	799	410
I Carlisle	300	25	246	—	571	479
J Florsheim *	96	1	—	—	97	—
J Simpson-Dent *	25	1	—	—	26	—
Non Executive						
J H Maxwell	53	—	—	—	53	48
J A S Jewitt*	36	—	—	—	36	43
J M B Gibson	44	—	—	—	44	35
I H Chippendale *	11	—	—	—	11	—
Total 2007	**1,565**	**112**	**1,044**	**345**	**3,066**	**—**
Total 2006	1,301	108	796	—	—	2,205

* Andrew Belk resigned on 30 March 2007
Jon Florsheim was appointed on 5 March 2007
Jonathan Simpson-Dent was appointed on 30 March 2007
Justin Jewitt resigned on 1 January 2007
Ian Chippendale was appointed on 1 January 2007

The annual bonus payable to each director in respect of 2006/7 represents the achievement of the Company's profit growth target (64%) and the achievement by each director of his personal targets (from 15% to 16%).

The amounts paid to Andrew Belk as compensation for loss of office represent pay in lieu of his contractual salary and benefits from the date of the termination of his employment on 30 April 2007 to the date on which his notice period would have expired had that notice period been served in full (23 January 2008).

Remuneration Report

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2007 £'000	2006 £'000
Emoluments	2,721	2,205
Compensation for loss of office	345	—
Gains on exercise of share options	1,244	1,300
Money purchase pension contributions	137	436
	4,447	3,941

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 2007 £'000	Increase in accrued pension in the year in excess of inflation £'000	Accrued pension 31 March 2006 £'000	Transfer value of increase in the year less directors' contributions £'000
B H Whitty	23	9	14	145
R D Harpin	20	6	14	69
I Carlisle	5	1	4	18

The following table sets out the transfer value of the director's 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 2007 £'000	Contributions made by the director £'000	Increase in transfer value in the year net of contributions £'000	Transfer value 31 March 2006 £'000
B H Whitty	419	—	169	250
R D Harpin	244	—	99	145
I Carlisle	67	—	25	42

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.

Three directors were members of money purchase schemes during the year. Contributions paid by the Company in respect of such directors were as follows:

	2007 £'000	2006 £'000
B H Whitty	—	313
R D Harpin	50	44
A J Belk	48	46
I Carlisle	38	33
J Florsheim	—	—
J Simpson-Dent	—	—

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 2007	31 March 2006
B H Whitty	97,961	82,480
R D Harpin	10,987,609	10,852,459
A J Belk	20,945	15,576
I Carlisle	19,096	9,699
J Florsheim	—	—
J Simpson-Dent	—	—
J H Maxwell	25,390	20,000
I H Chippendale	—	—
J M B Gibson	6,675	6,675

There were no changes in the directors' interests in shares between 31 March and 21 May 2007.

Directors' options and long term incentives

Save as you earn (Sharesave) schemes

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

	31 March 2007	Granted during year	Exercised during year	31 March 2006	Option price	Date granted	Date exercisable from
B H Whitty	3,524	—	—	3,524	466.0p	10.12.02	1.2.08
R D Harpin	1,753	—	—	1,753	918.0p	23.12.05	1.3.11
A J Belk	1,018	—	—	1,018	918.0p	23.12.05	1.3.09
I Carlisle	1,744	—	—	1,744	543.0p	30.12.04	1.3.08

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

Remuneration Report

Executive share option plan

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

	31 March 2007	Granted during year	Exercised during year	31 March 2006	Option price	Date granted
B H Whitty	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
	55,000	—	—	55,000	961.0p	28.6.05
	42,644	42,644	—	—	1407.0p	23.5.06
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
	51,000	—	—	51,000	961.0p	28.6.05
	38,380	38,380	—	—	1407.0p	23.5.06
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
	36,000	—	—	36,000	961.0p	28.6.05
	25,586	25,586	—	—	1407.0p	23.5.06
I Carlisle	42,500	—	—	42,500	470.0p	1.7.03
	65,000	—	—	65,000	661.0p	27.5.04
	42,500	—	—	42,500	961.0p	28.6.05
	31,983	31,983	—	—	1407.0p	23.5.06

Executive Share Options are exercisable between three and ten years from the date of grant subject to the satisfaction of the performance targets disclosed in the unaudited section of this report. For options granted after 2004 retesting is not permitted but for options granted before that date retesting of the performance criteria is permitted in years four and five with performance measured from a fixed date.

The price of an ordinary share on 24 May 2006 when Andrew Belk exercised options over 66,000 shares was £14.96. The price of an ordinary share on 29 September 2006 when he exercised options over 50,000 shares was £16.63. The aggregate gain on options exercised was £1.2m (2006: £1.3m).

From 2005, the normal maximum annual grant under the ESOP is 150% of salary, save in exceptional cases, for example on the appointment of a new executive director from outside of the Group.

Awards granted under the ESOP will lapse on the date that an executive leaves the Company's employment, except in the case of retirement, illness, redundancy or death, where the Committee has a discretion to allow options to be retained by the executive subject to such performance conditions as it wishes to impose.

There were no changes in the options held between 31 March and 21 May 2007.

EPS growth is calculated by the Company and independently verified by NBSC. As at March 2007, the Company's year on year EPS growth during the period since the date options were granted in 2003, 2004 and 2005 respectively is in each case in excess of 10%. If this level of performance were to continue until the date on which each grant becomes exercisable, all options would be exercisable in full.

Long term incentive plan

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

	31 March 2007	Awarded during year	Lapsed during year	Vested during year	31 March 2006	Date granted
B H Whitty	99,500	—	—	—	99,500	27.5.04
R D Harpin	83,000	—	—	—	83,000	27.5.04
A J Belk	59,000	—	—	—	59,000	27.5.04
I Carlisle	65,000	—	—	—	65,000	27.5.04
I Carlisle	29,940	29,940	—	—	—	8.6.06

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 five year performance period.

TSR is independently calculated by NBSC and verified by the Committee. At March 2007, NBSC has estimated that the Company's absolute TSR growth in the period since the date of the award is 204%. Accordingly, if no further increase in the Company's TSR occurs in the remainder of the performance period, 100% of the maximum number of options would be exercisable.

Conditional share scheme awards

Details of the maximum number of shares receivable under the CSS are as follows:

	31 March 2007	Awarded during year	Lapsed during year	Vested during year	31 March 2006	Date granted
J Florsheim	49,207	49,207	—	—	—	12.3.07

25% of the award will vest on the first anniversary of the grant, 25% of the award will vest on the second anniversary of the grant and the remaining 50% of the award will vest on the third anniversary of the grant, all providing Mr Florsheim remains in Homeserve's employment at the date of vesting.

JF and JSD KEIP Awards

Details of the individual share option awards held by directors are as follows:

	31 March 2007	Granted during year	Exercised during year	31 March 2006	Option price	Date granted
J Florsheim	100,278	100,278	—	—	1795.0p	30.3.07
J Simpson-Dent	66,852	66,852	—	—	1795.0p	30.3.07

The awards will vest in two tranches, with 50% of the award vesting at the earliest on the third anniversary of the date of grant and 50% two years later. The awards are subject to performance conditions in respect of PBT and Homeserve's share price. These conditions will be independently verified by NBSC.

Remuneration Report

Deferred Bonus Plan

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

	31 March 2007	Awarded during year	Lapsed during year	Vested during year	31 March 2006	Date granted
B H Whitty	70,626	—	—	—	70,626	2.8.05
	46,443	46,443	—	—	—	25.5.06
R D Harpin	58,854	—	—	—	58,854	2.8.05
	45,090	45,090	—	—	—	25.5.06
A J Belk	28,536	—	—	—	28,536	2.8.05
	16,107	16,107	—	—	—	25.5.06
I Carlisle	22,827	—	—	—	22,827	2.6.05
	28,191	28,191	—	—	—	25.5.06

The performance conditions attached to the conditional awards are the same as those set out in the unaudited section of the report on page 53. The price of an ordinary share on 25 May 2006, when the awards were made during the year, was £15.88.

At March 2007, the Company's TSR performance in the period from the date of grant of awards is below the upper decile in comparison with the comparator Group. If this performance were unchanged at the end of the performance period, the number of matching shares available to each participant would be 2.65 for the 2005 awards and 1.24 for the 2006 awards.

The market price of the Company's shares at 31 March 2007 was £17.83 (2006: £14.50). During the year the price ranged from £13.37 to £19.29.

Ordinary shares required to fulfil entitlements granted under the current schemes from 2004 onwards are provided by the Employee Benefit Trust (EBT). As beneficiaries under the EBT, the directors are deemed to be interested in the shares held by the EBT which at 31 March 2007 amounted to 2,530,000 ordinary shares.

By Order of the Board

J M Barry Gibson
Chairman of the Remuneration Committee
21 May 2007

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

Independent auditors' report to the members of Homeserve plc

We have audited the group financial statements of Homeserve plc for the year ended 31 March 2007 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 39. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Homeserve plc for the year ended 31 March 2007. 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and Financial Review that is cross referred from the Business Review section of the Directors' Report.
In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, 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 Group financial statements and the part of the Directors' Remuneration Report to be 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 Group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
21 May 2007

Group Income Statement

year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Revenue	4	**477,362**	367,001
Operating costs:			
Amortisation of acquisition intangibles	14	**(6,451)**	(3,658)
Other operating costs		**(407,822)**	(312,919)
Operating costs	6	**(414,273)**	(316,577)
Share of results of joint ventures	17	**555**	328
Operating profit		**63,644**	50,752
Investment income	8	**1,030**	702
Finance costs	9	**(3,596)**	(1,478)
Profit before tax, amortisation of acquisition intangibles and tax on joint ventures		**67,683**	53,634
Tax on joint ventures		**(154)**	—
Amortisation of acquisition intangibles	14	**(6,451)**	(3,658)
Profit before tax		**61,078**	49,976
Tax	10	**(19,118)**	(15,527)
Profit for the year being attributable to equity holders of the parent		**41,960**	34,449
Earnings per share			
Basic	12	**67.3p**	55.1p
Diluted	12	**64.8p**	53.6p

Group Statement of Recognised Income and Expense

year ended 31 March 2007

	Note	**2007** **£'000**	2006 £'000
Exchange differences on translation of foreign operations	30	**(56)**	120
Actuarial gains/(losses) on defined benefit pension scheme	36	**654**	(422)
Current tax on additional pension contribution		**132**	468
Deferred tax on items taken directly to equity	21	**(32)**	(415)
Net income/(expense) recognised directly in equity		**698**	(249)
Profit for the year		**41,960**	34,449
Total recognised income and expense for the year attributable to equity holders of the parent		**42,658**	34,200

Group Balance Sheet

31 March 2007

	Note	2007 £'000	2006 £'000 Restated (see note 2)
Non-current assets			
Goodwill	13	**191,722**	185,437
Other intangible assets	14	**42,072**	31,824
Property, plant and equipment	15	**38,020**	30,727
Interests in joint ventures	17	**1,747**	1,192
Deferred tax assets	21	**211**	—
		273,772	249,180
Current assets			
Inventories	18	**7,236**	5,708
Trade and other receivables	19	**158,692**	127,913
Cash and cash equivalents	19	**14,885**	17,081
		180,813	150,702
Total assets		**454,585**	399,882
Current liabilities			
Trade and other payables	22	**(161,435)**	(133,339)
Current tax liabilities		**(11,523)**	(9,994)
Bank overdrafts and loans	20	**(42,026)**	(33,411)
		(214,984)	(176,744)
Net current liabilities		**(34,171)**	(26,042)
Non-current liabilities			
Other financial liabilities	23	**(8,506)**	(18,785)
Retirement benefit obligation	36	**(647)**	(1,156)
Deferred tax liabilities	21	**—**	(2,088)
		(9,153)	(22,029)
Total liabilities		**(224,137)**	(198,773)
Net assets		**230,448**	201,109
Equity			
Share capital	24	**8,119**	8,075
Share premium account	25	**31,379**	29,998
Merger reserve	26	**70,992**	70,992
Own shares reserve	27	**(25,047)**	(16,668)
Share incentive reserve	28	**4,727**	1,626
Capital redemption reserve	29	**1,200**	1,200
Currency translation reserve	30	**64**	120
Retained earnings	31	**139,014**	105,766
Total equity		**230,448**	201,109

The financial statements were approved by the Board of directors and authorised for issue on 21 May 2007. There were signed on its behalf by:

Jonathan Simpson-Dent
Chief Financial Officer
21 May 2007

Group Cash Flow Statement

year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Net cash from operating activities	33	**52,538**	41,046
Investing activities			
Interest received		**1,030**	702
Disposal of subsidiary undertakings		**—**	(1,342)
Proceeds on disposal of property, plant and equipment		**611**	301
Purchases of intangible assets	14	**(4,519)**	(1,572)
Purchases of property, plant and equipment	15	**(12,609)**	(14,468)
Net cash outflow on acquisitions	32	**(30,171)**	(34,674)
Net cash flow from discontinued investing activities		**—**	669
Net cash used in investing activities		**(45,658)**	(50,384)
Financing activities			
Dividends paid	11	**(13,367)**	(10,688)
Repayments of borrowings		**—**	(2)
Repayments of obligations under finance leases		**—**	(30)
Purchase of own shares	27	**(8,379)**	(8,221)
Proceeds on issue of share capital	24	**1,425**	3,510
Increase in bank overdrafts	20	**11,245**	27,097
Net cash (used in)/from financing activities		**(9,076)**	11,666
Net (decrease)/increase in cash and cash equivalents		**(2,196)**	2,328
Cash and cash equivalents at beginning of year		**17,081**	14,753
Cash and cash equivalents at end of year		**14,885**	17,081

Notes to the Accounts

year ended 31 March 2007

1. General information

Homeserve plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 40. The nature of the Group's operations and its principal activities are set out in note 5 and in the Chief Executive's Review on pages 10 to 21.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 23	Borrowing Costs (March 2007)
IFRS 7	Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRS 8	Operating Segments
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 12	Service Concession Arrangements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Investments in joint ventures

The Group's share of results of joint ventures is included in the consolidated income statement using the equity method of accounting. The Group's share of their net assets is included in the consolidated balance sheet, including associated goodwill.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment annually or more frequently if there is an indication that it may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Policy Membership businesses

Revenue in respect of the Policy Membership businesses include amounts receivable from the sale of policies, stated net of commissions payable and Insurance Premium Tax.

Revenue is recognised on the sale of a 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. Revenue from contracts of reinsurance is recognised on a straight-line basis over the life of the policies. All associated costs are charged to the income statement as incurred. If claims costs under reinsurance contracts are expected to exceed revenue, the shortfall would be charged to the income statement immediately.

Emergency Services businesses

Revenue in the Emergency Services businesses represents amounts receivable, excluding VAT, from the sale of goods and services and is recognised on completion of the obligations relating to the work.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the Accounts

year ended 31 March 2007

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated after charging all operating costs and after the share of results of joint ventures but before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	25 - 50 years
Furniture, fixtures and equipment	7 years
Computer equipment	3 - 7 years
Motor vehicles	3 years (with 25% residual value)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Intangible assets

Intangible assets that are acquired on acquisition of a subsidiary undertaking or business are stated at their fair value and are amortised over their useful lives as follows:

Customer relationships/databases	3 – 7 years
Franchise assets	3 – 15 years

Computer software and the related licences are stated at cost and amortised over their useful lives of 3 – 7 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Notes to the Accounts

year ended 31 March 2007

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-Based Payments. In accordance with the transitional provision, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes model or Monte Carlo Simulation models depending on the type of scheme.

The Group also provides employees with the ability to purchase the Group's ordinary shares at a discount to the current market value through Save As You Earn schemes. The Group records an expense, based on its estimate of the discount related to shares expected to vest on a straight-line basis over the vesting period.

Restatement of deferred tax

While not previously defined as provisional, during the year the Directors have reassessed the recoverability of the unused tax losses of Recommend Limited, trading as Improveline, a company acquired by the Group in 2006. Tax losses with a fair value of £1,585,000 have now been recognised which has resulted in a reduction in goodwill of £1,585,000 at 31 March 2006 (note 13) with a corresponding increase in deferred tax assets (note 21).

The previously reported acquired net assets of Improveline were £2,344,000 resulting in goodwill of £9,093,000 and identified intangibles of £10,459,000. Following the restatement, the reported net assets at acquisition would have been £3,929,000, resulting in goodwill of £7,508,000. All other acquired balances remain unchanged. This adjustment has no impact on the reported earnings or net assets previously reported in 2006.

3. Judgements and estimation uncertainty

Revenue recognition

Within the Policy Membership business, an appropriate proportion of revenue is deferred to future periods when the Group has obligations extending to future periods. As a result, judgement is required in assessing the extent and associated costs of fulfilling those future obligations. The Group uses historical experience and forecast activity levels in determining the appropriate amount of revenue to recognise in the current period and how much to defer to future periods.

Impairment of goodwill

The annual impairment assessment in respect of goodwill requires estimates of the value in use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The carrying value of goodwill is £191,722,000 (2006: £185,437,000).

4. Revenue

An analysis of the Group's revenue is as follows:

	2007 £'000	2006 £'000
Provision of services	**477,362**	367,001
Investment income (see note 8)	**1,030**	702
	478,392	367,703

Revenue from discontinued operations relating to the provision of services amounts to £nil (2006: £2,188,000).

5. Business and geographical segments

Business segments

For management purposes, the Group is organised into two operating divisions, Policy Membership and Emergency Services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Policy Membership

Provision of underwritten cover for a range of domestic emergencies including plumbing and drains, electrical wiring, gas, central heating, electrical and other appliances and furniture.

Emergency Services

Provision of claims repairs on behalf of Household Insurers and our policy holders, from fire and flood restoration, glazing, locks, window and door frames, drainage repairs and permanent building repairs.

In addition, the Group was previously involved in Commercial Outsourcing which was discontinued in 2005. There were no activities or results from this segment during 2007. Amounts recorded in respect of 2006 relate to the completion of activities under a single contract, which was terminated during 2005 and contributed revenue of £2,188,000 and profit before tax of £nil in 2006.

Notes to the Accounts

year ended 31 March 2007

5. Business and geographical segments (continued)

Segment information about these businesses is presented below.

	Policy Membership 2007 £'000	Emergency Services 2007 £'000	Consolidated 2007 £'000
Revenue			
Total revenue	192,007	298,903	490,910
Intra-segment sales	—	(1,694)	(1,694)
	192,007	297,209	489,216
Inter-segment sales			(11,854)
External sales			477,362

Intra-Group sales are charged at prevailing market prices.

	Policy Membership 2007 £'000	Emergency Services 2007 £'000	Consolidated 2007 £'000
Result			
Segment result before joint ventures and amortisation of acquisition intangibles	53,563	15,977	69,540
Share of pre tax results of joint ventures	709	—	709
	54,272	15,977	70,249
Tax on joint ventures	(154)	—	(154)
Amortisation of acquisition intangibles	(884)	(5,567)	(6,451)
Operating profit	53,234	10,410	63,644
Investment income			1,030
Finance costs			(3,596)
Profit before tax			61,078
Tax			(19,118)
Profit for the year being attributable to equity holders of the parent			41,960

	Policy Membership 2007 £'000	Emergency Services 2007 £'000	Consolidated 2007 £'000
Other information			
Capital additions	8,122	9,006	17,128
Depreciation and amortisation	3,676	9,682	13,358
Balance sheet			
Assets			
Segment assets	314,288	138,550	452,838
Interests in joint ventures	1,747	—	1,747
Total assets	316,035	138,550	454,585
Liabilities			
Segment liabilities	(150,642)	(73,495)	(224,137)

	Policy Membership 2006 £'000	Emergency Services 2006 £'000	Consolidated 2006 £'000
Revenue			
Total revenue	161,394	218,106	379,500
Intra-segment sales	—	(128)	(128)
	161,394	217,978	379,372
Inter-segment sales			(12,371)
External sales			367,001

Intra-Group sales are charged at prevailing market prices.

Result			
Segment result before joint ventures and amortisation of acquisition intangibles	41,005	13,077	54,082
Share of pre tax results of joint ventures	328	—	328
	41,333	13,077	54,410
Tax on joint ventures	—	—	—
Amortisation of acquisition intangibles	(422)	(3,236)	(3,658)
Operating profit	40,911	9,841	50,752
Investment income			702
Finance costs			(1,478)
Profit before tax			49,976
Tax			(15,527)
Profit for the year being attributable to equity holders of the parent			34,449

Other information	Policy Membership 2006 £'000	Emergency Services 2006 £'000 Restated (see note 2)	Consolidated 2006 £'000 Restated (see note 2)
Capital additions	9,911	6,129	16,040
Depreciation and amortisation	2,617	6,624	9,241
Balance sheet			
Assets			
Segment assets	239,341	159,349	398,690
Interests in joint ventures	1,192	—	1,192
Total assets	240,533	159,349	399,882
Liabilities			
Segment liabilities	(149,190)	(49,583)	(198,773)

Notes to the Accounts

year ended 31 March 2007

5. Business and geographical segments (continued)

Geographical segments

The Group's operations are principally located within the United Kingdom.

The following table provides an analysis of the Group's sales by geographical destination:

	Sales revenue by geographical market	
	2007 £'000	2006 £'000
United Kingdom	**473,521**	365,144
United States	**3,841**	1,857
	477,362	367,001

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007 £'000	2006 £'000 Restated (see note 2)	**2007 £'000**	2006 £'000
United Kingdom	**445,528**	398,346	**16,689**	15,993
United States	**9,057**	1,536	**439**	47
	454,585	399,882	**17,128**	16,040

6. Profit for the year

Profit for the year from continuing operations has been arrived at after charging:

	2007 £'000	2006 £'000
Included in operating costs:		
Depreciation of property, plant and equipment	**5,169**	4,115
Cost of inventories recognised as expense	**27,561**	19,696
Amortisation of software licences	**1,738**	1,468
Staff costs	**129,637**	102,877
Auditors' remuneration for audit services	**243**	220
Amortisation of customer relationship intangibles	**4,325**	2,128
Amortisation of customer database intangibles	**884**	422
Amortisation of franchise asset intangibles	**1,242**	1,108
Other operating costs	**243,474**	184,543
	414,273	316,577

The analysis of auditors' remuneration is as follows:

	2007 £'000	2006 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**39**	33
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**204**	187
Total audit fees	**243**	220
Other services pursuant to legislation	**103**	70
Tax services	**227**	137
Other services	**—**	45
Total non-audit fees	**330**	252

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Corporate Governance statement on page 46 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. Staff costs

The average monthly number of employees (including executive directors) was:

	2007 Number	2006 Number
Policy Membership	**1,231**	1,090
Emergency Services	**3,087**	2,749
	4,318	3,839

	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	**115,381**	90,006
Social security costs	**12,329**	11,142
Other pension costs (see note 36)	**1,927**	1,729
	129,637	102,877

8. Investment income

	2007 £'000	2006 £'000
Interest on bank deposits	**1,030**	702

Notes to the Accounts

year ended 31 March 2007

9. Finance costs

	2007 £'000	2006 £'000
Interest on bank overdrafts and revolving credit facilities	**3,211**	1,411
Loan note interest	**385**	67
	3,596	1,478

10. Tax

	2007 £'000	2006 £'000 Restated (see note 2)
Current tax	**20,282**	16,382
Deferred tax (note 21)	**(1,164)**	(855)
	19,118	15,527

UK corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. In March 2007 the UK government announced that they would introduce legislation that would reduce corporation tax rate to 28% with effect from 1 April 2008. This legislation is expected to be substantially enacted in July 2007. If the change is enacted the deferred tax assets and liabilities, currently stated at 30% of the temporary differences, will be restated at 28% of those amounts. In addition the effective tax rate from the period to 31 March 2009 is expected to reduce accordingly.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2007 £'000	2006 £'000
Profit before tax	**61,078**	49,976
Tax at the UK corporation tax rate of 30% (2006: 30%)	**18,323**	14,993
Tax effect of expenses that are not deductible in determining taxable profit	**371**	240
Adjustments in respect of prior years – current tax	**(522)**	(502)
Adjustments in respect of prior years – deferred tax	**43**	301
Effect of overseas losses excluding joint ventures	**1,070**	593
Tax effect of share of results of joint venture	**(167)**	(98)
Tax expense for the year	**19,118**	15,527

11. Dividends

	2007 £'000	2006 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2006 of 13.9p (2005: 10.9p) per share	**8,668**	6,830
Interim dividend for the year ended 31 March 2007 of 7.5p (2006: 6.1p) per share	**4,699**	3,858
	13,367	10,688

Proposed final dividend for the year ended 31 March 2007 is 17.5p per share amounting to £10.9m (2006:13.9p per share amounting to £8.7m).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these accounts.

12. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2007	2006
	£'000	£'000
Profit for the year	**41,960**	34,449
Amortisation of acquisition intangibles	**6,451**	3,658
Tax impact arising on amortisation of acquisition intangibles	**(1,875)**	(1,097)
Adjusted profit for the year	**46,536**	37,010
Weighted average number of shares (000s)		
Basic	**62,303**	62,474
Dilutive impact of share options	**2,412**	1,741
Diluted	**64,715**	64,215

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles. This is considered to be a better indicator of the performance of the Group. As profit for the year and adjusted profit for the year are stated after tax, it is not considered necessary to include in the above reconciliation the impact of the adjustment for the tax on joint ventures of £154,000 (2006: £nil).

	2007	2006
Adjusted Basic	**74.7p**	59.2p
Adjusted Diluted	**71.9p**	57.6p

13. Goodwill

	£'000 Restated (see note 2)
Cost	
At 1 April 2005	159,262
Recognised on acquisition of subsidiaries	18,220
Recognition of deferred tax asset on acquired unutilised losses	(1,585)
Recognised on additional deferred consideration	9,540
At 1 April 2006 restated	185,437
Recognised on acquisition of subsidiaries (note 32)	7,739
Reduction in consideration	(1,454)
At 31 March 2007	**191,722**
Accumulated impairment losses	
At 1 April 2005, 1 April 2006 and 31 March 2007	—
Carrying amount	
At 31 March 2007	**191,722**
At 31 March 2006	185,437

The reduction in goodwill during the year reflects the reduction in the total consideration payable in respect of the acquisitions of Chem-Dry and Recommend Limited which were completed in 2006.

Notes to the Accounts

year ended 31 March 2007

13. Goodwill (continued)

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2007 £'000	2006 £'000 Restated (see note 2)
Warranties	**43,432**	43,432
Other Policy Businesses (comprising several CGUs and including minority interest buyout)	**75,737**	75,737
Total Policy Membership Business	**119,169**	119,169
Glass, Locks, Plumbing and Drains	**38,983**	38,983
Improveline	**6,458**	7,508
Property Repairs	**9,533**	9,533
Chem-Dry	**6,767**	7,027
Contents Services	**4,929**	—
Other Emergency Services Businesses (comprising several CGUs)	**5,883**	3,217
Total Emergency Services Business	**72,553**	66,268
	191,722	185,437

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on detailed business plans. Changes in selling prices and direct costs are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next three years and extrapolates cash flows based on an estimated growth rate of 2.5% (2006: 2.5%). The pre tax rate used to discount the forecast cash flows for all CGUs is 11.3% (2006: 11.3%).

14. Other intangible assets

	Acquisition intangibles					
	Customer relationships £'000	Customer databases £'000	Franchise assets £'000	Total acquisition intangibles £'000	Software licenses £'000	Total £'000
Cost						
At 1 April 2005	3,329	746	—	**4,075**	7,152	**11,227**
Additions	—	—	—	**—**	1,572	**1,572**
Disposals	—	—	—	**—**	(7)	**(7)**
Acquisitions	14,293	3,790	9,470	**27,553**	167	**27,720**
At 1 April 2006	17,622	4,536	9,470	**31,628**	8,884	**40,512**
Additions	—	—	—	**—**	4,519	**4,519**
Disposals	—	—	—	**—**	(16)	**(16)**
Acquisitions	8,740	4,304	874	**13,918**	—	**13,918**
At 31 March 2007	**26,362**	**8,840**	**10,344**	**45,546**	**13,387**	**58,933**
Accumulated amortisation						
At 1 April 2005	176	134	—	**310**	3,256	**3,566**
Charge for the year	2,128	422	1,108	**3,658**	1,468	**5,126**
Disposals	—	—	—	**—**	(4)	**(4)**
At 1 April 2006	2,304	556	1,108	**3,968**	4,720	**8,688**
Charge for the year	4,325	884	1,242	**6,451**	1,738	**8,189**
Disposals	—	—	—	**—**	(16)	**(16)**
At 31 March 2007	**6,629**	**1,440**	**2,350**	**10,419**	**6,442**	**16,861**
Carrying amount						
At 31 March 2007	**19,733**	**7,400**	**7,994**	**35,127**	**6,945**	**42,072**
At 31 March 2006	15,318	3,980	8,362	**27,660**	4,164	**31,824**

Acquisition intangibles represent non-monetary assets separately identifiable from goodwill and include customer relationships, customer databases and franchise assets.

Customer relationships and databases are amortised over their estimated useful lives, which are typically between 3 and 7 years. Franchise assets are amortised over their estimated useful lives of between 3 and 15 years.

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year ended 31 March 2007

15. Property, plant and equipment

	Land and buildings £'000	Furniture fixtures and equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2005	11,601	6,119	10,379	3,464	**31,563**
Additions	8,568	1,044	3,350	1,506	**14,468**
Acquisition of subsidiary	1,815	160	539	106	**2,620**
Disposals	(90)	(1,072)	(702)	(2,101)	**(3,965)**
At 1 April 2006	21,894	6,251	13,566	2,975	**44,686**
Additions	6,996	3,220	2,144	249	**12,609**
Acquisition of subsidiary	—	84	19	53	**156**
Disposals	(285)	(753)	(1,008)	(410)	**(2,456)**
At 31 March 2007	**28,605**	**8,802**	**14,721**	**2,867**	**54,995**
Accumulated depreciation					
At 1 April 2005	1,356	3,173	6,530	1,787	**12,846**
Charge for the year	776	899	1,898	683	**4,256**
Disposals	(79)	(950)	(611)	(1,503)	**(3,143)**
At 1 April 2006	2,053	3,122	7,817	967	**13,959**
Charge for the year	969	1,786	1,772	642	**5,169**
Disposals	(96)	(741)	(1,006)	(310)	**(2,153)**
At 31 March 2007	**2,926**	**4,167**	**8,583**	**1,299**	**16,975**
Carrying Amount					
At 31 March 2007	**25,679**	**4,635**	**6,138**	**1,568**	**38,020**
At 31 March 2006	19,841	3,129	5,749	2,008	**30,727**

The depreciation charge of £5,169,000 (2006: £4,256,000) includes £nil (2006: £141,000) relating to discontinued operations. The net book value of discontinued operations at 31 March 2007 is £nil (2006: £nil).

The carrying amount of the Group's fixtures and equipment includes an amount of £nil (2006: £nil) in respect of assets held under finance leases.

16. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 43 to the Company's separate financial statements.

17. Interests in joint ventures

The following amounts relate to the results of the interests in joint ventures:

	2007 Doméo £'000	**2007 Doméo Assistance £'000**	**2007 Total £'000**	2006 Doméo £'000	2006 Doméo Assistance £'000	2006 Total £'000
Result						
Non-current assets	**921**	**47**	**968**	758	41	799
Current assets	**13,684**	**1,522**	**15,206**	8,263	477	8,740
Total assets	**14,605**	**1,569**	**16,174**	9,021	518	9,539
Current liabilities	**(12,803)**	**(2,046)**	**(14,849)**	(8,352)	(617)	(8,969)
Net assets	**1,802**	**(477)**	**1,325**	669	(99)	570
Group share, 49%	**883**	**(234)**	**649**	328	(49)	279
Amount recognisable	**883**	**—**	**883**	328	—	328
Goodwill	**864**	**—**	**864**	864	—	864
Carrying amount	**1,747**	**—**	**1,747**	1,192	—	1,192
Revenues						
Total revenue	**14,180**	**1,156**	**15,336**	8,718	88	8,806
Total profit/(loss) after tax	**1,133**	**(378)**	**755**	1,576	(122)	1,454
Amount recognisable	**555**	**—**	**555**	328	—	328

The Group's share of the above results is £555,000 (2006: £328,000) reflecting the net liabilities of the Doméo Assistance joint venture in the current and prior year.

18. Inventories

	2007 £'000	2006 £'000
Raw materials	**841**	928
Work-in-progress	**4,704**	3,260
Finished goods	**1,691**	1,520
	7,236	5,708

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year ended 31 March 2007

19. Other financial assets

Trade and other receivables

	2007 £'000	2006 £'000
Amounts receivable for the provision of services	**92,997**	84,141
Other debtors	**57,854**	38,213
Loans to joint ventures	**724**	683
Prepayments and accrued income	**7,117**	4,876
	158,692	127,913

The average credit period taken on provision of services is up to 70 days (2006: 65 days) reflecting continuous payment methods within Policy Membership businesses. No interest is charged on the receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £3.0 million (2006: £0.7million). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Cash balances and cash equivalents

Cash balances and cash equivalents of £14,885,000 (2006: £17,081,000) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

20. Bank overdrafts and loans

All of the Group's borrowings are denominated in sterling.

	2007 £'000	2006 £'000
Bank overdrafts and revolving credit facilities	**41,539**	30,294
Loan notes	**487**	3,117
	42,026	33,411
The borrowings are repayable as follows:		
On demand or within one year	**42,026**	33,411

	2007 %	2006 %
The weighted average interest rates were paid as follows:		
Bank overdrafts and revolving credit facilities	**5.5**	5.2
Loan notes	**4.7**	4.1

Revolving credit facilities are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate the fair value of the Group's borrowings as follows:

	2007 £'000	2006 £'000
Bank overdrafts and revolving credit facilities	**41,539**	30,294
Loan notes	**487**	3,117
	42,026	33,411

The other principal features of the Group's borrowings are as follows:

i. Bank overdrafts are repayable on demand.
ii. The Group has revolving credit facilities with a number of banks totalling £100 million (2006: £100 million). Of these facilities, £30 million expire within one year and £70 million expire in more than one year, but less than two years.
iii. Loan notes are repayable on demand, subject to a minimum initial maturity of 6 months.
iv. All of the Group's borrowings are at floating rates at margins of between 0.1% and 1% above LIBOR.

At 31 March 2007, the Group had available £47.8 million (2006: £74.2 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

21. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year.

	Accelerated tax depreciation £'000	**Retirement benefit obligations £'000**	**Share schemes £'000**	**Acquired intangible assets £'000**	**Unutilised losses £'000**	**Acquired property £'000**	**Total £'000**
At 1 April 2005	(638)	665	2,079	(908)	—	(585)	**613**
(Charge)/credit to income	(235)	—	299	961	(170)	—	**855**
Credit to equity	—	—	2,052	—	—	—	**2,052**
(Charge)/credit to equity	—	(427)	—	—	—	12	**(415)**
Acquisition of subsidiary	—	—	—	(6,778)	1,585	—	**(5,193)**
At 1 April 2006 restated (see note 2)	(873)	238	4,430	(6,725)	1,415	(573)	**(2,088)**
(Charge)/credit to income	(245)	—	1,011	1,387	(989)	—	**1,164**
Credit to equity	—	—	2,727	—	—	—	**2,727**
(Charge)/credit to equity	—	(44)	—	—	—	12	**(32)**
Acquisition of subsidiary	—	—	—	(1,560)	—	—	**(1,560)**
At 31 March 2007	**(1,118)**	**194**	**8,168**	**(6,898)**	**426**	**(561)**	**211**

Notes to the Accounts

year ended 31 March 2007

21. Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2007 £'000	2006 £'000 Restated (see note 2)
Deferred tax liabilities	**(8,577)**	(8,171)
Deferred tax assets	**8,788**	6,083
Net deferred tax asset/(liability)	**211**	(2,088)

At the balance sheet date, the Group has unused tax losses of £4.8 million (2006 restated: £4.2 million) available for offset against future profits and which can be carried forward indefinitely. Other than on the acquisition of Improveline, no defered tax asset has been recognised on these losses due to the uncertainty of their future recovery.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2006: £nil).

Temporary differences arising in connection with interests in joint ventures are insignificant.

22. Current liabilities – Trade and other payables

	2007 £'000	2006 £'000
Trade creditors and accruals	**68,570**	58,147
Deferred consideration	**2,368**	13,678
Payments in advance	**420**	214
Deferred income	**12,895**	—
Taxes and social security, excluding current tax	**5,156**	3,358
Other creditors	**72,026**	57,942
	161,435	133,339

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 65 days (2006: 64 days).

The directors consider that the carrying amount of trade payables approximates their fair value.

23. Non current liabilities – Other financial liabilities

	Deferred income £'000	**Deferred consideration £'000**	**Total £'000**
At 1 April 2006	14,593	4,192	18,785
Movement in year	(12,355)	2,076	(10,279)
At 31 March 2007	**2,238**	**6,268**	**8,506**

Deferred consideration relates to future amounts payable on the acquisition of Homeserve Emergency Services Limited in 2002 and the 2006 acquisitions of FirstEnergy Policies and Digital Insurance Services Limited. The movement in the year represents the reclassification of an element of the liability to less than one year and the acquisitions in the year.

Deferred income represents Policy Membership turnover where an obligation exists to provide future services. An appropriate proportion of monies received in advance are treated as deferred and recognised over the relevant period.

24. Share capital

	2007 £'000	2006 £'000
Authorised:		
70,400,000 ordinary shares of 12½p each	**8,800**	8,800
Issued and fully paid:		
64,957,000 ordinary shares of 12½p each		
(2006: 64,603,000 ordinary shares of 12½p each)	**8,119**	8,075

The Company has one class of ordinary shares which carry no right to fixed income.

Share capital represents consideration received for the nominal value of 12½p per share on all issued and fully paid shares.

During the year the Company issued 354,000 shares for total consideration of £1,425,000.

25. Share premium account

	Share premium account £'000
Balance at 1 April 2005	26,576
Premium arising on issue of equity shares	3,422
Balance at 1 April 2006	29,998
Premium arising on issue of equity shares	1,381
Balance at 31 March 2007	**31,379**

The share premium account represents consideration received for authorised and issued shares in excess of the nominal value of 12½p per share.

26. Merger reserve

	Merger reserve £'000
Balance at 1 April 2005, 1 April 2006 and 31 March 2007	**70,992**

The merger reserve represents the issue on 6 April 2004 of 11,600,000 new shares relating to the acquisition of the minority interest held in the Group at that date. The reserve reflects the difference between the nominal value of shares of 12½p and the share price immediately preceding the issue of £6.24½p per share.

Notes to the Accounts

year ended 31 March 2007

27. Own shares reserve

	Own shares reserve £'000
Balance at 1 April 2005	8,447
Acquired in the year	8,221
Balance at 1 April 2006	16,668
Acquired in the year	8,379
Balance at 31 March 2007	**25,047**

The own shares reserve represents the cost of shares in Homeserve plc purchased in the market and held by the Homeserve plc Employee Benefit Trust. The shares are held to satisfy certain of the options under the Group's share option schemes and are recognised at cost. The Employee Benefit Trust holds 2,530,000 shares (2006: 1,994,544 shares).

28. Share incentive reserve

	Share incentive reserve £'000
Balance at 1 April 2005	1,200
Share based payment charges in the year	2,058
Share options exercised in the year	(1,632)
Balance at 1 April 2006	1,626
Share based payment charges in the year	3,361
Share options exercised in the year	(260)
Balance at 31 March 2007	**4,727**

The share incentive reserve represents the cumulative charges to income under IFRS 2 'Share Based Payments' on all share options and schemes granted after 7 November 2002 that had not vested as at 1 January 2005, net of share option exercises.

29. Capital redemption reserve

	Capital redemption reserve £'000
Balance at 1 April 2005, 1 April 2006 and 31 March 2007	**1,200**

The capital redemption reserve arose on the redemption of 1,200,000 £1 redeemable preference shares on 1 July 2002.

30. Currency translation reserve

	Currency translation reserve £'000
Balance at 1 April 2005	—
Movement in the year	120
Balance at 1 April 2006	120
Movement in the year	(56)
Balance at 31 March 2007	**64**

The currency translation reserve represents the translation of the assets and liabilities of the Group's overseas operations at year end exchange rates.

31. Retained earnings

	Retained earnings £'000
Balance at 1 April 2005	77,357
Dividends	(10,688)
Total statement of recognised income and expense	34,200
Share options exercised in the year	1,632
Deferred tax asset on share option gains taken directly to equity	2,052
Current tax on exercised share options taken directly to equity	1,333
Exchange differences	(120)
Balance at 1 April 2006	105,766
Dividends	(13,367)
Total statement of recognised income and expense	42,658
Share options exercised in the year	260
Deferred tax asset on share option gains taken directly to equity	2,727
Current tax on exercised share options taken directly to equity	914
Exchange differences	56
Balance at 31 March 2007	**139,014**

Notes to the Accounts

year ended 31 March 2007

32. Acquisitions

On 21 April 2006, the Group acquired certain of the trade and assets of Pilkington United Kingdom Limited relating to the glazing division of Pilkington Building Products. The business undertakes glazing repairs on a nationwide basis.

On 17 August 2006, the Group acquired 20,000 Home Assistance policies from FirstEnergy and simultaneously signed a marketing agreement with FirstEnergy Corp providing access to up to 3.4m households.

On 26 October 2006, the Group acquired 100% of the share capital of Digital Insurance Services Limited, a provider of home insurance and contents claims validation and fulfilment services.

Subsequent to the year end on 30 April 2007, the Group acquired 100% of the share capital of Multimaster Ltd, a leading furniture warranty and service provider.

All these transactions have been accounted for by the purchase method of accounting. The provisional fair value of the identifiable assets and liabilities of the acquisitions were:

	Pilkington £'000	**First-Energy £'000**	**Digital Insurance Services Limited £'000**	**Total £'000**	Multimaster Limited £'000
Net assets acquired:					
Property, plant and equipment	130	—	26	**156**	1,327
Inventories	66	—	99	**165**	319
Trade and other receivables	1,849	—	477	**2,326**	2,109
Cash and cash equivalents	—	—	1	**1**	2
Trade and other payables	(2,007)	—	(567)	**(2,574)**	(2,776)
Deferred tax liability	—	—	(1,432)	**(1,432)**	—
	38	—	(1,396)	**(1,358)**	981
Intangible assets identified on acquisition	3,965	4,304	4,775	**13,044**	—
Goodwill	2,666	—	4,929	**7,595**	4,318
Total consideration	6,669	4,304	8,308	**19,281**	5,299
Satisfied by:					
Cash	6,500	2,136	3,040	**11,676**	5,024
Contingent consideration	—	1,541	5,000	**6,541**	—
Directly attributable costs	169	627	268	**1,064**	275
	6,669	4,304	8,308	**19,281**	5,299
Net cash outflow arising on acquisition:					
Cash consideration and directly attributable costs	6,669	2,763	3,308	**12,740**	5,299
Cash and cash equivalents acquired	—	—	(1)	**(1)**	(2)
	6,669	2,763	3,307	**12,739**	5,297

Total fair value adjustments of £425,000 were made on the acquisition of Pilkington, reducing the net assets to align accounting policies and reflect the fair value of certain trade and other receivables. There were no fair value adjustments on the other acquisitions completed during the year.

In addition to the net cash outflow arising on acquisition above of £12,739,000, there were further cash outflows in respect of the acquisition of a number of individually immaterial acquisitions amounting to £1,124,000 resulting in £874,000 of intangible assets, £144,000 of goodwill and £106,000 of other net assets. Contingent consideration of £16,308,000 was also paid in the year following the 2002 acquisition of Highway Emergency Services Limited and the 2005 purchase of National Property Solutions Limited.

Intangible assets identified on the acquisition of Pilkington and Digital Insurance Services Limited represent the directors' estimate of the fair value of the customer relationships at acquisition. Intangible assets identified on FirstEnergy reflect the directors' estimate of the value of the acquired customer database.

An exercise to determine the intangible assets currently subsumed within goodwill on Multimaster Limited is yet to be undertaken. This exercise will be completed for the 2007/8 interim accounts.

Goodwill represents future cross sell opportunities, efficiency savings, synergies and potential new client wins from these acquisitions.

If all the acquisitions had been completed on the first day of the financial year, Group revenues for the period and Group operating profit attributable to equity holders of the parent would have been £479,637,000 and £63,455,000 respectively.

The post acquisition operating profit or loss from these acquisitions in the year ended 31 March 2007 was as follows:

	Pilkington £'000	**Digital Insurance Services Limited £'000**	**Total £'000**
Operating profit/(loss)	607	(262)	345

The contribution from the acquisition of FirstEnergy policies is subsumed within the overall performance of the US business and it is not practicable to separately identify the operating profit attributable to this acquisition.

33. Notes to the cash flow statement

	2007 £'000	2006 £'000
Operating profit	**63,644**	50,752
Adjustments for:		
Depreciation of property, plant and equipment	**5,169**	4,115
Amortisation of intangible assets	**8,189**	5,126
Share based payments expense	**3,361**	2,058
Share of profits in joint ventures	**(555)**	(328)
(Profit)/loss on disposal of property, plant and equipment and software licences	**(308)**	128
Additional pension contributions	**—**	(2,000)
Operating cash flows before movements in working capital	**79,500**	59,851
Increase in inventories	**(1,363)**	(513)
Increase in receivables	**(28,453)**	(27,786)
Increase in payables	**23,957**	24,077
Cash generated by operations	**73,641**	55,629
Income taxes paid	**(17,313)**	(13,871)
Interest paid	**(3,790)**	(1,478)
Net cash from continuing operating activities	**52,538**	40,280
Net cash inflow from discontinued operating activities	**—**	766
	52,538	41,046

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

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year ended 31 March 2007

34. Operating lease arrangements

The Group as lessee

	2007 **£'000**	2006 £'000
Minimum lease payments under operating leases recognised in income for the year	**6,817**	6,384

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 **£'000**	2006 £'000
Within one year	**3,666**	5,505
In the second to fifth years inclusive	**8,471**	9,854
After five years	**8,001**	6,998
	20,138	22,357

Operating lease payments principally represent rentals payable by the Group for certain of its land and buildings and motor vehicles.

35. Share Based Payments
During the year ended 31 March 2007, the Group had 6 (2006: 5) share based payment arrangements, which are described below:

i) **Executive Share Option Plan ("ESOP")**
The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

ii) **Key Executive Incentive Plan ("KEIP")**
The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting is dependent upon the Profit Before Tax of the Group for the year ending 31 March 2008 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) **Long Term Incentive Plan ("LTIP")**
The LTIP provides for the grant of nil cost options. The vesting period is five years and is dependent upon the Total Shareholder Return performance of the Group over the five years ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iv) **Deferred Bonus Plan ("DBP")**
The Deferred Bonus Plan enables the individual to defer receipt of their annual cash bonus (up to a maximum of 100%) and to invest an equivalent amount in the ordinary share capital of the Company. The deferred bonus may be matched by the Company dependent upon the Company's relative Total Shareholder Return over a three year period, up to a maximum of 300% of the deferred amount for upper decile performance. The shares cannot normally be exercised for three years and lapse if not exercised within 10 years from the date of grant.

v) **Save As You Earn Scheme ("SAYE")**
The SAYE is open to all UK employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discretionary discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

vi) **Conditional Share Schemes ("CSS")**
Awards under the Conditional Share Scheme vest in three tranches on the first (25%), second (25%) and third (50%) anniversary of the grant.

	ESOP	KEIP	LTIP	DBP(i)	SAYE	CSS
2006						
Number						
Outstanding at 1 April 2005	2,341,600	—	381,500	—	530,959	—
Granted	498,000	1,408,000	55,000	68,884	245,946	—
Lapsed	(75,000)	(96,500)	—	—	(134,528)	—
Exercised	(635,000)	—	—	—	(113,638)	—
Outstanding at 31 March 2006	2,129,600	1,311,500	436,500	68,884	528,739	—
Exercisable at 31 March 2006	250,100	—	—	—	1,418	—
Weighted average exercise price (£)						
Outstanding at 1 April 2005	5.47	—	—	—	5.01	—
Granted	9.61	10.11	—	—	9.18	—
Lapsed	6.12	9.61	—	—	5.08	—
Exercised	4.75	—	—	—	4.23	—
Outstanding at 31 March 2006	4.43	10.15	—	—	7.10	—
Exercisable at 31 March 2006	5.14	—	—	—	4.66	—
Range of exercise proceeds for options outstanding at 31 March 2006	£3.67 - £6.61	£9.61 - £15.76	—	—	£4.66 - £9.18	—
Weighted average remaining contractual life	8	10	3	2	4	—
Weighted average fair value of options awarded in 2006	£3.18	£1.13	£7.17	£13.54	£2.87	—
2007						
Number						
Outstanding at 1 April 2006	2,129,600	1,311,500	436,500	68,884	528,739	—
Granted	642,602	284,630	29,940	101,304	201,727	49,207
Lapsed	(51,069)	(140,000)	—	—	(63,783)	—
Exercised	(419,014)	—	—	—	(17,601)	—
Outstanding at 31 March 2007	2,302,119	1,456,130	466,440	170,188	649,082	49,207
Exercisable at 31 March 2007	573,544	—	—	—	—	—
Weighted average exercise price (£)						
Outstanding at 1 April 2006	4.43	10.15	—	—	7.10	—
Granted	14.07	17.99	—	—	14.48	£18.29
Lapsed	13.20	10.00	—	—	8.24	—
Exercised	5.20	—	—	—	5.17	—
Outstanding at 31 March 2007	8.82	11.70	—	—	9.33	£18.29
Exercisable at 31 March 2007	5.19	—	—	—	—	—
Range of exercise proceeds for options outstanding at 31 March 2007	£3.78 - £14.07	£9.61 - £18.04	—	—	£4.66 - £14.48	£18.29
Weighted average remaining contractual life	7	9	2	2	3	2
Weighted average fair value of options awarded in 2007	£3.13	£2.52	£6.24	£7.68	£6.04	£18.29

Notes: i) The figures in the table relate to the number of deferred share options only.

Notes to the Accounts

year ended 31 March 2007

The estimated fair values are calculated by applying a Black Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP, LTIP and Deferred Bonus Plan. The assumptions used in the models are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% - 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	4.2% - 5.1%

Levels of early exercises and lapses are estimated using historical averages.

The Group recognised total expenses of £3,361,000 (2006: £2,058,000) related to equity-settled share-based payment transactions.

36. Retirement benefit scheme

Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £1,306,000 (2006: £1,191,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2007, contributions of £nil (2006: £nil) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

The Group participates in a defined benefit scheme, the Water Companies Pension Scheme, for qualifying employees. This is a sectionalised final salary scheme and the Group participates in the Homeserve plc Section of the Scheme. The Section funds are administered by the trustees and are independent of the Group's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. The Section has a history of raising pensions in line with price inflation, and these increases are reflected in the measurement of the obligation.

The results of the actuarial valuation as at 1st April 2005 were updated to the accounting date by an independent qualified actuary in accordance with IAS19. As required by IAS19, the value of the defined benefit obligation, the past service cost and the current service cost have been measured using the projected unit credit method.

	Valuation at	
	2007	2006
	£'000	£'000
Key assumptions used:		
Discount rate at 31 March	**5.2%**	4.9%
Retail price inflation	**3.2%**	3.0%
Expected rate of salary increases	**5.2%**	5.0%
Future pension increases	**3.2%**	3.0%
Expected rate of return on scheme assets at 31 March	**7.8%**	6.9%
Life expectancy of male aged 60 at balance sheet date	**25.7 years**	25.6 years

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2007 £'000	2006 £'000
Current service cost	**630**	449
Interest cost	**665**	549
Expected return on scheme assets	**(818)**	(579)
Past service cost	**144**	119
	621	538

Of the charge for the year, £621,000 (2006: £538,000) has been included in operating costs. Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was £1,238,000 (2006: £2,207,000).

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2007 £'000	2006 £'000
Present value of defined benefit obligations	**(14,535)**	(13,200)
Fair value of scheme assets	**13,888**	12,044
Deficit in scheme	**(647)**	(1,156)
Past service cost not yet recognised in balance sheet	**—**	—
Liability recognised in the balance sheet	**(647)**	(1,156)

This amount is presented in the balance sheet as follows:

Non-current liabilities	**(647)**	(1,156)
	(647)	(1,156)

Movements in the present value of defined benefit obligations in the current period were as follows:

	2007 £'000	2006 £'000
At 1 April	**13,200**	9,854
Employer's part of the current service cost	**630**	449
Interest cost	**665**	549
Contributions from scheme members	**98**	106
Actuarial gains and losses	**(234)**	2,050
Benefits paid	**32**	73
Past service cost	**144**	119
At 31 March	**14,535**	13,200

Notes to the Accounts

year ended 31 March 2007

36. Retirement benefit scheme (continued)

Movements in the fair value of scheme assets in the current period were as follows:

	2007 £'000	2006 £'000
At 1 April	**12,044**	7,276
Expected return on scheme assets	**818**	579
Actuarial gains and losses	**420**	1,628
Contributions from the sponsoring companies	**476**	2,382
Contributions from scheme members	**98**	106
Benefits paid	**32**	73
At 31 March	**13,888**	12,044

Note – "benefits paid" represents an inflow into the Section as a result of transfer payments received.

The amount recognised outside profit or loss in the statement of recognised income and expense for 2007 is a gain of £654,000 (2006: loss of £422,000). The cumulative amount recognised outside profit and loss at 31 March 2007 is a loss of £140,000.

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		**Fair value of assets**	
	2007 %	2006 %	**2007 £'000**	2006 £'000
Equity instruments	**7.8**	7.4	**13,894**	10,057
Other assets	**4.5**	4.2	**(6)**	1,987
			13,888	12,044

The overall expected rate of return on assets for the financial year ending 31 March 2007 was 6.9% pa (2006: 7.7% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Section was invested in at 31 March 2006.

The history of experience adjustments is as follows.

	2007 £'000	2006 £'000	2005 £'000
Present value of defined benefit obligations	**(14,535)**	(13,200)	(9,854)
Fair value of scheme assets	**13,888**	12,044	7,276
Deficit in scheme	**(647)**	(1,156)	(2,578)

	2007	2006	2005
Experience adjustments on scheme liabilities			
Amount of loss/(gain) (£'000)	**144**	95	(107)
Percentage of scheme liabilities (%)	**1**	1	(1)
Experience adjustments on scheme assets			
Amount of gain (£'000)	**(420)**	(1,628)	(206)
Percentage of scheme assets (%)	**(3)**	(14)	(3)

In subsequent accounting periods a history (building up to 5 years) of the Section's experience will be illustrated.

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £0.5m plus any Pension Protection Fund levy payable.

37. Events after the balance sheet date

Other than in respect of the acquisition of 100% of the share capital of Multimaster Limited on 30 April 2007 as detailed in note 32, there have been no events after the balance sheet date.

38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements (note 49).

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Provision of goods		Purchase of services		Amounts owed by related parties		Amount owed to related parties	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Harpin Ltd	**2**	—	**174**	151	**—**	—	**—**	—
Pilot Services (GB) Ltd	**—**	—	**23**	—	**—**	—	**—**	—
Joint ventures	**859**	497	**—**	—	**—**	—	**—**	—

Harpin Limited and Pilot Services (GB) Limited are related parties of the Group because they are controlled by Richard Harpin.

Provision of services to and the purchase of services from related parties were made at arm's length prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 59 to 64.

	2007 £'000	2006 £'000
Short-term employee benefits	**3,066**	2,205
Post-employment benefits	**303**	506
Share-based payment	**1,276**	778
	4,645	3,489

Directors' transactions

During the year, the Group purchased transport services from Harpin Limited and Pilot Services (GB) Limited, companies controlled by Richard Harpin. The total value of purchases amounted to £197,000 (2006: £151,000) and the balance due to Harpin Limited and Pilot Services (GB) Limited at the year end amounted to £nil (2006: £nil).

Except as noted above with Harpin Limited and Pilot Services (GB) Limited, there were no transactions with directors requiring disclosure.

Under the terms of an agreement entered into between Ian Carlisle and certain of the vendors of Highway Emergency Services Limited ('the vendors'), Mr Carlisle received payment of £2.2m in February 2007. This sum represents a proportion of the deferred consideration received by the vendors under the terms of the 2002 agreement relating to the acquisition of that company.

Notes to the Accounts

year ended 31 March 2007

39. Insurance contracts

The Group, through its subsidiary Affinity Partners Limited, enters into contracts of reinsurance with an independent insurance company that underwrites the policies marketed and administered by Homeserve GB Limited. Under these arrangements, Affinity Partners Limited underwrites 50% of the risk and reward associated with these policies (the policies).

The policies are entered into between the customers of Homeserve GB Limited and an independent insurance company in the United Kingdom only. The policies are principally in relation to underwritten cover for a broad range of domestic emergencies relating to Plumbing and Drains, Electrical Wiring, Water and Gas Supply Pipes and Gas Boilers.

Revenue from the reinsurance contracts is recognised on a straight-line basis over the life of the policies (typically 12 months), reflecting the period of benefit to the customer. Where the reinsurance premium is received in advance an appropriate amount is included within deferred income.

The costs associated with the claims received under the contract of reinsurance are recognised as they are incurred. An assessment is made of whether the expected cash inflows under the reinsurance contracts are sufficient to meet the expected future claims costs under the reinsurance contracts. If a shortfall were to arise, this would be charged immediately to the income statement.

The amounts recognised by the Group in respect of reinsurance contracts are as follows:

	2007 £'000	2006 £'000
Revenue	**43,054**	34,916
Claims costs	**(42,666)**	(34,761)
Deferred income	**11,212**	9,225

The principal impact on the amount of claims incurred under the reinsurance contracts relate to weather conditions, which can impact the frequency of claims and the nature of the emergency. In order to assist in managing the risk arising from the policies, the claims costs are fixed for each type of emergency repair.

There is no concentration of insurance risk due to the immaterial size of each of the policies. Neither the policies or the reinsurance contract are exposed to any significant liquidity risk, credit risk, market risk, nor are there any exposures relating to embedded derivatives.

As the policies relate to emergency repairs and generally cover a 12 month period, all cash outflows are expected to occur within 12 months from the date of commencement of the policies.

On a weighted average basis, across all policies, a 1 percentage point increase in claims frequencies would result in additional claims costs of £1.0m (2006: £0.9m).

Independent Auditors' Report

Independent auditors' report to the members of Homeserve plc

We have audited the parent company financial statements of Homeserve plc for the year ended 31 March 2007 which comprise the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 40 to 54. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Homeserve plc for the year ended 31 March 2007 and on the information in 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

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 parent company financial statements 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the company's affairs as at 31March 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
21 May 2007

Company Statement of Recognised Income and Expense

year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Actuarial gains/(losses) on defined benefit pension schemes		**654**	(422)
Current tax credit on additional pension contribution		**132**	132
Deferred tax on items taken directly to equity	47	**(44)**	(427)
Net income/(expense) recognised directly in equity		**742**	(717)
Profit for the year		**32,950**	26,561
Total recognised income and expense for the year attributable to equity holders of the Company		**33,692**	25,844

Company Balance Sheet

31 March 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Investment in subsidiaries	43	**108,468**	108,468
Deferred tax assets	47	**3,992**	2,129
		112,460	110,597
Current assets			
Trade and other receivables	44	**147,170**	138,390
Current tax asset		**—**	1,051
		147,170	139,441
Total assets		**259,630**	250,038
Current liabilities			
Trade and other payables	45	**(8,057)**	(5,821)
Current tax liabilities		**(2,155)**	—
Bank overdrafts and loans	46	**(45,013)**	(64,193)
		(55,225)	(70,014)
Net current assets		**91,945**	69,427
Non-current liabilities			
Retirement benefit obligation	36	**(647)**	(1,156)
		(647)	(1,156)
Total liabilities		**(55,872)**	(71,170)
Net assets		**203,758**	178,868
Equity			
Share capital	24	**8,119**	8,075
Share premium account	25	**31,379**	29,998
Merger reserve	26	**70,992**	70,992
Share incentive reserve	53	**1,544**	217
Capital redemption reserve	29	**1,200**	1,200
Retained earnings	54	**90,524**	68,386
Total equity		**203,758**	178,868

The financial statements were approved by the Board of directors and authorised for issue on 21 May 2007. They were signed on its behalf by:

Jonathan Simpson-Dent
Chief Financial Officer
21 May 2007

Company Cash Flow Statement

year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Net cash outflow from operating activities	41	**(2,626)**	(478)
Investing activities			
Interest received		**2,127**	3,294
Dividends received from subsidiary undertakings		**40,000**	29,475
Purchase of own shares		**(8,379)**	(8,221)
Increased investment in subsidiary undertaking		**—**	(29,000)
Net cash from/(used in) investing activities		**33,748**	(4,452)
Financing activities			
Dividends paid		**(13,367)**	(10,688)
Share capital issued		**1,425**	3,510
(Decrease)/increase in bank overdraft		**(19,180)**	12,108
Net cash (used in)/from financing activities		**(31,122)**	4,930
Net movement in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning and end of year		**—**	—

Notes to the Accounts

year ended 31 March 2007

Company only

The following notes 40 to 54 relate to the Company only position for the year ended 31 March 2007.

40. Significant accounting policies

As provided by s230 of the Companies Act 1985, the Company has not presented its own income statement. The Company's profit for the year was £32,950,000 (2006: £26,561,000).

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except that investments in subsidiaries are stated at cost.

41. Notes to the cash flow statement

	2007 £'000	2006 £'000
Operating loss	**(8,477)**	(7,767)
Adjustments for:		
Share based payment expense	**1,444**	959
Additional pension contributions	**—**	(879)
Operating cash flows before movements in working capital	**(7,033)**	(7,687)
(Increase)/decrease in receivables	**(401)**	6,261
Increase/(decrease) in payables	**1,737**	(472)
Cash used in operations	**(5,697)**	(1,898)
Income taxes received	**3,071**	1,420
Net cash outflow from operating activities	**(2,626)**	(478)

42. Other information

The average monthly number of employees (including executive directors) was:

	2007 Number	2006 Number
	89	98
	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	**10,483**	6,707
Social security costs	**1,241**	2,163
Other pension costs	**449**	300
	12,173	9,170

Notes to the Accounts

year ended 31 March 2007

42. Other information (continued)

	2007 £'000	2006 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**39**	8
Total audit fees	**39**	8
Other services pursuant to legislation	**103**	70
Tax services	**62**	—
Total non-audit fees	**165**	70

43. Subsidiaries

Details of the Company's subsidiaries at 31 March 2007 are as follows. All companies are accounted for using the acquisition method.

Name of subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of voting interest %	Proportion of power held %
Intermediate Holding Companies			
Homeserve Assistance Limited	England	100	100
Homeserve Enterprises Limited	England	100	100
Homeserve Investments Limited	England	100	100
Homeserve Resources Limited	England	100	100
Policy Membership			
Homeserve Care Solutions Limited	England	100	100
Homeserve Retail Warranties Limited	England	100	100
Regency Finance & Insurance Services Limited	England	100	100
Regency Finance & Insurance Services (Administration) Limited	England	100	100
Homeserve Warranties Limited	England	100	100
Homeserve GB Limited	England	100	100
Homeserve International Limited	England	100	100
Affinity Partners Limited	Guernsey	100	100
Home Service USA Corp	USA	100	100
Homeserve Ibérica S.L.	Spain	100	100
Home Service USA Repair Management Corp	USA	100	100
Emergency Services			
Homeserve At Home Limited	England	100	100
Homeserve Claims Management Limited	England	100	100
Homeserve Emergency Services Limited	England	100	100
Chem-Dry Franchising Limited	England	100	100
Chem-Dry UK Limited	England	100	100
Concept Document Recovery Limited	England	100	100
Homeserve Property Repairs Limited	England	100	100
Homeserve Servowarm Limited	England	100	100
Recommend Limited (trading as Improveline)	England	100	100
Homeserve Contents Services Limited	England	100	100

The movement in investments is as follows:

	Total £'000
1 April 2005	79,468
Increased investment in existing subsidiary	29,000
1 April 2006 and 31 March 2007	**108,468**

44. Financial assets

Trade and other receivables

	2007 £'000	2006 £'000
Amounts receivable from Group companies	**145,771**	120,813
Other debtors	**1,148**	17,315
Prepayments and accrued income	**251**	262
	147,170	138,390

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Credit risk

The Company's principal financial assets relate to amounts due from subsidiary undertakings which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its receivables from subsidiary undertakings. No allowances for doubtful debts are considered necessary based on prior experience and the directors' assessment of the current economic environment.

The Company has no significant concentration of credit risk, with exposure spread over a large number of subsidiary undertakings.

45. Financial liabilities

Trade and other payables

	2007 £'000	2006 £'000
Trade creditors and accruals	**1,283**	1,161
Amounts payable to Group companies	**1,906**	3,360
Taxes and social security, excluding corporation tax	**487**	297
Other creditors	**4,381**	1,003
	8,057	5,821

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days (2006: 45 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Accounts

year ended 31 March 2007

46. Bank overdrafts and loans

	2007 £'000	2006 £'000
Bank overdrafts and revolving credit facilities	**45,013**	64,193

Details of the borrowing facilities are given in note 20 to the accounts.

47. Deferred tax

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior year.

	Retirement benefit obligations £'000	Share schemes £'000	Total £'000
At 1 April 2005	665	937	**1,602**
Credit to income	—	299	**299**
Credit to equity	—	655	**655**
Charge to equity	(427)	—	**(427)**
At 1 April 2006	238	1,891	**2,129**
Credit to income	—	384	**384**
Credit to equity	—	1,523	**1,523**
Charge to equity	(44)	—	**(44)**
At 31 March 2007	**194**	**3,798**	**3,992**

48. Events after the balance sheet date

There were no post balance sheet events between the balance sheet date and the signing of the accounts.

49. Related parties

	Provision of goods		Purchase of services		Amounts owed by related parties		Amount owed to related parties	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Harpin Ltd	**2**	—	**161**	122	**—**	—	**—**	—
Pilot Services (GB) Ltd	**—**	—	**23**	—	**—**	—	**—**	—
Subsidiary companies	**7,246**	5,353	**—**	—	**145,771**	120,813	**1,906**	3,360

Harpin Limited and Pilot Services (GB) Limited are related parties of the Company because they are controlled by Richard Harpin.

Provision of services to and the purchase of services from related parties were made at arm's length prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

50. Share capital, share premium account, merger reserve and capital redemption reserve

The movements on these items are disclosed in notes 24, 25, 26 and 29 to the accounts.

51. Share based payments

During the year ended 31 March 2007, the Company had 5 (2006: 5) share based payment arrangements, which are described below:

i) **Executive Share Option Plan ("ESOP")**

The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

ii) **Key Executive Incentive Plan ("KEIP")**

The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting is dependent upon the Profit Before Tax of the Group for the year ending 31 March 2008 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) **Long Term Incentive Plan ("LTIP")**

The LTIP provides for the grant of nil cost options. The vesting period is five years and is dependent upon the Total Shareholder Return performance of the Group over the five years ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iv) **Deferred Bonus Plan ("DBP")**

The Deferred Bonus Plan enables the individual to defer receipt of their annual cash bonus (up to a maximum of 100%) and to invest an equivalent amount in the ordinary share capital of the Company. The deferred bonus may be matched by the Company dependent upon the Company's relative Total Shareholder Return over a three year period, up to a maximum of 300% of the deferred amount for upper decile performance. The shares cannot normally be exercised for three years and lapse if not exercised within 10 years from the date of grant.

v) **Save As You Earn Scheme ("SAYE")**

The SAYE is open to all UK employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discretionary discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

Notes to the Accounts

year ended 31 March 2007

51. Share based payments (continued)

	ESOP	KEIP	LTIP	DBP(i)	SAYE
2006					
Number					
Outstanding at 1 April 2005	1,237,000	—	241,500	—	219,172
Granted	172,000	229,000	—	52,672	34,501
Lapsed	(10,000)	—	—	—	(51,735)
Exercised	(450,000)	—	—	—	(72,113)
Outstanding at 31 March 2006	949,000	229,000	241,500	52,672	129,825
Exercisable at 31 March 2006	296,500	—	—	—	568
Weighted average exercise price (£)					
Outstanding at 1 April 2005	5.21	—	—	—	4.68
Granted	9.61	10.86	—	—	9.18
Lapsed	7.16	—	—	—	4.82
Exercised	4.37	—	—	—	3.94
Outstanding at 31 March 2006	4.70	10.86	—	—	6.24
Exercisable at 31 March 2006	5.56	—	—	—	4.66
Range of exercise prices for options outstanding at 31 March 2006	£3.67 - £6.61	£9.61 - £15.76	—	—	£4.66 - £9.18
Weighted average remaining contractual life	8	10	3	2	3
Weighted average fair value of options awarded in 2006	£3.18	£1.13	—	£13.54	£2.87

	ESOP	KEIP	LTIP	DBP(i)	SAYE
2007					
Number					
Outstanding at 1 April 2006	949,000	229,000	241,500	52,672	129,825
Granted	181,575	105,352	—	71,760	14,992
Lapsed	—	—	—	—	(62,181)
Exercised	(161,000)	—	—	—	(2,458)
Outstanding at 31 March 2007	969,575	334,352	241,500	124,432	80,178
Exercisable at 31 March 2007	370,500	—	—	—	—
Weighted average exercise price (£)					
Outstanding at 1 April 2006	4.70	10.86	—	—	6.24
Granted	14.07	17.98	—	—	14.48
Lapsed	—	—	—	—	5.45
Exercised	5.27	—	—	—	5.55
Outstanding at 31 March 2007	8.01	13.10	—	—	8.41
Exercisable at 31 March	5.31	—	—	—	—
Range of exercise prices for options outstanding at 31 March 2007	£4.70 - £14.07	£9.61 - £18.04	—	—	£4.66 - £14.48
Weighted average remaining contractual life	7	9	2	2	3
Weighted average fair value of options awarded in 2007	£3.13	£2.52	—	£7.68	£6.14

Note: i) The figures in the table relate to the number of deferred share options only.

The estimated fair values are calculated by applying a Black Scholes option pricing model for the ESOP and Share Save schemes and Monte Carlo simulations for the KEIP, LTIP and Deferred Bonus Plan. The assumptions used in the models are as follows:

Input	**Assumption**
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% - 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	4.2% - 5.1%

Levels of early exercises and lapses are estimated using historical averages.

The Company recognised total expenses of £1,444,000 (2006: £959,000) related to equity-settled share-based payment transactions.

52. Retirement benefit schemes

Details of the Company only defined contribution and defined benefit schemes are provided in note 36.

53. Share incentive reserve

	Share incentive reserve £'000
Balance at 1 April 2005	653
Share based payment charges in the year	959
Share options exercised in year	(1,395)
Balance at 1 April 2006	217
Share based payment charges in the year	1,444
Share options exercised in year	(117)
Balance at 31 March 2007	**1,544**

Notes to the Accounts

year ended 31 March 2007

54. Retained earnings

	Retained earnings £'000
Balance at 1 April 2005	49,456
Dividends	(10,688)
Total statement of recognised income and expense	25,844
Deferred tax on share option gains taken directly to equity	655
Current tax on exercised share options taken directly to equity	1,202
Share options exercised in the year	1,395
Tax on items taken directly to equity	522
Balance at 1 April 2006	68,386
Dividends	(13,367)
Total statement of recognised income and expense	33,692
Deferred tax on share option gains taken directly to equity	1,523
Current tax on exercised share options taken directly to equity	173
Share options exercised in the year	117
Balance at 31 March 2007	**90,524**

	ESOP	KEIP	LTIP	DBP(i)	SAYE	CSS
2006						
Number						
Outstanding at 1 April 2005	2,341,600	—	381,500	—	530,959	—
Granted	498,000	1,408,000	55,000	68,884	245,946	—
Lapsed	(75,000)	(96,500)	—	—	(134,528)	—
Exercised	(635,000)	—	—	—	(113,638)	—
Outstanding at 31 March 2006	2,129,600	1,311,500	436,500	68,884	528,739	—
Exercisable at 31 March 2006	250,100	—	—	—	1,418	—
Weighted average exercise price (£)						
Outstanding at 1 April 2005	5.47	—	—	—	5.01	—
Granted	9.61	10.11	—	—	9.18	—
Lapsed	6.12	9.61	—	—	5.08	—
Exercised	4.75	—	—	—	4.23	—
Outstanding at 31 March 2006	4.43	10.15	—	—	7.10	—
Exercisable at 31 March 2006	5.14	—	—	—	4.66	—
Range of exercise proceeds for options outstanding at 31 March 2006	£3.67 - £6.61	£9.61 - £15.76	—	—	£4.66 - £9.18	—
Weighted average remaining contractual life	8	10	3	2	4	—
Weighted average fair value of options awarded in 2006	£3.18	£1.13	£7.17	£13.54	£2.87	—

	ESOP	KEIP	LTIP	DBP(i)	SAYE	CSS
2007						
Number						
Outstanding at 1 April 2006	2,129,600	1,311,500	436,500	68,884	528,739	—
Granted	642,602	284,630	29,940	101,304	201,727	49,207
Lapsed	(51,069)	(140,000)	—	—	(63,783)	—
Exercised	(419,014)	—	—	—	(17,601)	—
Outstanding at 31 March 2007	2,302,119	1,456,130	466,440	170,188	649,082	49,207
Exercisable at 31 March 2007	573,544	—	—	—	—	—
Weighted average exercise price (£)						
Outstanding at 1 April 2006	4.43	10.15	—	—	7.10	—
Granted	14.07	17.99	—	—	14.48	£18.29
Lapsed	13.20	10.00	—	—	8.24	—
Exercised	5.20	—	—	—	5.17	—
Outstanding at 31 March 2007	8.82	11.70	—	—	9.33	£18.29
Exercisable at 31 March 2007	5.19	—	—	—	—	—
Range of exercise proceeds for options outstanding at 31 March 2007	£3.78 - £14.07	£9.61 - £18.04	—	—	£4.66 - £14.48	£18.29
Weighted average remaining contractual life	7	9	2	2	3	2
Weighted average fair value of options awarded in 2007	£3.13	£2.52	£6.24	£7.68	£6.04	£18.29

Notes: i) The figures in the table relate to the number of deferred share options only.

Notes to the Accounts

year ended 31 March 2007

The estimated fair values are calculated by applying a Black Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP, LTIP and Deferred Bonus Plan. The assumptions used in the models are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% - 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	4.2% - 5.1%

Levels of early exercises and lapses are estimated using historical averages.

The Group recognised total expenses of £3,361,000 (2006: £2,058,000) related to equity-settled share-based payment transactions.

36. Retirement benefit scheme

Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £1,306,000 (2006: £1,191,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2007, contributions of £nil (2006: £nil) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

The Group participates in a defined benefit scheme, the Water Companies Pension Scheme, for qualifying employees. This is a sectionalised final salary scheme and the Group participates in the Homeserve plc Section of the Scheme. The Section funds are administered by the trustees and are independent of the Group's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. The Section has a history of raising pensions in line with price inflation, and these increases are reflected in the measurement of the obligation.

The results of the actuarial valuation as at 1st April 2005 were updated to the accounting date by an independent qualified actuary in accordance with IAS19. As required by IAS19, the value of the defined benefit obligation, the past service cost and the current service cost have been measured using the projected unit credit method.

	Valuation at	
	2007 £'000	2006 £'000
Key assumptions used:		
Discount rate at 31 March	**5.2%**	4.9%
Retail price inflation	**3.2%**	3.0%
Expected rate of salary increases	**5.2%**	5.0%
Future pension increases	**3.2%**	3.0%
Expected rate of return on scheme assets at 31 March	**7.8%**	6.9%
Life expectancy of male aged 60 at balance sheet date	**25.7 years**	25.6 years

Five Year Summary

2003 - 2007

	IFRS			UK GAAP	
	2007	**2006**	**2005**	**2004**	**2003**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Revenue					
Policy Membership	**192,007**	161,394	128,197	100,337	81,434
Emergency Services	**298,903**	218,106	100,243	73,079	43,450
Intra-Group	**(13,548)**	(12,499)	(7,729)	(4,180)	(3,617)
External Sales	**477,362**	367,001	220,711	169,236	121,267
Profit					
Policy Membership	**54,118**	41,333	37,766	29,701	22,283
Emergency Services	**15,977**	13,077	4,473	2,683	1,714
	70,095	54,410	42,239	32,384	23,997
Amortisation of acquisition intangibles	**(6,451)**	(3,658)	(310)	—	—
Amortisation of goodwill	**—**	—	—	(5,574)	(4,550)
Exceptional costs	**—**	—	(2,787)	(6,616)	—
Operating profit	**63,644**	50,752	39,142	20,194	19,447
Net interest	**(2,566)**	(776)	(320)	113	75
Profit before tax	**61,078**	49,976	38,822	20,307	19,522

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRSs.

Shareholder Analysis

31 March 2007

Number of shares	Number of shareholders	% of total shareholders	% of shares
1 – 1,000	1,413	60.6	0.7
1,001 – 10,000	638	27.4	3.2
10,001 – 50,000	147	6.3	5.0
50,001 – 100,000	45	1.9	4.8
100,001 – 250,000	44	1.9	11.3
250,001 – 500,000	22	0.9	11.9
500,001 – 1,000,000	11	0.5	11.9
Over 1,000,001	11	0.5	51.2
	2,331	100.0	100.0

Unit trusts	34
Private investors	28
Other	10
Pension funds	10
Unknown	10
Insurance companies	8
	100

Shareholder Information

Financial calendar

2007

30 July Annual General Meeting
6 August Final dividend for the year ended 31 March 2007 to be paid
November Interim results for the six months ending 30 September 2007 to be announced

2008

January Interim dividend for the year ending 31 March 2008 to be paid
May Preliminary announcement of results for the year ending 31 March 2008
June 2008 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.

Website

The Homeserve website at www.homeserve.com provides news and details of the Group'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.

Printed using vegetable oil based inks on Era Silk which is made from ECF (elemental chlorine free) fibre sourced from sustained forests (50%) and recycled waste (50%). The paper was sourced from an FSC Approved mill.

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