



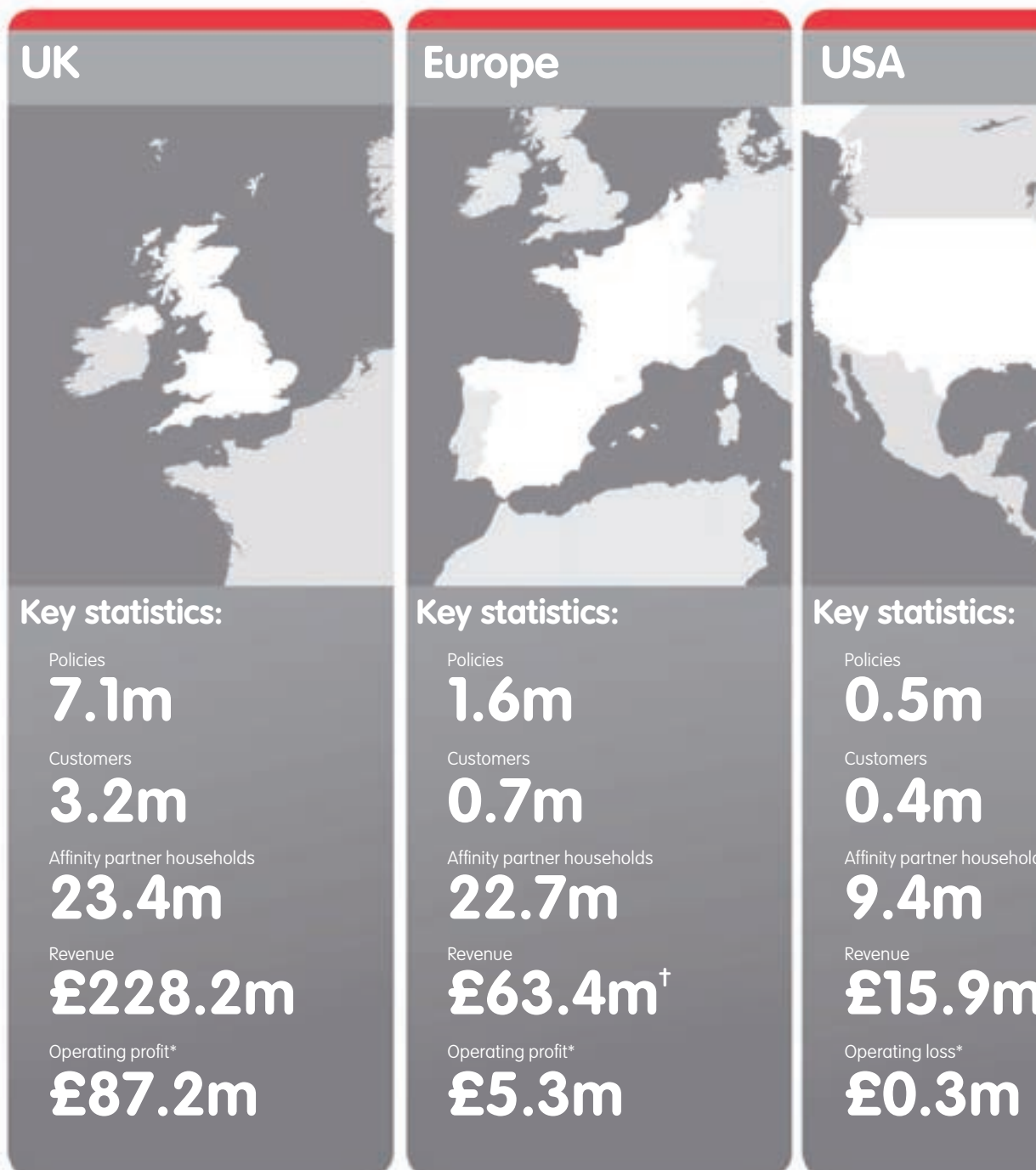
## **Our vision**

To be the first place people turn to when it comes to fixing, maintaining and looking after their home, recognising the problem that homeowners have throughout the world in finding a reliable tradesman and paying the repair bill in the event of a home emergency.

## HomeServe at a glance

HomeServe provides home maintenance services to over 4.3 million households across the UK, France, Spain and the USA. Services are provided through our three membership businesses who are responsible for the marketing and administration of 9.2 million home repair and appliance warranty policies. Our products cover plumbing and exterior drains, gas boiler and heating, electrics and household appliances – all the parts of the home not included within a typical household insurance policy.

## Core Membership



<sup>†</sup> Includes £23.2m of joint venture revenue not included in the statutory profit and loss.

USA.

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ce policy.

## Worldwide

**0.5m**  
US policies

**7.1m**  
UK policies

**1.6m**  
European  
policies

## Overview

Employees

**c5,500**

Policies

**9.2m**

Group revenue

**£517.4m**

Affinity partner households

**56m**

Customers

**4.3m**

Group operating profit\*

**£100.3m**

## How we do what we do

We have a strong business model that generates high levels of recurring revenues in the form of commission from third party insurance companies. Our membership businesses serve as intermediaries in the marketing, sale and administration of policies for these insurance companies who undertake the product replacement and repair risk and are responsible for the costs of any claim.

Our business is built on developing long term relationships with utility companies, appliance manufacturers, retailers and financial services companies. We deliver policies under their brands to our customers, capitalising on our product development knowledge and direct consumer marketing expertise.

We are focused on providing a comprehensive offering for our customers, covering all aspects of product and service delivery including product design, marketing, sales, managing repairs through our managed, sub-contract and franchise networks of engineers and handling customer claims.

The Company's shares are listed on the London Stock Exchange (LSE:HSV).

\* Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation, and exceptional operating costs

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For our latest financial information or to view our Annual Report online, go to:

[www.homeserve.com/investors](http://www.homeserve.com/investors)



## Building strong partnerships

- Forging alliances with utilities, appliance manufacturers, retailers and other partners
- Enabling partners to outsource an existing programme to us
- Accessing a broad customer base through trusted brands
- Enabling our partners to offer added value to their customers





## Highlights

- Worldwide core membership operations:
  - 8% revenue growth to £284m
  - 22% growth in operating profit\* to £92.3m
  - 9.2m policies (2008: 8.1m) and 4.3m customers (2008: 4.0m)
  - access to 56m households
- Resilient UK Membership business with 1.83m gross new policy sales, 83% retention rate and 18% growth in income per customer
- International operating profit\* of £5.1m (2008: loss of £0.5m)
- 14% growth in both earnings per share<sup>^</sup> and dividend
- Highly cash generative with strong cash conversion of 98%
- Strong balance sheet with low levels of net debt and significant headroom on lending facilities
- Decision to exit Emergency Services following successful reorganisation of UK networks resulting in an impairment charge of £97m and a statutory loss before tax of £21.7m

### Reported results explanatory note

The reported results and the results contained within this statement reflect the new structure of the Group after the transfer of the claims management and policy repair networks from UK Emergency Services into UK Membership. The financial impact of this new structure on both divisions is set out in the Financial Review section of this statement to enable a full comparison of these results to the previous Group structure. Within this new structure the UK Emergency Services division is shown as a non-core operation following the Board's decision to exit this business.

"Group" includes both core and non-core operations

"Core membership operations" includes the policy membership business: UK Membership, Europe and USA

"Non-core operations" is the Emergency Services division

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial review and notes 5 and 14.

<sup>^</sup>Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial review and notes 5 and 14.



## Chairman's statement



**HomeServe's core policy membership operations have delivered another strong performance. Across the UK, Continental Europe and US we have seen 14% policy growth to 9.2m, 8% growth in customers and 22% operating profit\* growth to £92.3m.**

During the year, we transferred those parts of our claims handling and network operations that support our UK policy customers into UK Membership from Emergency Services. Our original intention for Emergency Services was to develop a unique, national, multi-trade network in the UK to support our growing policy membership base and to provide an integrated claims fulfilment solution for household insurers.

Whilst we have validated the benefit to insurers of such an integrated hub proposition, we have not progressed strategic partnerships of this type at a rate consistent with our original objectives. On the back of this and ongoing challenges within the insurance sector, we have decided to reposition the Group to focus on our membership businesses which we believe is in the best long-term interest of our shareholders. Accordingly, we have decided to exit UK Emergency Services and are currently progressing a number of approaches.

The decision to exit this business is one we have considered very carefully in light of our dedicated employees, customer relationships and investment of time and resources in building the business since 2002. In addition, as a result of ongoing trading challenges and deteriorating financial performance, we have taken the difficult but necessary decision to write down the value of UK Emergency Services assets resulting in an impairment charge of £97m and a statutory pre-tax loss for the year for the Group of £21.7m.

### **Core Membership Operations - business development**

We are very pleased with the strong performance of all our membership businesses. Our UK Membership business has delivered another year of strong growth with gross new policy sales of 1.83m (2008: 1.68m) and our retention rate for the year remained high at 83% (2008: 85%). Our decision to focus on driving value per customer has been successful through continued conversion of existing members to Combined Policies and income per customer growing by 18% to £59.

The reorganisation of our UK operations has created a fully integrated membership business including claims management and policy repair networks resulting in improved customer service and more focused and efficient service delivery with one division taking ownership for the entire customer journey.

We have also reached a significant milestone in our international operations which delivered an operating profit\* for the year of £5.1m compared with a loss of £0.5m last year.

Our European business has trebled operating profit\* to £5.3m (2008: £1.8m) with Domêo, our French joint venture with Veolia, having another very successful year and doubling total (100%) profits\* to £14.0m (2008: £6.8m). In Spain, Reparalia continues to progress well, growing revenue and helping to facilitate agreements with new affinity partners. Our Spanish policy business ended the year with 47,700 policies on the back of an encouraging start to full-scale marketing with Endesa. We have also expanded geographically through the acquisition of SPT, Belgium's leading claims handling and repair network business.

Revenue for our three membership businesses increased by 8% to £284m, or 25% excluding the impact from the change in underwriting. Operating profit\* increased by 22% to £92.3m.

Revenue within UK Emergency Services decreased by 20% to £233.6m (2008: £291.7m) and operating profit\* by 47% to £8.0m (2008: £15.1m).

As reported in our interim results, we incurred £1.5m of costs in relation to the aborted second hub deal and £5m of costs have arisen from the reorganisation of our UK businesses (of which £2.7m relates to non-core operations). The total exceptional costs of £6.5m together with the write down of UK Emergency Services assets of £97m result in a statutory loss before tax of £21.7m and loss per share of 56.2p.

HomeServe continues to have a strong balance sheet, ending the year with net debt of £34m and with significant headroom on lending facilities.

#### Dividend

Continuing our policy of increasing dividends in line with earnings<sup>^</sup> growth, the Board is proposing a final dividend of 25p per share to be paid on 4 August 2009 to shareholders on the register on 3 July 2009. This brings the total dividend for the year to 35.5p, a year on year increase of 14%.

#### Employees

We now have approximately 3,000 employees in our core operations and 5,500 employees in the total Group. Our employees remain committed and dedicated and have once again contributed significantly to another excellent year and I should like to thank them for their hard work.

## We are delighted with the continued strong performance of our membership businesses.

In addition, the USA has made excellent progress, generating a profit in the second half and is now profitable on an ongoing basis. During the year the business increased customer numbers by 50% and the retention rate to 80% (2008: 78%). We are also pleased to announce the signing of a 10-year marketing agreement with SEMCO Energy Gas Company, a gas utility based in Michigan, which will provide us with access to an additional 250,000 households and includes the acquisition of 26,300 policies.

#### Results

Revenue for the Group declined 7% to £517.4m (2008: £554.9m) as a result of a fall in volumes within UK Emergency Services and the change in underwriting arrangements in the UK and operating profit\* increased by 10% to £100.3m. Group profit before tax\* increased by 13% to £96.1m and earnings per share<sup>^</sup> increased by 14%.

**Overall, HomeServe is well positioned for future growth and we are committed to a membership-focused strategy.**

**Organisational changes**

We have also announced that our Chief Financial Officer, Jonathan Simpson-Dent has decided to leave the business to pursue other opportunities. Jonathan is being replaced as CFO by Martin Bennett, currently Finance Director of our UK Membership division, who has been with HomeServe for six years. I would like to thank Jonathan for the significant contribution he has made to HomeServe over the last two years and congratulate Martin on his appointment.

**Prospects**

We are delighted with the continued strong performance of our membership businesses.

Our UK Membership business continues to perform well and has demonstrated its resilience with high levels of gross new policy sales and increasing value per customer. Our focus on targeting new customers through initiatives like One Contact, new product development and broadening our relationships with affinity partners will help to maintain strong growth in UK Membership going forward.

Our International operations are becoming increasingly significant contributors to Group performance with comparatively low household penetration in these countries providing further growth potential. We have a firm foundation in Spain through the strong performance of Reparalia and 47,700 live policies and, with the acquisition of SPT, we now have a platform to develop a policy business in Belgium and the Netherlands.

HomeServe is focused on delivering long term growth and continues to explore selective investment opportunities to support the development of the three membership businesses. The performance of our policy businesses has demonstrated the resilience of the business model and attractiveness of our products to our customers.

Overall, HomeServe is well positioned for future growth and we are committed to a membership-focused strategy.

**Brian Whitty**  
Chairman  
19 May 2009



## Focusing on customer needs

- Providing customers with access to fully-insured, high quality emergency service solutions
- To provide a range of products covering all aspects of the home
- Striving to retain our customers, year after year through providing high levels of customer service and value for money



## Our strategy

To become the leading provider of home assistance and appliance warranties to homeowners in the UK, Europe and North America by leveraging our strong partnerships, product development knowledge, direct consumer marketing expertise, network management and service delivery capabilities.

## Our objectives

### To build strong partnerships

- Forging alliances with utilities, appliance manufacturers, retailers and other partners
- Enabling partners to outsource an existing programme to us
- Accessing a broad customer base through trusted brands
- Enabling our partners to offer added value to their customers

### To design and deliver high quality products by focusing on customer needs and building long term customer value

- Providing customers with access to fully-insured, high quality emergency service solutions
- To provide a range of products covering all aspects of the home
- Striving to retain our customers, year after year through providing high levels of customer service and value for money

### To access customers via direct marketing

- Creating winning marketing propositions to address customer needs
- To enable customers to access the service on a pay on use, part or fully insured basis
- Providing peace of mind for our customers

### To build scale through international expansion

- Extending our business model by replicating it in international markets
- Acquiring local claims management and repair capability upon which to build our proven membership model
- Building and investing in local management teams

### To deliver value for our shareholders

- Continuing to build sustainable value for our shareholders through expansion into new markets and product development

## Key performance indicators

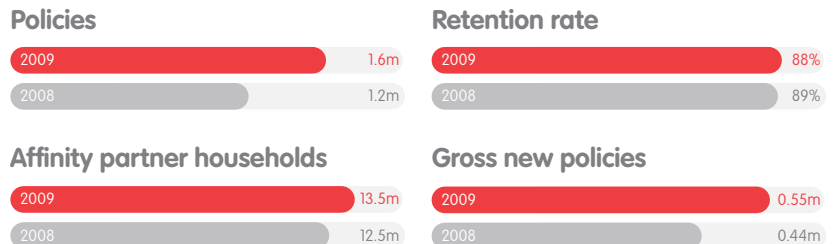
In order to assist in the management of our business and to provide evidence of achieving its strategic priorities, the Board regularly reviews a number of key performance indicators.

### Our measures

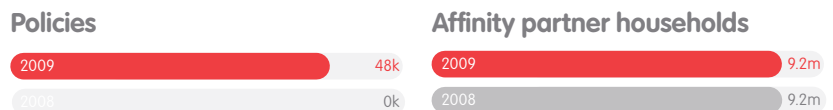
#### UK Membership



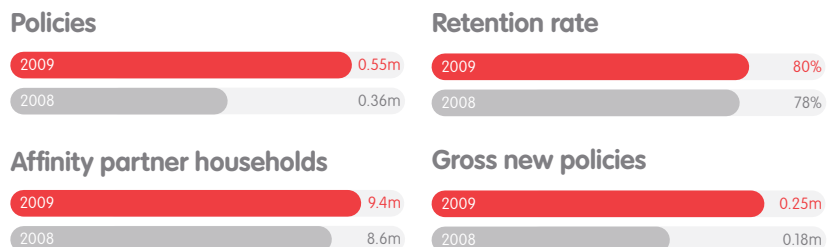
#### France



#### Spain



#### United States of America



## Chief Executive's review



**Our vision is to be the first place people turn to when it comes to fixing, maintaining and looking after the home, recognising the problem that homeowners have throughout the world in finding a reliable tradesman and paying the repair bill in the event of a home emergency.**

Our strategy is to be the leading provider of home assistance and appliance warranties to homeowners in the UK, Europe and US by offering customers annual membership.

We deliver this strategy through leveraging our product development knowledge, direct consumer marketing expertise, network management and service delivery capabilities combined with long-term relationships with business partners including utilities, appliance manufacturers, retailers and financial services companies.

The results we are announcing today show strong progress in our worldwide membership businesses and reinforce our strategy to focus exclusively on policy membership.

### Our businesses

We now have access to 56m households globally, of which 32m are outside the UK. We sold 2.7m gross new policies in the year and increased total policies by 14% to 9.2m (2008: 8.1m).

### UK Membership

Our UK business now provides cover for anything that goes wrong in the home that is not covered by household insurance such as pipes and wires, furniture and appliances.

UK Membership metrics are shown on page 15.

Revenue decreased by 3% to £228.2m (2008: £236.5m) and operating profit\* increased by 14% to £87.2m (2008: £76.3m). We signed a new underwriting agreement in September 2007 with Inter Partner Assistance whereby from 1 October 2007 they took the full risk on new policy sales and we ceased reinsuring 49% of the risk through our captive insurer. The change in underwriting arrangements has reduced the reported revenue for UK Membership in the year and the phasing of profits between the first and second halves of the year. Excluding the impact of changes in underwriting arrangements, revenue in UK Membership grew by 14%.

The business achieved gross new policy sales of 1.83m (2008: 1.68m) with retention rates remaining high at 83% (2008: 85%). We continued our successful strategy of increasing value per customer through the continued success of Combined Policies which now represents 14% (2008: 8%) of our customers with income per customer growing 18% to £59.

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial review and notes 5 and 14.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial review and notes 5 and 14.



## Our businesses

We now have access to 56m households globally, of which 32m are outside the UK.

	UK	Europe	USA	Total
Affinity Partner Households (m)	23.4	22.7	9.4	55.5
Customers (m)	3.2	0.7	0.4	4.3
Policies (m)	7.1	1.6	0.5	9.2

During the year, we reorganised our businesses in the UK with those areas of the network dedicated to servicing our UK policy members moving from Emergency Services into UK Membership. The transfer of our plumbing, electrics, gas and other subcontract networks that support our policy customers, as well as our network of directly employed plumbers, has enabled us to deliver an improved end-to-end service for our UK policy customers, thereby replicating the highly successful integrated model we deploy in our international operations.

We have continued to develop the network that supports our policy business by increasing the proportion of jobs carried out by our own plumbers, from 32% to 47% in the year. We have also completed the rollout of franchising across our Electrics network and introduced new technology to improve the efficiency and performance of our directly employed engineers in the field.

Our Manufacturer Warranties business has had another successful year with total policies growing 47% to 331,000. We also signed up new partners including Aqualisa, Lec, Maytag, Sanyo and Smeg taking the total number of partners to 18 across the boiler, shower, white and brown goods sectors.

This business not only provides a significant and growing contribution to Group performance but also an excellent opportunity to cross-sell our core utility products to these customers.

As announced at our interim results, the difficult retail environment has impacted our retail warranties business with revenue falling by £6m year-on-year. Warranties sold on behalf of retailers are not recognised in our customer or policy numbers and represent a relatively small contribution to UK Membership profit, with limited exposure to further changes in the retail sector.

In October 2008, we launched a pilot in the West Midlands of a new range of 'One Contact' services aimed at attracting new customers through offering access, via our UK Membership network, to a range of home repair trades on a 'pay-on-use' basis. The response to the pilot has been encouraging and the next phase of One Contact is to prove that we can successfully convert a one-off job customer into an annual member with a number of tests in progress.

In March, we launched two new products. Firstly, home assistance cover for landlords providing access to an additional 12% of the UK housing market. Secondly, cover for flats ranging from entry-level plumbing cover through to a combined package including an annual boiler service and central heating inspection.

**Continental Europe**

Our European business has had another very good year with operating profit\* increasing by 204% to £5.3m (2008: £1.8m), 143% in local currency. We now have access to 22.7m households in Europe and 1.6m policies with a combined penetration of 5%. Doméo, our French joint venture with Veolia, has grown total (100%) operating profit\* by 106% to £14.0m (2008: £6.8m). The operating profit\* result of £5.3m comprises £4.8m contribution from our share in the French joint venture, a £0.1m contribution from Spain, with profits from Reparalia being used to invest in building our Spanish policy business and £0.4m contribution from Belgium.

Our focus this financial year is to continue European development through broadening our product range and building on the success we have had in the UK in our Manufacturer Warranties business by expanding this important part of our membership model alongside our utility-branded policies. We will also continue to explore opportunities and identify potential partners to expand our membership model into new European territories.

**Our European business has had another very good year with operating profit\* increasing by 204% to £5.3m**

**France**

The total number of policies in our French joint venture, Doméo, has increased by 33% in the year to 1.57m (2008: 1.18m). Gross new policy sales in the year have increased to 0.55m (2008: 0.44m) and the retention rate has remained high at 88% (2008: 89%). During the year we have also increased the number of affinity partner households (excluding apartments) by 1.0m to 13.5m.

Metrics for the French business are shown on page 15.

The principal policies offered by Doméo include plumbing and drains, water supply pipe, water loss, electrics cover, gas supply pipe and boiler cover. Doméo has grown its policy book across all categories through a combination of customer growth and the sale of additional policies to existing customers with policies per customer increasing from 2.1 to 2.3. This, combined with a more attractive underwriting deal completed in the year, resulted in a 55% increase in revenue (82% in GBP) and 65% increase in operating profit\* in local currency (106% in GBP).

In the year, we recruited a new Managing Director to lead our French business whose focus, along with the expanded business development team, will be on developing new products and affinity partnerships as the business moves into the next stage of its development.

We successfully tested the sale of policies via new channels including email and the internet and we signed agreements with new affinity partners Vialis and Gaz Electricité de Grenoble.

## UK Membership

As at 31 March 2009, the policy, customer and market performance metrics of our UK Membership business were:

	Mar 09	Mar 08
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	4,100	4,198
- Electrical	767	753
- Gas and gas supply pipe	845	607
- Manufacturer warranties	331	226
- Other, including housebuilder	1,011	782
<b>Total policies</b>	<b>7,054</b>	<b>6,566</b>
Retention rate	83%	85%
Total number of households (m)	25.9	24.4
Affinity partner households (m)	23.4	22.0
Total customers (m)	3.2	3.2
Penetration of affinity partner households	13.5%	14.3%
Policies per customer	2.23	2.08

## France

As at 31 March 2009, the policy, customer and market performance metrics of our French Membership business were:

	Mar 09	Mar 08
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	876	703
- Electrical	174	116
- Other, including waterloss and gas products	517	362
<b>Total policies</b>	<b>1,567</b>	<b>1,181</b>
Retention rate	88%	89%
Total number of households (excl apartments) (m)	18.6	15.4
Affinity partner households (excl apartments) (m)	13.5	12.5
Total customers (m)	0.7	0.6
Penetration of affinity partner households	5.1%	4.4%
Policies per customer	2.29	2.14

## United States of America

As at 31 March 2009 the policy, customer and market performance metrics of our US Membership business were:

	Mar 09	Mar 08
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	419	295
- Electrical	60	44
- Other	70	23
<b>Total policies</b>	<b>549</b>	<b>362</b>
Retention rate	80%	78%
Total number of households (m)	103	103
Affinity partner households (m)	9.4	8.6
Total customers (m)	0.4	0.3
Penetration of affinity partner households	4.7%	3.4%
Policies per customer	1.24	1.23

**Spain**

We are pleased with the strong performance of Reparalia which continues to meet our expectations from when we acquired the business in August 2007 and is an integral part of our plans to build a policy business in Spain. Reparalia has been instrumental in signing agreements with our Spanish affinity partners and we firmly believe that this acquisition provides the preferred entry model into new markets.

## The US has had another strong year generating an increase in revenue in local currency of 58%

We have made progress in establishing a policy business which now has 47,700 policies following an encouraging start to full scale marketing with Endesa. We recently signed twelve month test marketing agreements with two water companies, Agbar and Acciona and results from the initial tests have been positive.

In the year we launched a franchise offering to Reparalia subcontractors in Madrid and Barcelona. We believe this is an effective and cost efficient way of raising awareness of the Reparalia brand, reinforcing our relationships with our subcontractor network and helping support the development of the Spanish policy business.

With an encouraging start to full scale marketing, scope to increase penetration of Endesa customers and the potential to sign up long-term agreements with other partners, Spain is well positioned for future growth.

**Belgium**

In December 2008 we acquired SPT, Belgium's leading claims handling and subcontract repair network business. Our focus this year will be to develop a membership business by using SPT as a platform to secure long-term affinity partnerships with utilities in Belgium and the Netherlands.

**United States of America**

The US has had another strong year generating an increase in revenue in local currency of 58% (GBP 96%) and an operating profit\* in the second half. The total number of policies has increased by 0.19m to 0.55m, an increase of 52% driven by continued high levels of gross new policy sales of 0.25m (2008: 0.18m) and an increase in customer numbers of 50%. The retention rate has also increased to 80% (2008: 78%) as a result of improved retention initiatives and moving a greater proportion of customers to pay for their membership via their utility bill.

Metrics for the US business are shown on page 15.

Policy growth in the US has been driven by strong take-up rates with our water company partners in particular California Water and Louisville Water and with Progress Energy. Initial results from marketing our Exterior Electrics policy to First Energy customers, which covers repairs to the section of external electric line or underground cable for which the customer has legal responsibility, have also been encouraging.

We are also pleased to announce the signing of a 10-year marketing agreement with SEMCO Energy Gas Company, a gas utility based in Michigan, which will provide access to an additional 250,000 households and includes the acquisition of 26,300 policies which, together with the agreement with Utilities Inc announced in January and the opening up of additional territories with existing affinity partners, has increased US marketable households in the year by 0.8m to 9.4m.

We continue to develop our pipeline of affinity partner prospects and remain focused on expanding our footprint in the US to reach our goal of more than 20m marketable households in the medium term.

With the US now profitable on an ongoing basis we look forward to delivering another year of profit growth this financial year and increasing the contribution of the US to the business overall.

### **UK Emergency Services**

As previously announced, it has been a difficult year for our UK Emergency Services business which continues to operate in challenging market conditions, with lower volumes and pricing pressure. The lower volumes together with £41m of flood-related work in the prior year have resulted in revenue falling by 20% to £233.6m (2008: £291.7m). The completion of a significant proportion of larger, more complex, lower margin jobs, particularly within our Buildings business has also impacted margin progression in the year with operating margin\* falling from 5.2% to 3.4% and operating profit\* by 47% to £8.0m (2008: £15.1m). On the back of the ongoing tough operating environment we have taken the difficult but necessary decision to exit the business and write-down the value of these assets resulting in an impairment charge of £97m.

### **Summary**

We are pleased to report a year of significant progress for HomeServe and another set of strong results for our membership businesses. The market opportunities for our three membership businesses are very exciting and we are confident that each of them will continue to deliver strong growth over the coming years. The decision to exit our UK Emergency Services business will significantly simplify the Group and allow us to focus exclusively on maximising the potential of our membership businesses, both in existing markets and through further international expansion.

**Richard Harpin**  
Chief Executive  
19 May 2009

## Financial review



The presentation of this year's results and comparisons with last year are impacted by both the reorganisation of our UK businesses during the second half of the year and the decision to exit Emergency Services. In this section, we are therefore providing additional analysis in order to show the impact of these organisational changes to assist with comparison of the Group's performance in prior years and to present the results of the business as it will look going forward following the disposal of the Emergency Services division.

### Group reported results

The headline statutory financial results are presented on page 21 for the Group as a whole and further split between core and non-core operations.

In accordance with IFRS, statutory operating profit for the Group, which has decreased by 123% to a loss of £17.5m (2008: profit of £77.5m), includes an impairment charge of £97m, amortisation of acquisition intangibles, £6.5m of exceptional costs from the aborted second hub deal and reorganisation of businesses in the UK and our share of the operating result of our joint venture in France.

The amortisation of acquisition intangibles amounts to £12.1m (2008: £10.3m) and principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The year on year increase principally reflects the full year impact of the Anglia, California Water and Reparalia acquisitions. For our French joint venture, the operating result is defined as profit after tax and hence £1.9m (2008: £1.0m) of taxation is reported within operating profit and profit before tax.

Statutory operating profit, after deducting the impairment charge, amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs, were: UK Membership £83.9m (2008: £73.4m); Continental Europe £2.2m (2008: £0.1m); and USA an operating loss of £1.7m (2008: loss of £3.1m) resulting in a statutory operating profit for the core operations of £84.4m. The non-core UK Emergency Services business reported a statutory operating loss of £101.9m (2008: operating profit £7.1m).

The Group's net interest charge decreased in the year to £4.2m (2008: £5.7m) due to continued strong cash conversion, a lower spend in the year on acquisitions of £23.4m (2008: £46.1m) and no expenditure on share purchases (2008: £7.3m). The interest charge was covered 24 times by operating profit\*.

The effective rate of corporation tax, prior to the impact of the impairment of UK Emergency Services assets, is 29.9% (2008: 31.4%). The reduction in rate is primarily due to a decrease in the UK tax rate to 28% which came into effect on 1 April 2008. The effective rate applicable to our core operations is consistent with the rate for the Group overall.

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial review and notes 5 and 14.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial review and notes 5 and 14.

The tax rate was impacted by continuing investment in our Spanish business, partly offset by our US business reaching profitability, allowing us to start to utilise previously non recognised tax losses in that jurisdiction. Based on current corporate tax rates applicable to our core businesses, we expect a similar core rate for 2010.

Earnings per share<sup>^</sup> in the period has increased by 14% from 93.0p to 106.4p with the Group making a statutory loss per share of 56.2p. The full year dividend has increased by 14% to 35.5p continuing our policy of growing dividends in line with earnings<sup>^</sup>.

#### **Cash flow and financing**

Details of cash flow are shown on page 21.

We have continued to achieve strong cash conversion (defined as cash generated from operations as a proportion of operating profit\* after exceptional costs), with cash generated from operations amounting to £92.2m (2007: £97.4m), representing a cash conversion ratio of 98% (2008: 110%).

During the year, we incurred net capital expenditure of £16.9m (2008: £17.6m) principally in respect of information systems to support our growing business.

Overall, net debt in the year decreased by £9.1m to £34.0m (2008: £43.1m), including the impact of acquisitions and disposals of £23.4m (2008: £46.1m). There was a net cash inflow of £29.5m (2008: £33.6m) before acquisitions and disposals, share purchases and financing, demonstrating the strong cash generative nature of the Group.

We continue to have a low level of financial gearing. Our priority is to use our financial leverage to fund strategic acquisitions which accelerate the development of our UK and international membership businesses.

In the year we had a working capital outflow of £10.8m which reflects growth in our UK Membership business with a greater proportion of customers moving to combined policies and the success we have had transferring more customers from paying annually to monthly via direct debit.

#### **UK reorganisation – pro forma impact**

In October 2008, we reorganised our businesses in the UK with those components of the previously enlarged Emergency Services division that service our UK policy customers (claims management and policy repair networks) transferring from UK Emergency Services into UK Membership. The results for these businesses are included in UK Membership's reported results for the full year, with the prior year divisional reported results also adjusted for consistency. The table on page 23 shows this year's and last year's results both pre and post reorganisation to assist in the analysis of the performance of UK Membership and UK Emergency Services on a like-for-like basis.

In the year to 31 March 2009, the reorganisation has resulted in £29.6m of revenue and £5.3m of operating profit moving into UK Membership and £44.0m revenue and £5.3m of operating profit moving out of UK Emergency Services with the elimination of £14.3m of inter-company revenue. The UK Emergency Services margin pre-reorganisation has fallen by 0.6ppts from 5.4% to 4.8%.

In UK Emergency Services we have not been able to achieve our margin progression targets due to reduced volumes and closing out a significant proportion of larger, complex, lower margin jobs in our Buildings business. The margin decline is accentuated by the transfer of claims management and policy repair networks into UK Membership. Margins in these transferred businesses have improved through operational efficiencies as a result of one division, UK Membership, now being responsible for the entire customer journey.

### Core and non-core operations

We continue to consider that profit before the amortisation of acquisition intangibles and tax on our joint venture in France represents an important performance measure for monitoring the business. In addition, in the current year the impairment charge of £97m and exceptional operating costs of £6.5m are excluded in calculating these pro-forma managerial measures. The revenue and operating profit of our four operating businesses is set out on page 23.

Revenue for the Group, including non-core operations, has decreased by 7% to £517m (2008: £555m). Operating profit\* has increased by 10% to £100.3m (2008: £91.0m). The acquisition of SPT completed in the year has increased operating profits\* by £0.4m, representing 0.4% of the year on year growth.

Revenue for core operations has increased by 8% to £284m (2008: £263m) and operating profit\* has increased by 22% to £92.3m (2008: £75.8m). Excluding the impact of acquisitions, revenue increased by 7% and operating profit\* increased by 21%.

The operating profit\* improvement reported for the Group and core operations principally relates to the strong performance in our three policy membership businesses.

Our UK Membership business has delivered another strong year of growth with operating profit\* up 14%, policy growth of 7%, a retention rate of 83% and improved efficiency in handling customer claims and service delivery.

The contribution from our European business has trebled in the year with operating profit\* increasing to £5.3m (2008: £1.8m) and revenue growing by 100% to £63.4m (2008: £31.7m). Revenue of Doméo, our French joint venture with Veolia, has increased 55% in local currency and 82% in GBP as a result of continued strong policy growth and an improved underwriting deal. The total operating profit\* of Doméo increased by 106% to £14.0m (2008: £6.8m).

Policy growth of 52% in the US on the back of successful marketing and high take up rates with our utility partners has resulted in a reduced operating loss\* to £0.3m (2008: loss\* of £2.2m). Our US business made a profit in the second half and is now profitable on an ongoing basis. The completion of agreements with Utilities Inc. and SEMCO and the opening up of additional territories with existing affinity partners has contributed to an increase in affinity partner households in the US of 0.8m.



## Group reported results

The headline statutory financial results are for the Group as a whole and further split between core and non-core operations:

	Core operations		Non-core operations		Group	
	2009	2008	2009	2008	2009	2008
<b>£million</b>						
Revenue	283.8	263.2	233.6	291.7	517.4	554.9
Operating profit/(loss)	84.4	70.4	(101.9)	7.1	(17.5)	77.5
Profit before tax*	88.7	70.6	7.4	14.7	96.1	85.3
Amortisation of acquisition intangibles	(3.7)	(2.3)	(8.4)	(8.1)	(12.1)	(10.3)
Exceptional operating costs	(2.3)	(2.2)	(4.2)	0.0	(6.5)	(2.2)
Impairment charge	0.0	0.0	(97.2)	0.0	(97.2)	0.0
Tax on JV	(1.9)	(1.0)	0.0	0.0	(1.9)	(1.0)
Statutory Profit/(loss) before tax	80.8	65.2	(102.5)	6.7	(21.7)	71.8
Tax	(24.4)	(17.9)	10.8	(4.6)	(13.6)	(22.6)
<b>Profit/(loss) for the period</b>	<b>56.4</b>	<b>47.2</b>	<b>(91.7)</b>	<b>2.1</b>	<b>(35.3)</b>	<b>49.3</b>

## Cash flow and financing

<b>£million</b>	<b>2009</b>	<b>2008</b>
Operating profit*	100.3	91.0
Exceptional costs	(6.5)	(2.2)
Operating profit* less exceptional costs	93.8	88.8
Non cash items**	9.2	10.1
(Increase)/decrease in working capital	(10.8)	(1.6)
Cash generated by continuing operations	92.2	97.4
Net interest	(4.4)	(5.2)
Taxation	(21.0)	(24.1)
Capital expenditure	(16.9)	(17.6)
Acquisitions	(23.4)	(46.1)
Equity dividends	(20.4)	(16.9)
Financing and purchase of own shares	3.0	(3.5)
Net movement in cash and bank borrowings	9.1	(16.0)
Net (debt)/cash	(34.0)	(43.1)

UK Emergency Services has seen revenue decline by 20% to £234m (2008: £292m) and operating profit\* decrease by 47% to £8.0m (2008: £15.1m). The decline in revenue is due to an underlying fall in volumes from increasingly competitive market conditions and last year's volumes including £41m of work relating to the summer floods. The fall in volumes, increasing pricing pressure combined with the completion of a higher proportion of larger, more complex jobs in the year has resulted in margins\* falling to 3.4% (2008: 5.2%).

#### **Impairment charges and exceptional costs**

During the year we incurred exceptional costs of £1.5m relating to the aborted second hub deal and £5m relating to the reorganisation of our UK businesses, of which £2.7m related to UK Emergency Services, making the total exceptional cost for the year £6.5m. The reorganisation has resulted in approximately £7m of ongoing annual benefits which is enabling us to respond to the challenging conditions in Emergency Services and to increase our focus this year on customer growth in UK Membership.

A review of the carrying value of Emergency Services assets at the year-end resulted in the write down of these assets by £97m. This impairment charge comprises: £59.2m of goodwill; £17m of acquisition intangibles; £8.7m of software assets; £5.1m of property, plant and equipment and £7.2m of other net current assets.

#### **Acquisitions**

HomeServe continues to add to its organic growth through the completion of carefully selected acquisitions. Acquisition spend during the year totalled £15.8m, with a further £7.6m of deferred consideration paid in relation to acquisitions completed in prior years.

During the year, two significant acquisitions have been completed for cash consideration of £5.7m including the acquisition of 100% of the relevant share capital of SPT, Belgium's leading claims handling and subcontract repair network business, and home assistance policies from Endesa Hogar. Including acquisitions completed in prior years, potential further deferred consideration payments of £14.4m could be due over the next 10 years, of which £5.0m is due within the coming year.

In addition, a number of smaller acquisitions have been completed relating to certain Plumbing & Drainage premier contractors. The total cash consideration, including directly attributable costs, amounted to £12.4m. There are no further payments due in respect of these acquisitions.

The carrying value of goodwill and intangible assets identified on acquisitions completed in the current and previous years has been reviewed for impairment based on the current budgets and operating plans of the businesses. As a result, an impairment charge of £97m has been incurred against the carrying value of Emergency Services. No impairment is considered necessary for the three membership divisions.

\*\* Non cash items are depreciation, amortisation of other intangibles, share based payments expense, share of results of joint venture (before tax) and loss/(gain) on disposal of property, plant and equipment and software licenses

## UK reorganisation – pro forma impact

The table shows this year's and last year's results both pre and post re-organisation to assist in the analysis of the performance of UK Membership and UK Emergency Services on a like-for-like basis:

£million	Pre-reorganisation		Post reorganisation	
	Mar 09	Mar 08	Mar 09	Mar 08
<b>Revenue</b>				
UK Membership	198.5	210.8	228.2	236.5
UK Emergency Services	277.6	325.8	233.6	291.7
Europe	63.4	31.7	63.4	31.7
USA	15.9	8.1	15.9	8.1
JV Revenues	(23.2)	(12.7)	(23.2)	(12.7)
Inter-company	(14.8)	(8.8)	(0.5)	(0.3)
<b>Total</b>	<b>517.4</b>	<b>554.9</b>	<b>517.4</b>	<b>554.9</b>
<b>Operating profit*</b>				
UK Membership	81.9	73.9	87.2	76.3
<i>Operating margin %</i>	<i>41.3%</i>	<i>35.1%</i>	<i>38.2%</i>	<i>32.3%</i>
UK Emergency Services	13.3	17.5	8.0	15.1
<i>Operating margin %</i>	<i>4.8%</i>	<i>5.4%</i>	<i>3.4%</i>	<i>5.2%</i>
Europe	5.3	1.8	5.3	1.8
USA	(0.3)	(2.2)	(0.3)	(2.2)
<b>Operating profit*</b>	<b>100.3</b>	<b>91.0</b>	<b>100.3</b>	<b>91.0</b>
Interest	(4.2)	(5.7)	(4.2)	(5.7)
<b>Profit before tax*</b>	<b>96.1</b>	<b>85.3</b>	<b>96.1</b>	<b>85.3</b>

## Core and non-core operations

The revenue and operating profit of our four operating businesses is set out:

£million	Mar 09	Mar 08	Growth
<b>Revenue</b>			
- UK Membership	228.2	236.5	-3.5%
- Europe	63.4	31.7	100.3%
- USA	15.9	8.1	96.4%
- JV/inter-division	(23.7)	(13.0)	-82.1%
Total core operations	283.8	263.2	7.8%
- Emergency Services	233.6	291.7	-19.9%
<b>Group</b>	<b>517.4</b>	<b>554.9</b>	<b>-6.7%</b>
<b>Operating profit *</b>			
- UK Membership	87.2	76.3	14.3%
- Europe	5.3	1.8	204.5%
- USA	(0.3)	(2.2)	86.9%
Total Core operations	92.3	75.8	21.7%
- Emergency Services	8.0	15.1	-47.1%
Group operating profit*	100.3	91.0	10.3%
Interest	(4.2)	(5.7)	25.4%
<b>Profit before tax*</b>	<b>96.1</b>	<b>85.3</b>	<b>12.6%</b>

**Key Performance Indicators**

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 set out on page 7.

**Risks and uncertainties****Financial risk**

As part of its ordinary activities, HomeServe is exposed to a number of financial risks, principally liquidity risk and credit risk. The Group has policies and procedures on how 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 total amount available under the facility is £150m and the renewal date is December 2012. The amount of any committed undrawn facilities is closely monitored by the Board on a regular basis.

Foreign exchange rate risk is not considered to represent a significant risk at this time due to the absence of significant foreign currency transactions. However, this risk is kept under constant review and policies exist to mitigate this risk should it increase in significance.

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. The majority of our trade receivable balances within our core operations relate to our membership customers who either pay in advance or by continuous payment methods, such as direct debit.

**Commercial relationships**

Underpinning the success in each of our chosen markets are close commercial relationships with a number of utility companies, household insurers, household appliance manufacturers and furniture retailers. Many of these are long term contractual relationships and the loss of these 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.

**Competitors**

Additionally, 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 other participants are closely monitored. The development of innovative products and solutions which address the needs of our customers is seen as paramount to maintaining our competitive advantage.

### Acquisitions

As part of our overall risk management, all potential acquisitions are subjected to a rigorous review, commencing with a detailed assessment of the target's position in the market. We have a dedicated acquisitions team which involves and coordinates managers from our existing businesses and draws on the services of independent advisers when necessary. The ability to integrate the acquisitions into our existing businesses is considered at the outset. Immediately post acquisition, a full internal controls benchmarking assessment is undertaken and the Group's internal control standards are implemented as soon as practicable. The performance of acquisitions is reported and reviewed by the Board on a monthly basis.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement and the Chief Executive's review. Principal risks and uncertainties are detailed in this review. In addition, this review includes, amongst other things, cash flow and financing information.

The Directors confirm that, after reviewing the Group's budget 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.

### Summary

Despite the impairment of Emergency Services assets resulting in a statutory loss before tax in the period, I am pleased to report another very good underlying financial performance for HomeServe with continued strong profit\* growth and margin\* progression.

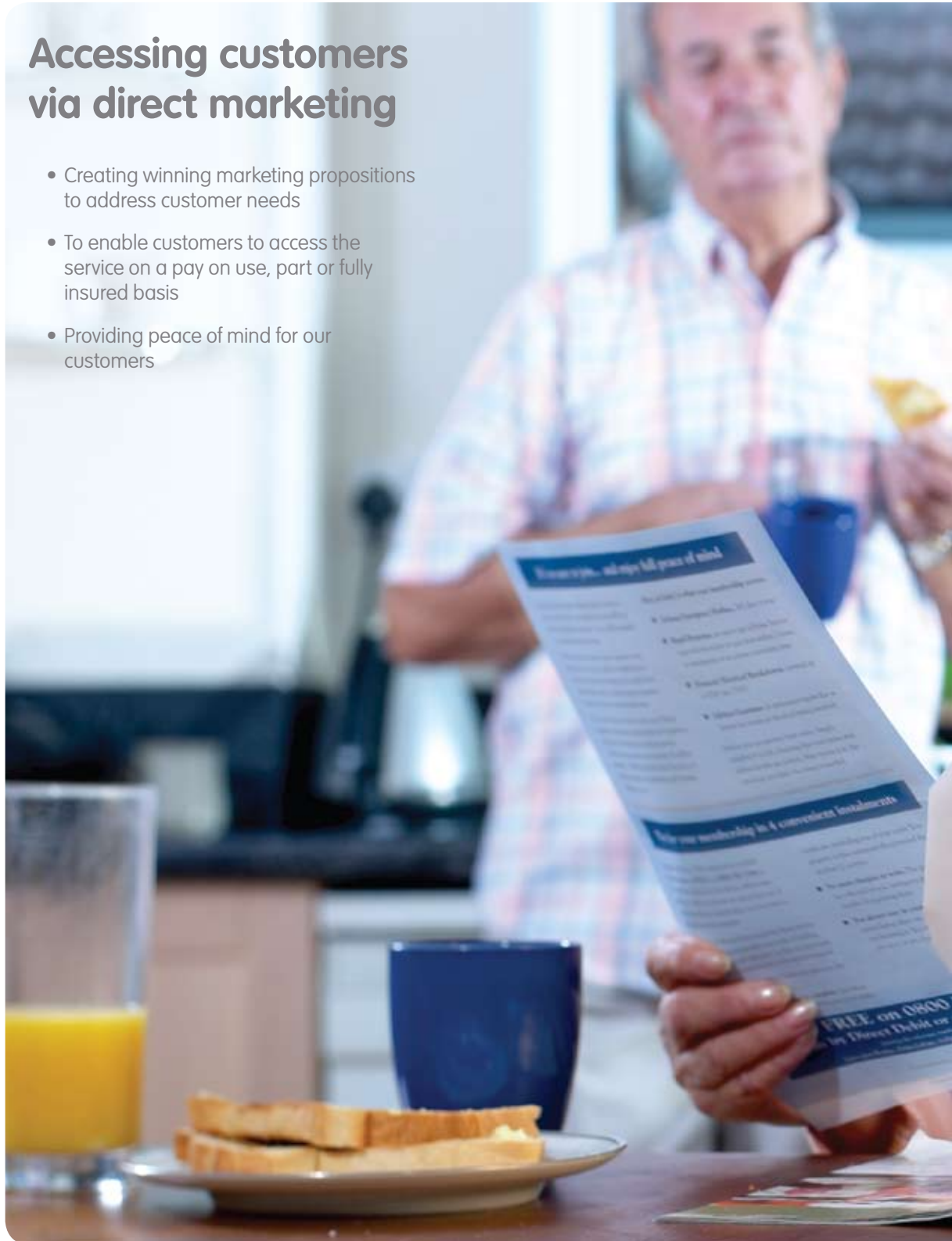
Our membership businesses have once again driven this growth, with our international operations now into profit and action being taken to exit the higher risk, lower margin UK Emergency Services business. The business continues to generate strong levels of cash conversion and this, combined with low financial gearing enables us to access the funds required for strategic acquisitions that accelerate the development of our membership-focused business.

The business is well positioned for continued future growth with a strong finance team in place to help drive the business forward.

**Jonathan Simpson-Dent**  
Chief Financial Officer  
19 May 2009

## Accessing customers via direct marketing

- Creating winning marketing propositions to address customer needs
- To enable customers to access the service on a pay on use, part or fully insured basis
- Providing peace of mind for our customers





## Corporate responsibility

**We recognise that a big part of our business's future success depends on us taking into account the interests of all of our stakeholders. We are committed to the operation of a responsible business model and are developing our activities in this area. We will continue to report on our progress in implementing key initiatives.**

### Employees

We recognise that one of our major stakeholders is our people. All our employees are crucial to HomeServe's future growth and success. Because of this, we are committed to improving our employee engagement and learning more about our staff's needs. We believe HomeServe is a good employer, but we are very aware that we need to listen to our employees in order to ascertain how HomeServe can become an even better place to work.

In the past year, we have developed various existing internal communications programmes as well as initiating some new activities.

From November of 2008, the newly designed staff magazine, Homelife, has been published every two months. This new, smaller format publication aims to both represent the entire workforce and be entertaining. The magazine is posted to the home addresses of all field-based staff, whilst other employees (including those in our overseas sites) can obtain a copy from the main office locations. Feedback from the readership has been very positive so far.

The Group intranet, which launched last year, has been developed both as a document store and business tool and as a communication medium that has wide reach and immediate appeal.

At the start of the year, the Internal Communications team conducted two surveys, one online and one print-based, as well as facilitating a series of focus groups across the UK sites. Employee forums continue to meet regularly at many sites and there are plans to develop web casts and online Q&As via the intranet.

We realise that our staff's views and opinions are fundamental to our future success. We also recognise that employees should be rewarded when they have done a good job. Our HomeServe Heroes employee recognition scheme has seen dozens of staff across the Group celebrated and remunerated for jobs well done. All HomeServe Heroes winners will be invited to an awards event this June, which will celebrate both their success and the benefit their hard work brings to the business overall.

Training and development is also very important at HomeServe. As a business, we always look to recruit the best staff. To retain current and new talent, however, we know that we must offer our employees development opportunities and career progression. Our performance management review process enables us to identify training needs and to provide training solutions in a consistent and targeted manner. What's more, the delivery of many of these programmes is carried out by our own training specialists.



Our performance development review process enables clear objective setting for all employees of manager grade or above. This, along with the Leadership Excellence Framework, which was implemented recently, allows individual management staff to work with the Company to identify their current performance as well as their future training and development needs. Such forward planning is crucial to HomeServe's success overall: it ensures that we will have the best possible management resource to support our growth.

## Apprenticeships are an integral part of our plans to develop a skilled workforce for the future

We are also significantly developing the apprenticeship opportunities available at HomeServe.

Apprenticeships are an integral part of our plans to develop a skilled workforce for the future and as such form a central element of our developing recruitment and training strategy.

### Health and Safety

#### Our record

During the last 12 months, HomeServe has continued to improve its management of health and safety (H&S) across the business and, wherever possible, to deliver improvements in both areas. Clearly, our H&S strategy is concerned with ensuring compliance with legal standards. Beyond this legal imperative, however, we aim, where practicable, to investigate and adopt good industry practice and to ensure that this knowledge and expertise is shared across HomeServe.

During the past year, we have proactively engaged our customers, clients and partners about H&S issues. A clear indicator of the success of this engagement is demonstrated by the fact that we have had limited contact with the Enforcing Authority during the year. Moreover, no prosecutions have been taken against HomeServe for breaches of health and safety regulations and no other statutory notices have been issued.

### Health and safety management

Over recent years, HomeServe has consistently achieved an acceptable safety record via good leadership from the senior management team and by engaging the workforce. As a whole, the Company also continues to expect its operating businesses to ensure compliance with health and safety legislation regardless of the country in which each operates.

The senior team continues to believe in and drive the principle that management must own the health and safety process throughout the group. This is a key element of our bid to engender a culture of health and safety awareness and practice across the group. Each of the operating businesses is required to have a specific health and safety policy and a supporting management system that are underpinned by a robust risk assessment process, which reflects the risks within each particular business.

To ensure that senior management is aware of the risks within the business, health and safety performance reports are routinely generated and submitted, the contents of which are reviewed and discussed at Executive Committee and Board levels. Jonathan Simpson-Dent, Chief Financial Officer, has continued to be the Main Board Director responsible for reporting on health and safety, but the Board as a whole remains responsible for health and safety issues across the Group.

We believe that, to be successful in effectively managing health and safety, our management teams must be properly trained. Over the last 18 months, we have significantly invested in the use of proprietary training packages such as 'IOSH Managing Safety' and the 'IOSH Health and Safety for Senior Managers' package to ensure our managers have the correct tools for ensuring health and safety is managed effectively.

This investment in the training of our managers has also laterally improved the competence of our dedicated safety practitioners. Not only are they able to witness the buy-in that their respective line managers are making to H&S, but they are also enjoying specific financial support, which is funding their own professional development and competence.

To ensure that health and safety is adequately resourced, each of the operating businesses has access to at least one full-time practitioner and additional support is available from the Group Health and Safety Manager when required.

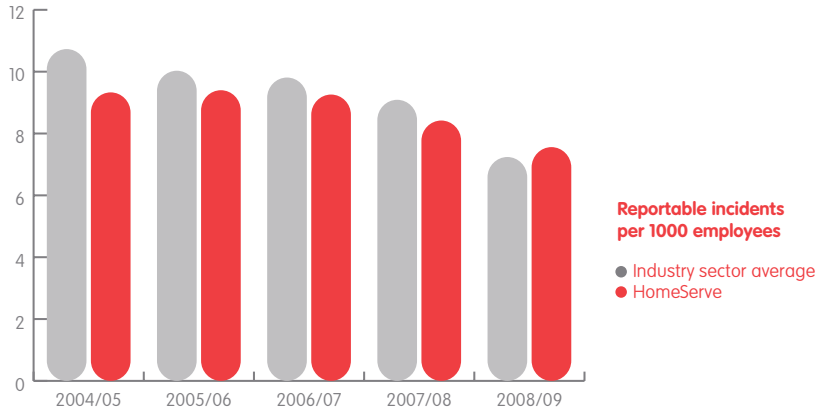
### Accident and injury

One measure of health and safety standards in a business is accident and injury rates. Within the UK, under the requirements of the Reporting of Injuries, Diseases, and Dangerous Occurrences Regulations 1995 (RIDDOR), certain types of accidents or incidents need to be reported to the Health and Safety Executive. Overall, HomeServe has had a generally good year in terms of the number of reportable events. During 2008/9, the accident rates across the Group have shown a small improvement, see chart opposite, with some of the individual operating businesses showing improvements in particular categories or types of accidents. We have experienced no employee fatalities, 'Major Injuries' or 'Dangerous Occurrences' as defined by RIDDOR. However, we did experience a total of 37 RIDDOR-defined '3 day' reportable lost-time events: this is a slight reduction from the previous year when 39 such events were recorded.

In total, during the last year there were 398 incidents or accidents recorded within HomeServe's businesses, of which 63 involved an employee requiring hospital treatment. Overall, a total of 538 working days were lost as a result of work-related accidents: this is an increase of 87 working days compared to those lost in the previous year.

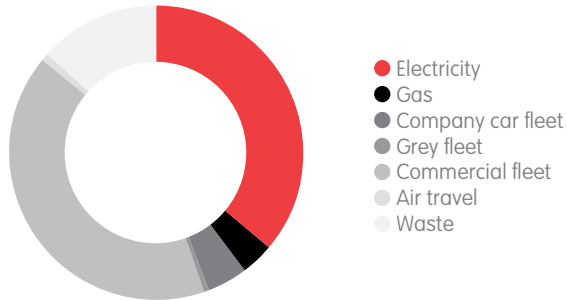
## Number of RIDDOR reportable incidents

Within the UK, under the requirements of the Reporting of Injuries, Diseases, and Dangerous Occurrences Regulations 1995 (RIDDOR), certain types of accidents or incidents need to be reported to the Health and Safety Executive.



## Our carbon footprint

HomeServe's carbon footprint for 2008/9 is 22,567 tCO<sub>2</sub>-e.



As with previous years, the majority of accidents or incidents that occurred involved manual handling, cuts and bruises or muscular strains. During the coming year, the reduction of accidents and incidents rates within the businesses will continue to be a key challenge.

April 2009 saw a significant change to how contractors who undertake work on domestic gas systems are administered and centrally approved. Since that time, the long-established CORGI registration system has ceased to exist and the Health and Safety Executive has introduced a new registration scheme called the 'Gas Safe Register'. The introduction of this new scheme could have had a significant impact on HomeServe as it manages a number of gas-systems contractors. To ensure its contractors complied with the new requirements in a timely manner, HomeServe worked closely with its contractor network to ensure appropriate registrations were made under the new system.

**We are committed to managing our business in an environmentally conscientious way, which will result in real benefits to both the environment and the business.**

HomeServe continues to view the management of its contractors as a critical factor in striving to effectively manage health and safety risks. To improve the current process even further, we have invested in the in-house auditing resource, doubling the current resource level for undertaking audits of contractors' health and safety performances.

**Our employees' well-being**

HomeServe ensures employees receive occupational health support when required and this is currently provided by local HR functions. During the coming months, a challenge for the company will be to develop an occupational health and well-being strategy. Such a strategy will ensure that a consistent approach towards business H&S performance and employees' welfare is adopted across the group. It will also be a strategy that meets government expectations.

Although a number of achievements have been made by the business in the area of effectively managing health and safety, it is expected that H&S will remain a continued priority for us in coming years. In 2009/10, it is envisaged that significant effort will continue to be applied in the following areas:

- Embedding the H&S policies and management system within the operating businesses
- Develop a robust system for the management of occupational road risk
- Development of and refinement of the risk assessment process
- Ongoing management of the contractor network, with investments being made to strengthen the selection and audit process
- The launch of a new corporate health and safety audit programme to provide up-to-date information about H&S across the Group

## Environment

This year, HomeServe has further committed to reducing its environmental impact. We are also actively managing responses to the challenges the government's latest environmental targets present to our business, as well as complying with wider environmental legislation.

The Group Environmental Steering Committee, headed by our Chairman, Brian Whitty, has been instrumental in driving changes across the business over the past year. The committee members have ensured that the environmental strategy is aligned with wider business strategy and that key, environmentally beneficial projects have been progressed during the year.

The environmental plans that have been actioned in the past year will enable us to reduce our environmental impacts over the next 12 months in the following core areas:

- Transport (including our commercial fleet)
- Energy consumption
- Waste management at all of our sites
- Paper usage (both for marketing purposes and internal business requirements)

In addition, there is continued commitment by the business to implement the environmental management system, Group wide. In 2008, both HomeServe Glass and Locks and HomeServe Advanced Aluminium achieved the ISO14001 environmental management system accreditation. During 2009/10 it is intended that the UK Membership business will also seek this accreditation.

## Carbon footprint

To ensure that we continually improve our understanding of our environmental impacts, focus has to be, and will continue to be, placed on collating and analysing a wider cross section of environmental data. The data collated in 2008/9 has been utilised to determine HomeServe's carbon footprint.

HomeServe's carbon footprint has increased from 20,600 tCO<sub>2</sub>-e in 2007/8 to 22,567 tCO<sub>2</sub>-e. This increase was expected by the business due to business growth and because more robust measuring techniques have been put in place to ascertain the environmental impacts of the business. Going forward the strategic environmental focus for HomeServe is to reduce our environmental impact through better energy efficiency, improvements in fleet efficiencies and to reduce the amount of resources used and the waste we generate.

## Reducing the impact of business travel

HomeServe has made changes this year which will enable a reduction in the carbon footprint of core business activities. Over the year, the strategy has focused on reducing the environmental impact of our fleet. We have done this by assessing the vans we use based on factors including efficiencies and CO<sub>2</sub> emission levels. We therefore now select vehicles based on a life-cycle cost analysis which considers fuel efficiency, maintenance and repair costs as well as lease costs. We believe this is the more environmentally responsible option, which will lead to a reduction in the emissions profile of our fleet.

The significant investment made into the fleet's telematics system and speed limiters in 2008 has also started to result in improvements in fuel efficiencies, with up to a 10% improvement in miles per gallon gained to date. This efficiency improvement is resulting in a reduction in the carbon intensity of our fleet.

Our company car policy has facilitated changes that have led to HomeServe's company car selection only including diesel vehicles – with the focus of our range also being on low emission bands; the average being 158 grams of CO<sub>2</sub> per kilometer. We are also intending to reduce the cap of the CO<sub>2</sub> levels of our company cars in the coming year to have a further positive impact on our emissions.

At the moment, air and rail travel made by HomeServe employees is minimal. However, we do have a growing international presence. We have therefore invested in video-conferencing facilities that connect our key sites, both in the UK and overseas, which will help to avoid unnecessary travel. We will be carrying out a review of these facilities throughout this year with the aim of further reducing the need for travel by making improvements where needed.

### Energy reduction

Reducing the energy consumption of HomeServe's office sites is imperative to enable a reduction of our carbon emissions. This year, we have assessed where energy is consumed across our sites and plans have been put in place to facilitate changes that will enable a reduction in consumption to be achieved. The changes range from energy saving educational campaigns for our employees, through to facility and building modifications, which include additional metering services and more energy efficient equipment being installed.

### Recycling improvements

In order to increase the waste that we recycle, additional recycling facilities have been installed at our office sites. HomeServe Glass and Locks branches also provide tradesmen with facilities to collect recyclable materials such as glass, polyvinyl chloride (PVC) and garage doors. During 2009/10, further recycling facilities will be put in place across the business to support our aim of reducing the waste that is not recycled.

### The future

HomeServe realises the importance of making continual changes to its business in order to reduce the environmental impact it has in the short and long term. We are committed to managing our business in an environmentally conscientious way, which will result in real benefits to both the environment and the business.

### Community

HomeServe has main office sites in eight towns and cities in the UK and operates from dozens of depots. We also have overseas operations in France, Spain and the US, and have now added Belgium to this list having commenced business in the Benelux region earlier this year.

With such a widely spaced geographical presence, we understand the importance of developing and maintaining responsible business practices, which both support and enhance the diverse communities in which we are based.

We have a dedicated community development resource, based at our head office in Walsall, UK, and take our community involvement very seriously.

### Charitable support

As a member of the UK charity, Business in the Community, HomeServe has committed itself to numerous voluntary projects in many of its locations over the past year.

Many of our sites have programmes in place that enable staff to sponsor local groups with which they have an affiliation, and in Preston and Weston-super-Mare we have community committees which focus on building links with the community and fundraising. Staff from across the business are able to contribute to regular employment volunteering projects by offering their time and talents to local groups and causes.

During the past year, our major donation scheme – Charity Begins at HomeServe – has seen three projects local to our office sites receive £5,000 each in the form of direct financial assistance and specialist HomeServe tradesmen's labour.

The good causes that have benefited from our major donations to date are a drug prevention group, a sports centre and a regional branch of the children's charity Barnado's. In the coming year, Charity Begins at HomeServe will extend its financial assistance to other communities that we are part of and all our staff will have the opportunity to influence which types of causes benefit from donations.

### Representing the communities we serve

As a company that employs large numbers of local residents in all our main offices (our head office in Walsall in the West Midlands is the largest commercial employer in the town) we are very aware that we have a responsibility to those communities. As an employer, we actively seek to represent the diversity of all the communities we operate in and serve, and we particularly welcome applications from groups which are under represented in our current workforce. HomeServe's stock and trade is the homes of its local residents. We aim to serve these residents and employ them.



## Building scale through international expansion

- Extending our business model by replicating it in international markets
- Acquiring local claims management and repair capability upon which to build our proven membership model
- Building and investing in local management teams





## Directors



**Brian Whitty (55) ~**

Chairman since April 2004 and prior to the demerger of South Staffordshire Water spent six years as Chief Executive and three years as Finance Director. Previously Finance Director of ACT Group plc. Qualified as a chartered accountant in 1977.

**Jon Florsheim (49)**

Appointed to the Board and as Chief Executive of UK Membership 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.

**Mark Morris (49) \* # ~ °**

Appointed to the Board in February 2009. Previously in audit, business advisory and corporate finance with Price Waterhouse before joining Sytner Group plc as Finance Director, later becoming Managing Director. Currently senior non-executive director of LSL Property Services plc and a former non-executive director of Christian Salvesen plc and Maxima Holdings plc.

**Rachael Hughes (38) †**

Appointed as Chief Executive of HomeServe Europe in 2005 having been Managing Director of Doméo, HomeServe's joint venture with Veolia 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.

**Martin Bennett (40)**

Being appointed to the Board as Chief Financial Officer in June 2009. Previously Finance Director of UK Membership having been Finance Director of the Warranties business and Commercial Director. Prior to joining HomeServe in 2003 he spent three years as Group Finance Director of Clarity Group and ten years at Arthur Andersen where he qualified as a Chartered Accountant.

**Richard Harpin (44)**

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.

**J M Barry Gibson (57) \* # ~ °**

Appointed to the Board in April 2004 and appointed as Senior Non-Executive Director in February 2009. Currently senior non-executive Director of William Hill plc. Previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and non-executive Director of Somerfield plc and National Express plc.

**Andrew Sibbald (42) \***

Appointed to the Board in June 2007. An experienced corporate financier, he is Senior Partner and the co-founder of Lexicon Partners, an independent corporate advisory business which specialises in the financial services, utility and energy sectors. Previously Managing Director, Financial Institutions Group, Donaldson, Lufkin & Jenrette and a Partner of the Phoenix Partnership.

**Jonathan King (48) †**

Appointed as Chief Executive of Home Service USA in 2005 following four years as Managing Director of the UK Membership business 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.

**Anna Maughan (39)**

Appointed Company Secretary in July 2008 following twelve years as Assistant Company Secretary. Also Secretary to the industry wide Water Companies Pension Scheme.

**Jonathan Simpson-Dent (42)**

Served as Chief Financial Officer from March 2007 to June 2009. 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.

**Ian Chippendale (60) \* # ~ °**

Appointed to the Board in January 2007. Currently an independent director of Transatlantic Holdings Inc and a Trustee of Victim Support. 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 plc.

**Trevor Didcock (45) †**

Appointed Group Chief Information Officer in February 2008. Previously Information Systems Director at the AA and Group IT Director of RAC Motoring Services. Prior to that he held various roles in Esso, J P Morgan and Mars, including three years as Head of IT for Mars Confectionery.

**Jeremy Middleton (48) †**

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 PriceWaterhouse. Now acts as a business angel specialising in early stage business.

**Key**

- \* Non-Executive
- # Audit Committee  
(Chairman: Mark Morris)
- ~ Nomination Committee  
(Chairman: Brian Whitty)
- ° Remuneration Committee  
(Chairman: Ian Chippendale)
- † Executive Committee only

## Directors and advisers

### Directors

Brian Howard Whitty  
Richard David Harpin  
John Michael Barry Gibson  
Ian Hugh Chippendale  
Jonathan Florsheim  
Mark Christopher Morris  
Andrew Sibbald  
Jonathan Simpson-Dent

### Secretary

Anna Maughan

### Registered Office

Cable Drive, Walsall WS2 7BN  
Registered in England No 2648297

### Stockbrokers

JP Morgan Cazenove Ltd  
20 Moorgate, London EC2R 6DA

UBS Investment Bank  
1 Finsbury Avenue, London EC2M 2PP

### 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 LLP  
Four Brindleyplace, Birmingham B1 2HZ

### Legal advisers

Slaughter and 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 Annual Report and Accounts for the year ended 31 March 2009.

### 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's activities and a review of the business are set out in the Chairman's statement, Chief Executive's review and Financial review.

Details of 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 page 11.

A description of the principal risks and uncertainties facing the Group is included in the Financial review.

Information relating to the environment and employees is included in the Corporate social responsibility report.

### Financial results and dividends

The Group's results are shown in the Group income statement on page 70. The Directors are recommending the payment on 4 August 2009 of a final dividend of 25 pence per ordinary share to shareholders on the register at the close of business on 3 July 2009 which, together with the net interim dividend of 10.5 pence per ordinary share paid on 5 January 2009, results in a total net dividend for the year of 35.5 pence per share (2008: 31.25p). For further details of the dividend see note 13 to the financial statements.

### Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 27. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at a general meeting of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 38. No votes are cast in respect of the shares held in the Employee Benefit Trust and dividends are waived.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Subject to the Companies Acts and any relevant authority of the Company in general meeting, the Company has authority to issue any of the unissued share capital.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors and employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

### Directors

The Directors who held office during the year were:

Brian Whitty  
Richard Harpin  
Jon Florsheim  
Jonathan Simpson-Dent  
Ian Chippendale  
J M Barry Gibson  
Andrew Sibbald  
Mark Morris (appointed 27 February 2009)  
Ian Carlisle (resigned 31 January 2009)  
John Maxwell (resigned 27 February 2009)

## Directors' report

Having been appointed since the last Annual General Meeting, Mark Morris will retire from the Board in accordance with Articles of Association and, being eligible, will offer himself for election. Jon Florsheim and Barry Gibson retire by rotation and, being eligible, offer themselves for re-election. Jon Florsheim serves under a contract of employment terminable on 12 months' notice by either party. Messrs Morris and Gibson 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 early termination by the Company.

In respect of the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of Directors are described in the Board's terms of reference (which are available on request from the Company Secretary) and the Corporate governance statement.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2009 and 19 May 2009 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.

### Annual General Meeting

The following special business will be transacted at the Annual General Meeting of the Company, to be held on 31 July 2009.

#### 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 Shareholder Circular.

### Auditors

A resolution proposing the reappointment of Deloitte 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 £4.1m (2008: £10.1m) during the year.

### Donations

Charitable donations of £43,000 (2008: £37,000) 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 2009 represented 68 days of purchases during the year (2008: 67 days) for the Group and 44 for the Company (2008: 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 8 May 2009, except for the following:

Name	Ordinary shares	%
AMVESCAP PLC	12,243,638	18.7
Richard Harpin <sup>1</sup>	11,012,416	16.9
Baillie Gifford & Co	6,531,952	10.0
Schroders plc	3,962,094	6.1
Standard Life Investments Ltd	3,945,335	6.0
Legal & General Group plc	2,976,770	4.6
Jeremy Middleton	2,708,450	4.1

<sup>1</sup> includes an indirect interest of 5,700 shares

### 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 Group 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 in the Corporate responsibility report.

By Order of the Board

**Anna Maughan**  
Company Secretary  
19 May 2009

## Corporate governance

HomeServe complied throughout the year with the provisions set out in the Combined Code published by the UK Financial Reporting Council in 2003 as updated in June 2006 (the 'Code').

The manner in which the Company applies the principles of good governance contained in the Code is described in the appropriate parts of this Annual Report and Accounts. Thus the application by the Company of the Code's principles relating to remuneration matters in the Remuneration report 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 the Financial review.

### 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 judgements. In addition, the Board holds regular meetings at least annually, 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 preliminary and interim financial statements, major financial commitments, the acquisitions of significant companies or businesses, appointments to the Board and its Audit, Remuneration and Nomination 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 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 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 overall responsibility for Emergency Services following the departure of Ian Carlisle.

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 Committee which is led by Richard Harpin, Chief Executive. Other members of the Executive Committee, together with biographical details, are listed on page 39.

During the year, four independent Non-Executive Directors (Messrs Maxwell, Chippendale, Gibson and Sibbald) 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 senior independent Non-Executive Director until 27 February 2009 when he was replaced by Barry Gibson. Mark Morris was appointed as an independent Non-Executive Director and Chairman of the Audit Committee on 27 February 2009.



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 they have the opportunity to receive formal training from external providers if they wish. During the year, the Non-Executive Directors have met with various members of the Group's management teams and external advisers. Further training for Directors has been provided as appropriate during the year, including training in relation to their duties under the Companies Act 2006.

The Board has implemented a formal process for reviewing its own effectiveness, that of its Remuneration and Audit committees and 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 conducted by the Chairman and Company Secretary, was concluded in March 2008. Directors completed evaluation questionnaires, and attended one-to-one meetings with the Chairman and Company Secretary to discuss the existing and future needs of the Board, its composition and the skills of its members. A formal written report summarising their views and containing recommendations to further improve the effectiveness of the Board and its committees was prepared by the Company Secretary and reviewed by the whole Board in March 2008. The Board concluded that it and the committees reviewed operate effectively, although a number of recommendations for further improvement were approved. Meetings with the Chairman to discuss feedback relating to the effectiveness of individual Directors took place in April 2008. Following this, a further informal review was undertaken in summer 2009 by an external consultant to explore in more detail certain aspects of the feedback. The results of this external review were considered by the Board in January 2009.

### **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 are available on request from the Company Secretary.

A Risk Committee, comprising certain Executive Directors and members of the Executive Committee, operates across the Group and is chaired by Jonathan Simpson-Dent. Its terms of reference have been approved by the Board and its purpose is to establish the Group's risk appetite, to evaluate the risk registers compiled by each of its businesses, to monitor the effectiveness of its action plans for the mitigation of those risks, and to report thereon to the Audit Committee and the Board, which retains responsibility for the overall evaluation of the Group's risk management processes.

### **Nomination Committee**

The Nomination Committee, which makes recommendations to the Board on the appointment of Directors, is chaired by Brian Whitty, and Ian Chippendale, Barry Gibson and John Maxwell, independent Non-Executive Directors also all served on the Committee throughout the year or in the case of John Maxwell, until 27 February 2009. 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 occasions to consider the possible appointment of a new Non-Executive Director. Having consulted professional advisers and informal contacts, Mark Morris was appointed on 27 February 2009.

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

Until 27 February 2009 the Audit Committee was chaired by John Maxwell, a chartered accountant and the senior independent Non-Executive Director. The Committee comprises only independent Non-Executive Directors with Barry Gibson and Ian Chippendale being the other members. Mark Morris was appointed Chairman of the Committee on 27 February 2009. He comes from a strong financial background having worked in audit, business advisory and corporate finance before becoming a plc finance director.

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 internal and external auditors and the Chief Financial Officer are invited, but are not entitled, to attend all meetings. Where appropriate, the Chairman and Chief Executive and other Executive Directors also attend meetings at the Chairman's invitation. 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, whether at Committee meetings or, more informally outside of them.

The Committee is responsible for making recommendations to the Board for a resolution to be put to the shareholders for their approval in general meeting for the appointment of the external auditors, the approval of their remuneration and their terms of engagement.

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. This policy provides that, excluding certain specialist services, the total fees payable to the auditor for non-audit related work in any financial year should not normally be more than 50% of the total fees payable in respect of audit and compliance services.

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 last review of the external audit process were considered by the Audit Committee in May 2009.

### Remuneration Committee

The Committee was chaired by Barry Gibson until 27 February 2009 when Ian Chippendale was appointed. The Committee comprises only independent Non-Executive Directors, Ian Chippendale and John Maxwell being its other members until 27 February 2009 and from that date, the other members were Barry Gibson and Mark Morris.

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 Committee, 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 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 page 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
<b>Number of meetings held</b>	10	3	4
<b>Meetings attended</b>			
B H Whitty	10		
R D Harpin	10		
I Carlisle <sup>1</sup>	8		
J Florsheim	10		
J Simpson-Dent	9		
J H Maxwell <sup>2</sup>	8	3	3
I Chippendale	9	3	3
J M B Gibson	9	2	4
A Sibbald	9		
M Morris <sup>3</sup>	1		1

1 Mr Carlisle left the Company on 31 January 2009

2 Mr Maxwell left the Company on 27 February 2009

3 Mr Morris was appointed on 27 February 2009

### Relationships with shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive 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 and the Chairman, who are 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement and the Chief Executive's review. Principal risks and uncertainties are detailed in the Financial review. In addition, the Financial review includes, amongst other things, cash flow and financing information.

The Directors confirm that, after reviewing the Group's budget 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.

## Corporate governance

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

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

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

- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the Executive Directors on a regular basis. Weekly telephone meetings of the Executive Committee monitor its day-to-day performance, and full Executive Committee 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.
- 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 Risk and Audit Committees and by the Board before the Annual Report and Accounts is approved.
- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.
- At each meeting the Audit Committee reviews reports of the Executive Directors and the internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration. The Risk Committee meets at least quarterly to assist the Audit Committee to monitor these risks, as well as to set the Group's risk appetite and to evaluate in detail risk registers compiled by the Group's businesses.
- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

## Remuneration report

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (the 'Act') 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 external 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 it. 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 Chairman) and other members of the Executive Committee. 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 request from the Company Secretary.

##### Membership

The Committee was chaired by Barry Gibson until 27 February 2009 when Ian Chippendale was appointed as Chairman, having been a member of the Committee throughout the year. Barry Gibson remains a member of the Committee. John Maxwell served on the Committee until 27 February 2009 when Mark Morris was appointed to replace him. All of the members are independent Non-Executive Directors.

##### 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 Hewitt New Bridge Street (HNBS), a firm of independent remuneration consultants, served as advisers to the Committee. The Company also instructed HNBS to advise it on a limited number of remuneration matters concerning individuals below the Executive Committee during the year. Other than in relation to advice on remuneration, HNBS has no other connections with the Company. The terms of engagement for HNBS are available on request from the Company Secretary.

The Committee has also received assistance from Brian Whitty, the Group's Chairman, Richard Harpin, the Chief Executive, the Company Secretary (Emma Thomas until July 2008 and then Anna Maughan) and until his departure in October 2008, Martin Sawkins, 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 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 a 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.

## Remuneration report

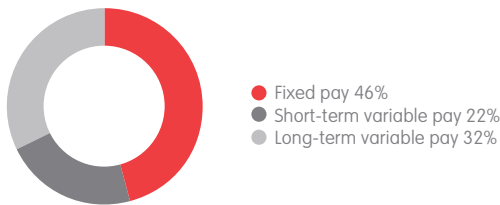
To that end, the Committee structures executive remuneration in two distinct parts: fixed remuneration of basic salary, pension and benefits and variable performance-related remuneration in the form of a cash bonus and long-term incentive arrangements. Remuneration for Executive Directors is structured so that the variable pay element forms a significant portion of each Director's package.

The charts below 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.

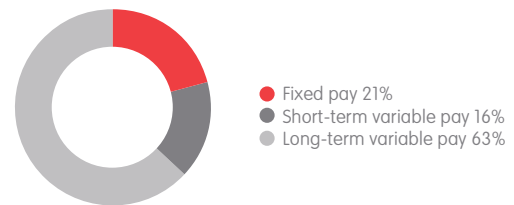
They demonstrate the significant weighting of the package towards variable (performance-related) pay. In particular, the majority of Executive Directors' total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements, which are strongly aligned to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

The Committee has the discretion to take into account performance on environmental, social and governance matters when setting the remuneration of the Chairman and Executive Directors. However, the Committee has chosen not to take these into specific account in setting performance targets for 2009/10 in the belief that the structures in place neither encourage nor reward inappropriate behaviour in this regard and that relevant operational controls relating to such matters are in place.

### On-target Remuneration



### Maximum Remuneration



### Key activities of the Remuneration Committee during the year

In line with its remit, the following key issues were discussed by the Committee during the year;

- Review of salary levels for the Executive Directors and other members of the Executive Committee;
- Agree the bonuses payable for the 2007/8 financial year;
- Determination of the targets for the 2008/9 annual bonus plan;
- Finalise the design of the 2008 LTIP and pre-consult with major institutional investors;
- Approve the 2008 Remuneration report and review of final outcome of AGM voting for the Report;
- Approval of the performance targets and individual and aggregate award sizes to be granted under the 2008 LTIP;
- Review of the performance targets and confirmation of the level of vesting of 2005 share option and deferred share bonus plan awards and approve vesting levels of other awards for 'good leavers' from the Company as appropriate;
- Review of and agreement to all Director joining and leaving arrangements, covering all elements of their reward package;
- Review of the remuneration arrangements for the Executive Directors and other members of the Executive Committee for 2009; and
- Consider advisory bodies and institutional investors guidelines on executive compensation for 2009.

### **Summary of changes to the Board structure and individual roles and responsibilities**

In November, a reorganisation of the UK businesses was announced to shareholders. Under the new structure, our UK Membership business will manage claims and service delivery in addition to sales, marketing and administration for our policy customers. A smaller, more focused, Emergency Services division was to focus exclusively on fulfilling the needs of our insurer and commercial partners. As a result of this reorganisation there have been a number of changes to the individual roles and responsibilities of the Board Directors:

- Brian Whitty, the Chairman, has reduced his overall executive involvement, focusing on the more traditional chairman role but has assumed responsibility for Emergency Services following the departure of Ian Carlisle. He will continue to participate in the annual bonus plan but it is intended that he will no longer receive grants under the Company's long-term incentive plans.
- Richard Harpin, the Chief Executive, has now assumed some of the responsibilities previously undertaken by the Chairman including strategy and relations with shareholders and as such, the Committee increased his salary mid-way through the year to bring it in line with the market for a Chief Executive of a FTSE-250 company.
- Ian Carlisle, CEO of the Emergency Services division left the Company on 31 January 2009 and details of his termination arrangements are disclosed in the notes to the emoluments table on page 60.
- Jon Florsheim has assumed responsibility for the enlarged UK Membership business and his salary was also realigned to reflect his increased role and responsibilities.
- Barry Gibson was appointed senior independent Director following John Maxwell's retirement from the Board. Mark Morris was appointed to the Board as a Non-Executive Director.

## Remuneration report

### Summary of components of Executive Directors' remuneration

Type	Objective	Performance period	Policy
<b>Basic salary</b>	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 the top-half of the FTSE-250 or roles of a similar type. Consideration is also given to the pay and employment conditions elsewhere in the Company when determining base salary increases.
<b>Performance-related bonus</b>	To incentivise the delivery of Group and individual performance-related objectives	Annual (determined after the year-end)	The maximum potential quantum is determined by reference to the median for the top-half of the FTSE-250. Actual bonus payments are determined according to the Group's financial (80%) and individual (20%) performance.
<b>Pension</b>	To provide benefits comparable with similar roles in similar companies	N/A	Pension benefits are determined by reference to the median for the top-half of the FTSE-250. Only basic salary is pensionable.
<b>Other benefits</b>	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) permanent health insurance.
<b>Long-term incentives</b>	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	Three years	Awards under the 2008 LTIP to deliver rewards based on relative TSR performance (subject to satisfactory underlying financial performance).



## 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 and pay and employment conditions of employees elsewhere in the Company.

Following a review undertaken by HNBS in March 2008, the Committee determined that the most appropriate comparator group against which to benchmark Executive Directors' basic salaries is the top-half of the FTSE-250 Index (reflecting the increased size and profile of the Company), taking into account the roles, responsibilities and experience of each Director. Salary increases of 3% were awarded to Messrs Whitty, Harpin, Carlisle and Florsheim and 16.7% to Jonathan Simpson-Dent. The higher increase to Jonathan Simpson-Dent reflected his relatively recent appointment to the role. These increases were effective from 1 April 2008. These increases compared to a budgeted increase of 3% across the workforce as a whole.

Base salary levels were reviewed again in March 2009 and the Committee determined that the top-half of the FTSE-250 remained the most appropriate comparator group against which to benchmark salaries (at the time of the review the Company was ranked 179 in the FTSE). Reflecting the desire to control fixed costs across the business, no pay increases were implemented as at 1 April 2009 for either the Board or the members of the Executive Committee. The budgeted increase for the general workforce was 2%.

During the year, the responsibilities of Richard Harpin, Group Chief Executive and Jon Florsheim, Chief Executive of UK Membership were reviewed following a restructure of the UK Membership business. The basic salary of both of these individuals was increased to £500,000 with effect from 1 October 2008.

### 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. The maximum annual bonus for 2009/10 will be maintained at 100% of basic salary (with the exception of Jon Florsheim whose maximum bonus potential is unchanged at 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 and cashflow. The remaining 20% of bonus potential was based on measurable personal targets, relating to the part of the business or the function for which the Director is responsible. This weighting differed for Jon Florsheim who was able to earn a higher proportion of his bonus potential based on targets specifically related to the performance of UK Membership.

The weighting between business and personal objectives will remain 80% financial: 20% personal for 2009/10 except for Jon Florsheim who will continue to be able to earn a higher proportion of his bonus potential depending on the performance of UK Membership. 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).

Executive Directors' bonuses are paid entirely in cash, though under the Long Term Incentive Plan adopted in 2008, Directors have the opportunity to invest part of their net bonus in shares. If they choose to do this, they may be awarded a matching award which is subject to a comparative Total Shareholder Return (TSR) performance condition.

## Remuneration report

### Long-term incentives

The Committee's policy for the provision of long-term incentives to Executive Directors is to grant awards of performance shares (performance awards) and to provide them with the opportunity to voluntarily invest their annual bonus into a matching share arrangement (matching awards) under the Long Term Incentive Plan adopted in 2008 (the '2008 LTIP').

The maximum individual award limit under the 2008 LTIP is 200% of basic salary for performance awards and for matching awards of up to two shares for each share invested, based on a maximum investment of the net of tax equivalent of 75% of the maximum bonus potential.

Consistent with the grant policy applied in 2008, the Committee intends to limit the size of performance share awards in 2009 to the Executive Directors to 150% of salary. Matching awards up to the maximum ratio of two shares for each invested share will continue to be granted. It should be noted that, under the plan rules, the executives may invest up to the lower of their actual bonus earned in the preceding financial year and 75% of their maximum bonus potential. In the event that actual bonuses are lower than 25% of salary, executives may invest up to 25% of salary in shares from their own money.

The Committee may set different targets for each new award but it is intended that performance and matching share awards granted in 2009 will be linked to the achievement of stretching TSR targets, with 25% of the awards vesting for TSR equal to the FTSE-250 Index, increasing in a straight line to 100% vesting where TSR performance exceeds the Index by an average of 15 percentage points per annum. In determining the number of awards that will vest in any year, the Committee will also take into account the underlying financial performance of the business. This is consistent with the performance conditions attached to the awards granted in 2008.

Awards under the 2008 LTIP may be satisfied through a mixture of either market purchase or new issue shares. To the extent new issue shares are used, the 2008 LTIP will adhere to a 5% in 10 year dilution limit.

Executive Directors, including the Chairman, 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.

### 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. Details of the current shareholdings of the Executive Directors are provided on page 59.

### 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 12 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
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.

Ian Carlisle left the Company on 31 January 2009. Details of his termination package are provided in the notes to the emoluments table on page 60.

### 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 (until his departure on 31 January 2009) were members of the WCPS. In respect of these Directors, its main features are:

- pension at normal retirement age of one-half of final pensionable salary and a tax free lump sum of one and a half times final pensionable salary 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.

A notional earnings cap restricts the benefits provided to members of the WCPS. In respect of Richard Harpin and Ian Carlisle, an unapproved pension payment, equal to 20% of the amount by which their basic salary exceeds the notional cap is paid annually. The notional cap is indexed in line with earnings inflation.

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 his basic salary for future service.

The HMP is a funded, Inland Revenue approved occupational defined contribution pension scheme. Jon Florsheim and Jonathan Simpson-Dent are members of the HMP. 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.

## Remuneration report

Where the benefits provided to Executive Directors under the scheme are restricted as a result of the notional 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.

### 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 Executive Directors within the limits set by the Articles of Association and are based on information on fees paid in similar companies and the skills and expected time commitment of the individual concerned. Non-Executive Directors are not entitled to bonus payments or pension arrangements, nor do they participate in the Company's long-term incentive plans.

Details of their current three year appointments are as follows:

Name of Director	Date of contract
J M B Gibson	6 April 2004
I Chippendale	1 January 2007
A Sibbald	1 June 2007
M Morris	27 February 2009

The fees for the Non-Executive Directors were last reviewed in March 2008. The current fee policy for Non-Executive Directors is a base Board fee of £40,000, a £7,500 premium for Chairmanship of the Audit and Remuneration Committees and a £2,500 fee for membership of those committees. As senior independent Non-Executive Director, Barry Gibson receives an additional fee of £40,000 on top of his base and committee membership fees. The Board considers the level of the additional fee to be appropriate taking into account the expected time commitment and the prominence of the role in the absence of a Non-Executive Chairman. This increased fee was effective from 1 November 2008.

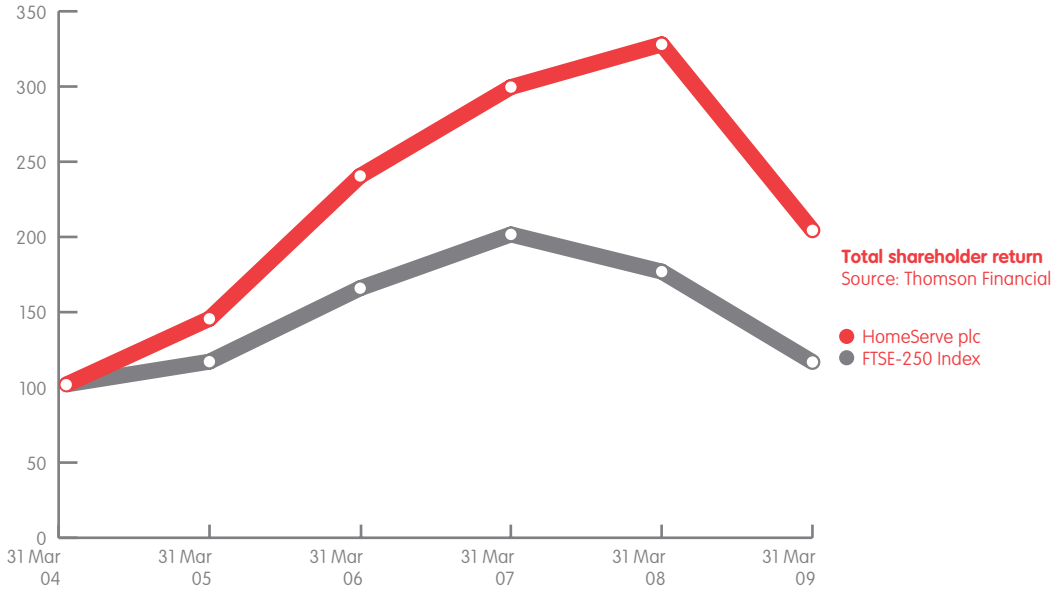
### Executive Committee

The following table sets out the base salaries of executive members of the Executive Committee who are not on the Main Board on a banded basis at 31 March 2009.

Base salary range	Number of employees
£250,001–£300,000	2
£200,001–£250,000	1

### Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-250 Index (also measured by TSR) for the five years ended 31 March 2009. This comparator has been chosen as it is a broad equity index of which the Company is a constituent and it is also used in assessing relative TSR performance under the 2008 LTIP.



This graph shows the value, by the 31 March 2009, of £100 invested in HomeServe on 31 March 2004 compared with that of £100 invested in the FTSE-250 Index. The other points plotted are the values at intervening financial year-ends.

## Remuneration report

### Audited information Directors' emoluments

	Basic salary £000	Benefits £000	Bonus £000	Compensation for loss of office £000	Total emoluments and compensation <b>2009</b> <b>£000</b>	2008 £000
<b>Executive</b>						
B H Whitty	424	26	106	—	<b>556</b>	672
R D Harpin	441	29	125	—	<b>595</b>	614
I Carlisle <sup>1</sup>	265	18	—	467	<b>750</b>	497
J Florsheim	482	44	238	—	<b>764</b>	708
J Simpson-Dent	350	17	67	—	<b>434</b>	486
<b>Non-Executive</b>						
J H Maxwell <sup>2</sup>	53	—	—	46	<b>99</b>	58
J M B Gibson	65	—	—	—	<b>65</b>	50
I H Chippendale	45	—	—	—	<b>45</b>	45
A Sibbald	40	—	—	—	<b>40</b>	33
M C Morris <sup>3</sup>	4	—	—	—	<b>4</b>	—
<b>Total 2009</b>	<b>2,169</b>	<b>134</b>	<b>536</b>	<b>513</b>	<b>3,352</b>	
Total 2008	2,028	116	1,019	—		3,163

<sup>1</sup> Ian Carlisle left on 31 January 2009.

<sup>2</sup> John Maxwell left on 27 February 2009.

<sup>3</sup> Mark Morris was appointed on 27 February 2009.

The annual bonus payable in respect of 2008/9 reflects the achievement of the cashflow target and an assessment of each Director's personal targets. The stretching profit target was not met.

Benefits comprise company car and fuel allowance and medical insurance. Contributions to money purchase pension schemes are shown separately on page 59.

The amounts paid to Ian Carlisle as compensation for loss of office represent pay in lieu of his contractual salary and benefits in respect of his notice period of twelve months and a pro-rata bonus.

John Maxwell left the Board on 27 February 2009. Under the terms of his letter of appointment he was entitled to payment of 12 months' fee. It was agreed that an amount equal to  $\frac{10}{12}$  of the annual fee be paid.

### Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	<b>2009</b> <b>£000</b>	2008 £000
Emoluments	2,839	3,163
Compensation for loss of office	513	—
Gains on exercise of share options	282	68
Money purchase pension contributions	214	187
	<b>3,848</b>	<b>3,418</b>

### Directors' pension

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 2009 £000	Increase in accrued pension in the year £000	Increase in accrued pension in the year in excess of inflation £000	Accrued pension 31 March 2008 £000	Transfer value of increase £000
B H Whitty	44	11	9	33	189
R D Harpin	34	7	6	27	86
I Carlisle <sup>1</sup>	10	3	3	7	55

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 2009 £000	Contributions made by the Director £000	Increase in transfer value in the year net contributions £000	Transfer value £000
B H Whitty	970	—	357	613
R D Harpin	527	—	191	336
I Carlisle <sup>1</sup>	176	—	83	93

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.

Four Directors were members of money purchase schemes. Contributions paid by the Company were as follows:

	2009 £000	2008 £000
R D Harpin	65	52
I Carlisle <sup>1</sup>	40	39
J Florsheim	39	36
J Simpson-Dent	70	60

<sup>1</sup> Ian Carlisle left on 31 January 2009

### 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 2009 £000	31 March 2008 £000
B H Whitty	91,813	101,485
R D Harpin <sup>1</sup>	11,012,416	11,004,594
J Florsheim	29,167	7,247
J Simpson-Dent	6,903	—
I H Chippendale	3,000	3,000
JM B Gibson	6,675	6,675
A Sibbald	—	—
M C Morris <sup>2</sup>	—	—

<sup>1</sup> Includes an indirect interest of 5,700 shares

<sup>2</sup> Mark Morris was appointed on 27 February 2009

## Remuneration report

There were no changes in the Directors' interests in shares between 31 March and 19 May 2009.

### Directors' share 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 2009	Granted during year	Exercised during year	31 March 2008	Option price	Date granted	Date exercisable from
B H Whitty	<b>1,263</b>	1,263	—	—	£7.60	22.12.08	1.3.12
R D Harpin	<b>1,753</b>	—	—	1,753	£9.18	23.12.05	1.3.11
I Carlisle <sup>1</sup>	<b>1,158</b>	—	—	1,158	£14.50	19.12.07	1.3.13
J Florsheim	<b>1,263</b>	1,263	—	—	£7.60	22.12.08	1.3.12
J Simpson-Dent	<b>662</b>	—	—	662	£14.50	19.12.07	1.3.11

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

<sup>1</sup> Ian Carlisle left on 31 January 2009 and was treated as a good leaver. He will therefore be permitted to exercise a proportion of this option.

### ESOP

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

	31 March 2009	Granted during year	Exercised during year	31 March 2008	Option price	Date granted
B H Whitty	<b>72,500</b>	—	—	72,500	£5.50	17.7.01
	<b>65,000</b>	—	—	65,000	£5.89	8.7.02
	<b>80,000</b>	—	—	80,000	£4.70	1.7.03
	<b>99,500</b>	—	—	99,500	£6.61	27.5.04
	<b>55,000</b>	—	—	55,000	£9.61	28.6.05
	<b>42,644</b>	—	—	42,644	£14.07	23.5.06
	<b>35,972</b>	—	—	35,972	£17.18	4.9.07
R D Harpin	<b>49,000</b>	—	—	49,000	£5.50	17.7.01
	<b>44,000</b>	—	—	44,000	£5.89	8.7.02
	<b>60,000</b>	—	—	60,000	£4.70	1.7.03
	<b>83,000</b>	—	—	83,000	£6.61	27.5.04
	<b>51,000</b>	—	—	51,000	£9.61	28.6.05
	<b>38,380</b>	—	—	38,380	£14.07	23.5.06
	<b>32,375</b>	—	—	32,375	£17.18	4.9.07
Ian Carlisle <sup>1</sup>	<b>24,762</b>	—	17,738	42,500	£4.70	1.7.03
	<b>65,000</b>	—	—	65,000	£6.61	27.5.04
	<b>42,500</b>	—	—	42,500	£9.61	28.6.05
	<b>31,938</b>	—	—	31,938	£14.07	23.5.06
	<b>26,979</b>	—	—	26,979	£17.18	4.9.07
J Florsheim	<b>39,290</b>	—	—	39,290	£17.18	4.9.07
J Simpson-Dent	<b>26,193</b>	—	—	26,193	£17.18	4.9.07

<sup>1</sup> Ian Carlisle left on 31 January 2009 and was treated as a good leaver. The options granted in 2003, 2004 and 2005 had already vested so could be exercised for a limited period. The options granted in 2006 and 2007 lapsed following an assessment of the performance conditions.

The price of an ordinary share on 26 September 2008 when Mr Carlisle exercised his option over 17,738 shares was £14.55.

The ESOP was approved by shareholders in 2001. Options were 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.



Options will become exercisable based on the following scale:

Average normalised EPS <sup>1</sup> growth per annum over three financial years	Vesting level as percentage of overall award (%)
RPI + 4%	25
RPI + 6%	50
RPI + 8%	75
RPI + 10%	100

<sup>1</sup> EPS is defined as the normalised earnings per share of the Company as defined in IAS33.

EPS growth is calculated by the Company and independently verified by HNBS. Options granted under the ESOP in 2006 and 2007 will only become exercisable if the Company's share price growth is equal to or exceeds 48% in the three year period from the date of grant. Currently, the market price is below the option price and in any case, it is unlikely that the performance conditions will be met in respect of the 2006 awards.

From 2005 to 2007, the normal maximum annual grant under the ESOP was 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 discretion to allow options to be retained by the executive subject to such performance conditions as it wishes to impose.

The performance conditions attaching to the options granted on 26 June 2005 were met in full. Over the three year performance period, the Company's EPS performance exceeded RPI by in excess of 10% per annum (the target required for full vesting).

There were no changes in the options held under the ESOP between 31 March and 19 May 2009.

## 2004 LTIP

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

	31 March 2009	Awarded during year	Lapsed during year	Vested during year	31 March 2008	Date granted
B H Whitty	<b>99,500</b>	—	—	—	99,500	27.5.04
R D Harpin	<b>83,000</b>	—	—	—	83,000	27.5.04
I Carlisle <sup>1</sup>	<b>94,940</b>	—	—	—	94,940	27.5.04
J Simpson-Dent	<b>15,732</b>	—	—	—	15,732	31.3.08

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 similar award made in March 2008 to Mr Simpson-Dent for the same purpose. Awards were granted as nil cost share options.

<sup>1</sup> Ian Carlisle left on 31 January 2009 and was treated as a good leaver. The performance conditions attaching to the awards will be assessed at the end of the relevant performance period and if awards vest they will be pro-rated for time.

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

## Remuneration report

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

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% per annum. 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 HNBS and verified by the Remuneration Committee. At March 2009, HNBS has estimated that the Company's absolute TSR growth in the period since the date of the 2004 award is 71.9%. Accordingly, if no further increase in the Company's TSR occurs in the remainder of the performance period, none of the awards would vest.

### Conditional share scheme awards (CSS)

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

	31 March 2009	Awarded during year	Lapsed during year	Vested during year	31 March 2008
J Florsheim	<b>24,604</b>	—	—	12,302	36,906

On 12 March 2007, pursuant to Listing Rule 9.4.2. (2) (LR 9.4.2), a grant of 49,207 conditional shares was made to Jon Florsheim under the CSS. 25% of the award vested on the first anniversary of the grant, 25% of the award vested 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. The price of an ordinary share on 12 March 2009, the date on which the second tranche of the award vested, was £8.75.

### Key executive incentive plan awards

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

	31 March 2009	Granted during year	Exercised during year	31 March 2008	Option price	Date granted
J Florsheim	<b>100,278</b>	—	—	100,278	£17.95	30.3.07
J Simpson-Dent	<b>66,852</b>	—	—	66,852	£17.95	30.3.07

On 30 March 2007, a grant of share options was made to Jon Florsheim and Jonathan Simpson-Dent under a Key Executive Incentive Plan (respectively, the JF and JSD KEIP). 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 profit before tax and growth in the Company's share price to £32.50 at the time of first vesting. These conditions will be independently verified by HNBS.

### DBP

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

	31 March 2009	Awarded during year	Lapsed during year	Vested during year	31 March 2008	Date granted
B H Whitty	<b>61,680</b>	—	8,946	—	70,626	2.8.05
	<b>46,443</b>	—	—	—	46,443	25.5.06
R D Harpin	<b>51,399</b>	—	7,455	—	58,854	2.8.05
	<b>45,090</b>	—	—	—	45,090	25.5.06
	<b>50,954</b>	—	—	—	50,954	6.9.07
I Carlisle <sup>1</sup>	<b>19,936</b>	—	2,891	—	22,827	2.8.05
	<b>28,191</b>	—	—	—	28,191	25.5.06
	<b>35,385</b>	—	—	—	35,385	6.9.07

<sup>1</sup> Ian Carlisle left on 31 January 2009 and was treated as a good leaver. The award dated 2005 vested on leaving. The performance conditions attaching to the awards granted in 2006 and 2007 will be assessed at the end of the relevant performance period and if awards vest they will be pro-rated for time.

The DBP was introduced in 2005. Under its terms, Executive Directors were able to invest some or all of their annual bonus into shares and to defer receipt for three years. Matching shares could 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 <sup>1</sup> performance	Matching ratio
Below median	Nil
Median	0.5:1
Median – upper decile	0.5-3:1
	on a straight line basis
Upper decile	3:1

<sup>1</sup> 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.

At the end of the performance period for the 2005 awards, HomeServe was ranked between median and upper decile against the constituents of the FTSE-350 Index. Accordingly 2.62 matching shares vested for each invested share out of a maximum 3 matching shares for each invested share. The price of an ordinary share on 8 August 2008, the date on which the 2005 invested shares vested was £14.25.

At March 2009, the Company's TSR performance in the period from the date of grant of the 2006 and 2007 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 0.92 for the 2006 awards and 0.82 for the 2007 awards.

## 2008 LTIP

Details of the maximum number of shares receivable from conditional awards made under the 2008 LTIP are as follows:

	Type of award	31 March 2009	Awarded during year	Lapsed during year	Vested during year	31 March 2008
B H Whitty	Performance	<b>42,183</b>	42,183	—	—	—
R D Harpin	Performance	<b>37,965</b>	37,965	—	—	—
	Matching	<b>28,603</b>	28,603	—	—	—
I Carlisle <sup>1</sup>	Performance	<b>31,637</b>	31,637	—	—	—
	Matching	<b>8,986</b>	8,986	—	—	—
J Florsheim	Performance	<b>74,533</b>	74,533	—	—	—
	Matching	<b>31,133</b>	31,133	—	—	—
J Simpson-Dent	Performance	<b>34,791</b>	34,791	—	—	—
	Matching	<b>22,346</b>	22,346	—	—	—

<sup>1</sup> Ian Carlisle left on 31 January 2009 and was treated as a good leaver. The performance conditions attaching to the awards will be assessed at the end of the relevant performance period and if awards vest they will be pro-rated for time.

The market price of the Company's shares on 6 August 2008, the date the awards were granted was £15.42. Mr Florsheim was granted 46,074 shares in August and a further award over 28,459 shares on 4 December 2008 when the share price was £8.80.

The performance conditions in respect of the 2008 are as described in the unaudited section of this report. At 31 March 2009, the Company's TSR performance was such that no part of the performance or matching awards would vest if this were the end of the performance period.

The market price of the Company's shares at 31 March 2009 was £11.70 (2008: £19.23). During the year the price ranged from £8.40½ to £20.57.

The Committee has continued to ensure 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, 2004 LTIP, CSS, KEIP and 2008 LTIP may be fulfilled by the purchase of shares in the market by the Company's 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 2009 amounted to 2,109,573 ordinary shares. Shares may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme.

By Order of the Board

**Ian Chippendale**  
Chairman of the Remuneration Committee  
19 May 2009

## Statement of Directors' responsibilities

**The Directors are responsible for preparing the Annual Report and Accounts, 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.

### **Directors' responsibility statement**

We confirm to the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report (which comprises the Directors' report and the Business review) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

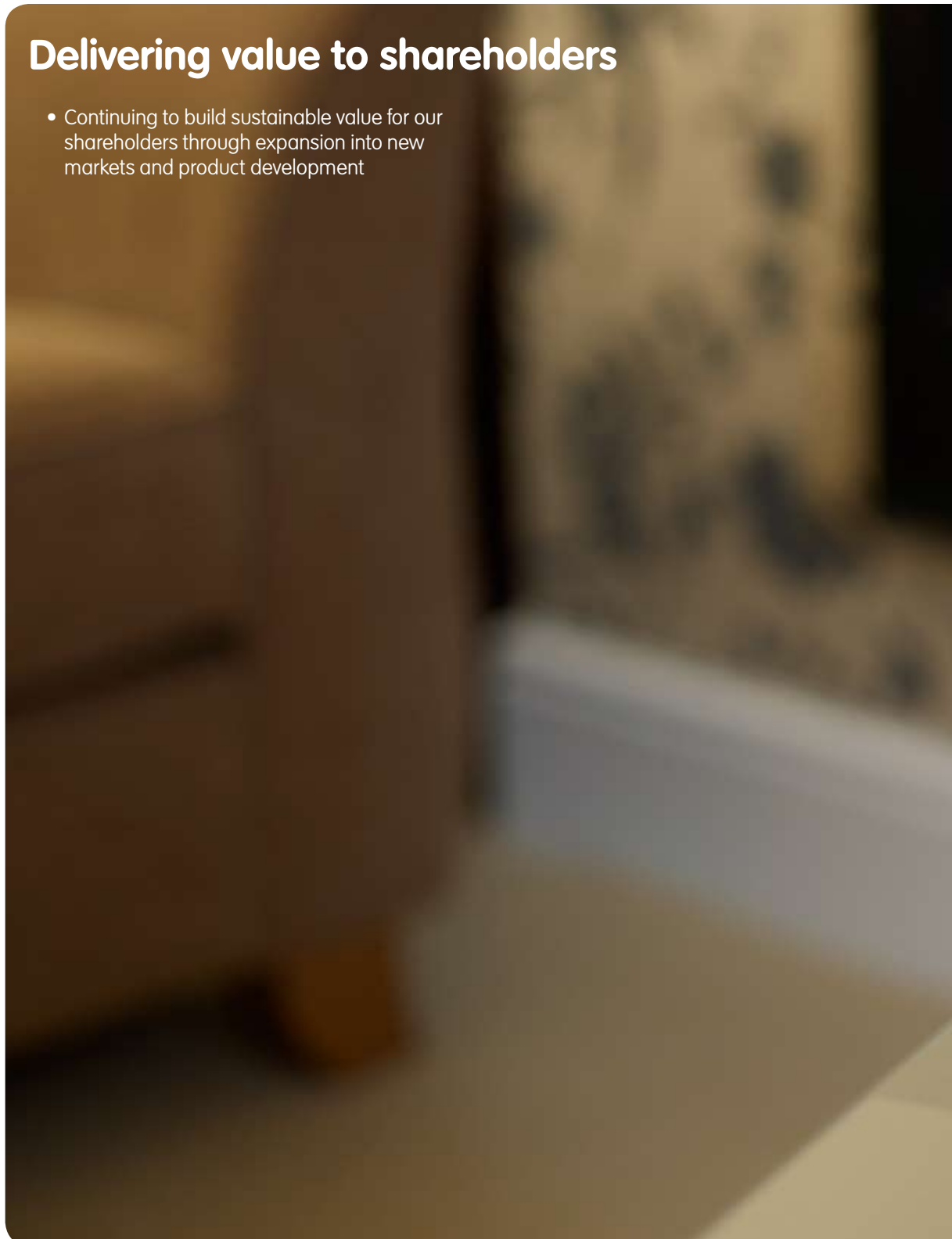
By Order of the Board

**Richard Harpin**  
Chief Executive  
19 May 2009

**Jonathan Simpson-Dent**  
Chief Financial Officer  
19 May 2009

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## Independent auditors' report

We have audited the Group financial statements of HomeServe plc for the year ended 31 March 2009 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 43. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the 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 2009.

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 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 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 Principal activities 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 2006 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 judgements 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 2009 and of its loss 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 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 LLP**

Chartered Accountants and Registered Auditors  
Birmingham  
19 May 2009

**Group income statement**

year ended 31 March 2009

Continuing operations	Notes	2009		£000 Total	2008		£000 Total
		£000 Core <sup>2</sup>	£000 Non-core <sup>2</sup>		£000 Core	£000 Non-core	
Revenue	4	<b>283,840</b>	<b>233,601</b>	<b>517,441</b>	263,215	291,660	554,875
Operating costs:							
Amortisation of acquisition intangibles	16	<b>(3,664)</b>	<b>(8,441)</b>	<b>(12,105)</b>	(2,251)	(8,069)	(10,320)
Exceptional operating costs <sup>1</sup>	6	<b>(2,317)</b>	<b>(4,232)</b>	<b>(6,549)</b>	(2,154)	—	(2,154)
Impairment of UK Emergency Services assets	7	—	<b>(97,184)</b>	<b>(97,184)</b>	—	—	—
Other operating costs		<b>(196,951)</b>	<b>(225,595)</b>	<b>(422,546)</b>	(190,151)	(276,516)	(466,667)
Operating costs	8	<b>(202,932)</b>	<b>(335,452)</b>	<b>(538,384)</b>	(194,556)	(284,585)	(479,141)
Share of results of joint ventures	19	<b>3,451</b>	—	<b>3,451</b>	1,755	—	1,755
<b>Operating profit/(loss)</b>		<b>84,359</b>	<b>(101,851)</b>	<b>(17,492)</b>	70,414	7,075	77,489
Investment income	10	<b>1,237</b>	<b>116</b>	<b>1,353</b>	929	173	1,102
Finance costs	11	<b>(4,808)</b>	<b>(763)</b>	<b>(5,571)</b>	(6,179)	(574)	(6,753)
<b>Profit before tax, amortisation of acquisition intangibles, exceptional operating costs, impairment and tax on joint ventures</b>		<b>88,710</b>	<b>7,359</b>	<b>96,069</b>	70,560	14,743	85,303
Amortisation of acquisition intangibles	16	<b>(3,664)</b>	<b>(8,441)</b>	<b>(12,105)</b>	(2,251)	(8,069)	(10,320)
Exceptional operating costs <sup>1</sup>	6	<b>(2,317)</b>	<b>(4,232)</b>	<b>(6,549)</b>	(2,154)	—	(2,154)
Impairment	7	—	<b>(97,184)</b>	<b>(97,184)</b>	—	—	—
Tax on joint ventures		<b>(1,941)</b>	—	<b>(1,941)</b>	(991)	—	(991)
<b>Profit/(loss) before tax</b>		<b>80,788</b>	<b>(102,498)</b>	<b>(21,710)</b>	65,164	6,674	71,838
Tax	12	<b>(24,352)</b>	<b>10,756</b>	<b>(13,596)</b>	(17,945)	(4,617)	(22,562)
<b>Profit/(loss) for the year, being attributable to equity holders of the parent</b>		<b>56,436</b>	<b>(91,742)</b>	<b>(35,306)</b>	47,219	2,057	49,276
<b>Dividends per share, paid and proposed</b>	13			<b>35.50p</b>			31.25p
<b>(Loss)/earnings per share</b>							
Basic	14			<b>(56.2p)</b>			79.0p
Diluted	14			<b>(56.2p)</b>			76.0p

<sup>1</sup> The exceptional operating costs of £6,549,000 comprise £1,535,000 relating to the cessation of discussions with our second hub partner and £5,014,000 relating to the reorganisation of our UK businesses. In the prior year, exceptional operating costs related to the aborted acquisition of Domestic & General Group plc.

<sup>2</sup> 'Core' operations include the policy membership businesses: UK Membership, Europe and USA.  
'Non-core' operations are the UK Emergency Services division.

## Group statement of recognised income and expense

year ended 31 March 2009

	Notes	2009 £000	2008 £000
Exchange differences on translation of foreign operations	33	<b>4,173</b>	46
Actuarial (losses)/gains on defined benefit pension scheme	39	<b>(2,049)</b>	714
Loss on cash flow hedge	33	<b>(1,947)</b>	—
Tax on items taken directly to equity	24	<b>(4,240)</b>	427
<b>Net (expense)/income recognised directly in equity</b>		<b>(4,063)</b>	1,187
(Loss)/profit for the year		<b>(35,306)</b>	49,276
<b>Total recognised income and expense for the year attributable to equity holders of the parent</b>		<b>(39,369)</b>	50,463

## Group balance sheet

31 March 2009

	Notes	2009 £000	Restated (note 15) 2008 £000
<b>Non-current assets</b>			
Goodwill	15	175,667	218,070
Other intangible assets	16	43,814	62,365
Property, plant and equipment	17	34,518	42,804
Interests in joint ventures	19	5,224	3,502
Deferred tax assets	24	4,189	—
		<b>263,412</b>	<b>326,741</b>
<b>Current assets</b>			
Inventories	20	9,495	7,913
Trade and other receivables	21	206,132	193,915
Cash and cash equivalents	21	21,345	47,198
		<b>236,972</b>	<b>249,026</b>
<b>Total assets</b>		<b>500,384</b>	<b>575,767</b>
<b>Current liabilities</b>			
Trade and other payables	25	(206,033)	(201,235)
Current tax liabilities		(11,790)	(10,633)
Derivative financial instruments	22	(1,947)	—
Bank overdrafts and loans	23	(55,300)	(90,304)
		<b>(275,070)</b>	<b>(302,172)</b>
<b>Net current liabilities</b>		<b>(38,098)</b>	<b>(53,146)</b>
<b>Non-current liabilities</b>			
Other financial liabilities	26	(10,411)	(7,488)
Retirement benefit obligation	39	(1,919)	—
Deferred tax liabilities	24	—	(694)
		<b>(12,330)</b>	<b>(8,182)</b>
<b>Total liabilities</b>		<b>(287,400)</b>	<b>(310,354)</b>
<b>Net assets</b>		<b>212,984</b>	<b>265,413</b>
<b>Equity</b>			
Share capital	27	8,167	8,147
Share premium account	28	33,486	32,507
Merger reserve	29	70,992	70,992
Own shares reserve	30	(27,523)	(29,586)
Share incentive reserve	31	8,381	6,550
Capital redemption reserve	32	1,200	1,200
Hedging and currency translation reserve	33	2,336	110
Retained earnings	34	115,945	175,493
<b>Total equity</b>		<b>212,984</b>	<b>265,413</b>

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2009. They were signed on its behalf by:

**Jonathan Simpson-Dent**  
Chief Financial Officer  
19 May 2009

## Group cash flow statement

year ended 31 March 2009

	Notes	2009 £000	2008 £000
<b>Net cash from continuing operating activities</b>	36	<b>65,482</b>	66,973
<b>Investing activities</b>			
Interest received		<b>1,353</b>	1,102
Proceeds on disposal of property, plant and equipment		<b>1,104</b>	2,585
Purchases of intangible assets	16	<b>(13,210)</b>	(10,104)
Purchases of property, plant and equipment	17	<b>(4,065)</b>	(10,063)
Net cash outflow on acquisitions	35	<b>(23,380)</b>	(46,096)
Acquisition of investment in joint venture	19	<b>(731)</b>	—
Net cash used in investing activities		<b>(38,929)</b>	(62,576)
<b>Financing activities</b>			
Dividends paid	13	<b>(20,415)</b>	(16,893)
Purchase of own shares	30	<b>—</b>	(7,331)
Issue of shares from the employee benefit trust		<b>2,010</b>	2,523
Proceeds on issue of share capital	27	<b>999</b>	1,156
(Decrease)/increase in bank overdrafts and revolving credit facilities	23	<b>(35,000)</b>	48,461
<b>Net cash (used in)/from financing activities</b>		<b>(52,406)</b>	27,916
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(25,853)</b>	32,313
<b>Cash and cash equivalents at beginning of year</b>		<b>47,198</b>	14,885
<b>Cash and cash equivalents at end of year</b>		<b>21,345</b>	47,198

## Notes to the financial statements

year ended 31 March 2009

### 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.

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:

Amendments to IFRS7 (Mar 2009)	Improving Disclosures about Financial Instruments
IFRS3 (revised Jan 2008)	Business Combinations
Amendment to IAS23 (Mar 2007)	Borrowing Costs
Amendments to IAS1 (Sept 2007)	Presentation of Financial Statements
Amendments to IAS27 (Jan 2008)	Consolidated and Separate Financial Statements
Amendment to IFRS2 (Jan 2008)	Vesting Conditions and Cancellations
Amendments to IAS32 and IAS1 (Feb 2008)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IFRS1 and IAS27 (May 2008)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Improvements to IFRSs 2008 (May 2008)	Improvements to IFRSs 2008
Amendment to IAS39 (July 2008)	Eligible Hedged Items
Amendments to IAS39 and IFRS7 (Oct 2008)	Reclassification of Financial Assets
Amendments to IAS39 and IFRS7 (Nov 2008)	Reclassification of Financial Assets – Effective Date and Transition
Amendments to IFRIC9 and IAS39 (Mar 2009)	Embedded Derivatives
IFRIC12 Service Concession Arrangements	
IFRIC13 Customer Loyalty Programmes	
IFRIC15 Agreements for the Construction of Real Estate	
IFRIC16 Hedges of a Net Investment in a Foreign Operation	
IFRIC17 Distributions of Non-cash Assets to Owners	
IFRIC18 Transfers of Assets from Customers	

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group except for IFRS3 (Revised), whereby acquisition costs and adjustments to contingent consideration will be charged/credited to the income statement. IFRS3 (Revised) is expected to apply to the Group for the year ending 31 March 2011.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on a going concern basis as set out in the Corporate governance statement. 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. Based on the guidance of IAS28 'Investments in Associates', provision for the Group's share of the joint venture losses are not recognised if the recognition of such losses reduces the Group's share of the joint venture's net assets below zero.

#### 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.

#### *Membership businesses*

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

Revenue recorded by the Group consists of commissions due in the Group's role as an intermediary in the policy sale and administration process. Any third-party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement, or where the Group's role is only as an intermediary in the cash collection process, are not included in revenue. Consequently, revenue consists of a component of the overall policy price, representing the commission due for the marketing and sale of the policy.

Revenue is recognised on the sale of a policy except where an obligation exists to provide future services, typically claims handling and policy administration services. In these situations, a proportion of revenue, sufficient to cover future claims handling costs and margin, is deferred over the life of the policy, as deferred income. The assessment of future claims handling takes account of the expected numbers of claims and the estimated cost of handling those claims, which are validated through experience of historic actual costs. The deferred revenue is released over the expected profile of expected claims over the policy period. The deferral also includes a profit element to recognise the performance of these services in the future.

## Notes to the financial statements

year ended 31 March 2009

### 2. Significant accounting policies (continued)

#### Revenue recognition (continued)

Where a contractual arrangement consists of two or more separate arrangements that can be provided to customers either on a stand-alone basis or as an optional extra, revenue is recognised for each element as if it were an individual contract.

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

Revenue on sales to franchises is recognised when the obligations to the franchisee are complete. Revenue on the sale of new franchise licences is recognised upon the signing of the related franchise agreement. These franchise fees are non-refundable and primarily relate to initial set-up services.

#### 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.

#### 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 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.

## Notes to the financial statements

year ended 31 March 2009

### 2. Significant accounting policies (continued)

#### 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, using the straight line method, as follows:

Customer relationships	3-7 years
Customer databases/ exclusive marketing agreements	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 three to seven 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. Cost is measured on a first-in, first-out (FIFO) basis. 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.

#### 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 amortised cost 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 stated at amortised cost and 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.

### Hedge accounting

The Group designates certain hedging instruments, which include derivatives, as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included within finance costs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

### Trade payables

Trade payables are not interest-bearing and are stated at amortised cost.

### 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 IFRS2 Share-Based Payments. In accordance with the transitional provision, IFRS2 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. 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.

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

### Own shares reserve

Shares of the parent Company that are purchased by the HomeServe plc Employee Benefit Trust are held at cost and shown as a deduction in equity. Cost comprises consideration paid, including directly attributable costs. The shares are held to satisfy obligations under the share option schemes.

## Notes to the financial statements

year ended 31 March 2009

### 3. Judgements and estimation uncertainty

#### Revenue recognition

Within the Policy Membership businesses, 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 and acquisition intangible assets

The annual impairment assessment in respect of goodwill and acquisition intangibles requires estimates of the value in use (or fair value less costs to sell) of cash-generating units to which goodwill and acquisition intangibles have been allocated. 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 £175.7m (2008 restated: £218.1m). The carrying value of acquisition intangibles is £28.6m (2008: £47.6m). Following the annual impairment review, an impairment charge of £59.2m has been recorded against goodwill and £17.0m against acquisition intangibles. As set out in note 7 and 15, reasonably possible changes in respect of commercial outcomes around sales volumes, prices and margins can impact the recoverable value.

#### Pensions

The Group participates in a defined benefit retirement scheme for certain employees. The scheme assets and liabilities are valued by an independent qualified actuary using the assumptions summarised in note 39. As required by IAS19, the value of the defined benefit obligation has been measured using the projected unit credit method which requires the use of judgement and estimation.

### 4. Revenue

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

	2009 £000	2008 £000
Provision of services	517,441	554,875
Investment income (note 10)	1,353	1,102
	<b>518,794</b>	<b>555,977</b>

### 5. Business and geographical segments

#### Segment revenues and results

IFRS8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance.

The Group is managed around four operating divisions – UK Membership, Continental Europe, United States of America and UK Emergency Services, which has been shown as non-core.

During the year, the claims management and policy repair networks were moved from UK Emergency Services to UK Membership. To ensure a consistent comparison to the new structure, the prior year segmental information (taking account of segment eliminations) has been restated.

2009	UK Membership £000	Continental Europe £000	United States of America £000	Core £000	Non-Core £000	Consolidated £000
<b>Revenue</b>						
Total revenue	228,183	63,404	15,904	307,491	233,601	541,092
Eliminations	(497)	—	—	(497)	—	(497)
Joint venture revenues, not recognisable for statutory reporting	—	(23,154)	—	(23,154)	—	(23,154)
External sales	227,686	40,250	15,904	283,840	233,601	517,441

Inter-segment sales are charged at prevailing market prices.

### Result

Segment operating profit/(loss) pre  
amortisation of acquisition intangibles,  
exceptional operating costs,  
impairment and tax on joint ventures

	87,228	5,347	(294)	92,281	8,006	100,287
Impairment	—	—	—	—	(97,184)	(97,184)
Amortisation of acquisition intangibles	(984)	(1,244)	(1,436)	(3,664)	(8,441)	(12,105)
Tax on joint ventures	—	(1,941)	—	(1,941)	—	(1,941)
Exceptional operating costs	(2,317)	—	—	(2,317)	(4,232)	(6,549)
Operating profit/(loss)	83,927	2,162	(1,730)	84,359	(101,851)	(17,492)
Investment income				1,237	116	1,353
Finance costs				(4,808)	(763)	(5,571)
Profit/(loss) before tax				80,788	(102,498)	(21,710)
Tax				(24,352)	10,756	(13,596)
Profit/(loss) after tax				56,436	(91,742)	(35,306)

2008	UK Membership £000	Continental Europe £000	United States of America £000	Core £000	Non-Core £000	Consolidated £000
<b>Revenue</b>						
Total revenue	236,452	31,654	8,097	276,203	291,660	567,863
Eliminations	(295)	—	—	(295)	—	(295)
Joint venture revenues, not recognisable for statutory reporting	—	(12,693)	—	(12,693)	—	(12,693)
External sales	236,157	18,961	8,097	263,215	291,660	554,875

Inter-segment sales are charged at prevailing market prices.

### Result

Segment operating profit/(loss) pre  
amortisation of acquisition intangibles,  
exceptional operating costs  
and tax on joint ventures

	76,302	1,756	(2,248)	75,810	15,144	90,954
Amortisation of acquisition intangibles	(714)	(709)	(828)	(2,251)	(8,069)	(10,320)
Tax on joint ventures	—	(991)	—	(991)	—	(991)
Exceptional operating costs	(2,154)	—	—	(2,154)	—	(2,154)
Operating profit/(loss)	73,434	56	(3,076)	70,414	7,075	77,489
Investment income				929	173	1,102
Finance costs				(6,179)	(574)	(6,753)
Profit before tax				65,164	6,674	71,838
Tax				(17,945)	(4,617)	(22,562)
Profit after tax				47,219	2,057	49,276

## Notes to the financial statements

year ended 31 March 2009

### 5. Business and geographical segments (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2, except that revenues attributable to the Group's share of its French joint venture are included in revenues within 'Continental Europe' for segmental reporting, but are not recognised for statutory reporting.

Segment profit represents the profit earned by each segment including allocating costs associated with head office and shared functions, but before allocating investment revenue and finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

#### Segment assets

	2009 £000	Restated 2008 £000
UK Membership	344,106	393,275
UK Emergency Services	80,669	119,824
Continental Europe	46,996	42,494
United States of America	28,613	20,174
	<b>500,384</b>	<b>575,767</b>

#### Segment liabilities

	2009 £000	Restated 2008 £000
UK Membership	183,034	162,889
UK Emergency Services	68,567	76,737
Continental Europe	15,888	42,891
United States of America	19,911	27,837
	<b>287,400</b>	<b>310,354</b>

All assets and liabilities are allocated to reportable segments.

#### Other segment information

	Capital additions		Depreciation, amortisation and impairment	
	2009 £000	2008 £000	2009 £000	Restated 2008 £000
UK Membership	10,655	9,944	5,440	4,749
UK Emergency Services	6,002	10,072	111,352	12,415
Continental Europe	522	6	2,881	976
United States of America	96	145	539	973
	<b>17,275</b>	<b>20,167</b>	<b>120,212</b>	<b>19,113</b>

#### Revenues from major products and services

	2009 £000	Restated 2008 £000
Sale of home assistance and emergency policies	216,271	210,403
Provision of repair services	301,667	344,767
Eliminations	(497)	(295)
Consolidated revenue (excluding investment revenue)	<b>517,441</b>	<b>554,875</b>

### Geographical information

The Group operates in four principal geographical areas – United Kingdom, France, Spain and the United States of America.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding investments in joint ventures, deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2009 £000	2008 £000	2009 £000	2008 £000
United Kingdom	<b>461,287</b>	527,817	<b>213,777</b>	296,714
Continental Europe	<b>40,250</b>	18,961	<b>28,245</b>	16,956
United States of America	<b>15,904</b>	8,097	<b>11,977</b>	9,569
	<b>517,441</b>	554,875	<b>253,999</b>	323,239

### Information about major customers

There are no customers in either year from which the Group earns more than 10% of its revenues.

### 6. Exceptional operating costs

The exceptional operating costs of £6,549,000 comprise £1,535,000 relating to the cessation of discussions with our second hub partner and £5,014,000 relating to the reorganisation of our UK businesses. In the prior year, exceptional operating costs related to the aborted acquisition of Domestic & General Group plc.

### 7. Impairment of UK Emergency Services assets

The impairment charge of £97,184,000 consists of:

	2009 £000	2008 £000
<b>Impairment charge:</b>		
Goodwill (note 15)	<b>59,179</b>	—
Acquisition intangible assets (note 16)	<b>16,965</b>	—
Software assets (note 16)	<b>8,739</b>	—
Property, plant and equipment (note 17)	<b>5,149</b>	—
Other net assets – trade receivables (note 21)	<b>7,152</b>	—
	<b>97,184</b>	—

As noted in the Chief Executive's review, it has been a difficult year for our UK Emergency Services division, which continues to operate in challenging market conditions, with lower volumes and margin pressure. Following the transfer of the claims management and policy repair networks from UK Emergency Services into UK Membership, the Board has commenced a disposal process of the UK Emergency Services division. For this reason, the division has been shown as non-core.

As part of our annual impairment review (note 15), we have reviewed the carrying value of goodwill and other assets within the UK Emergency Services division to assess the recoverable value of each cash generating unit within this division. Given the Board's decision to seek a disposal of the businesses within this division, our assessment of value in use is closely aligned with the estimated fair value less costs to sell these businesses. As value is expected to be realised principally through a disposal process, fair value less costs to sell has been based on a price-earnings methodology. This has been compared to external sources of information such as indicative preliminary valuations of the businesses, taking account of usual commercial negotiations to obtain an agreed sales consideration for the businesses. The resulting estimated fair value has not been discounted due to the current expectation of a disposal within the next 12 months.

Costs have been estimated with reference to disposal proceeds, and estimates of professional fees to be incurred on the transaction, supported by indicative fees from advisers.

## Notes to the financial statements

year ended 31 March 2009

### 7. Impairment of UK Emergency Services assets (continued)

Based on the impairment review, the recoverable value suggests an impairment of £97,184,000. This has been allocated to the cash generating units of the Emergency Services division, initially to goodwill, then to other non-current assets. A further £7,152,000 has been allocated to trade receivables, representing a surplus of the impairment over the non current assets for certain of the cash generating units within the division.

In light of the challenging market conditions facing the division, a reasonably possible change in the judgements around sales margins and volume of work could result in an increase or decrease in the recoverable value.

### 8. (Loss)/profit for the year

(Loss)/profit for the year from continuing operations has been arrived at after charging:

	2009 £000	2008 £000
<b>Included in operating costs:</b>		
Depreciation of property, plant and equipment	6,706	6,391
Cost of inventories recognised as expense	28,802	29,037
Amortisation of software licences	4,217	2,402
Staff costs (note 9)	156,606	150,556
Auditors' remuneration for audit services	276	280
Amortisation of customer relationship intangibles	8,850	7,558
Amortisation of customer database intangibles	1,854	1,261
Amortisation of franchise asset intangibles	1,401	1,501
Impairment of UK Emergency Services assets (note 7)	97,184	—
Other impairment loss recognised on trade receivables	2,102	1,112
Write down of inventories	286	73

The analysis of auditors' remuneration is as follows:

	2009 £000	2008 £000
<b>Fees payable to the Company's auditors for the audit of the Company's annual financial statements</b>	<b>50</b>	45
<b>Fees payable to the Company's auditors and their associates for other services to the Group</b>		
The audit of the Company's subsidiaries pursuant to legislation	226	235
<b>Total audit fees</b>	<b>276</b>	280
Other services pursuant to legislation	37	37
Other services – accounting advice	—	31
Corporate finance services	—	315
Tax services	188	156
<b>Total non-audit fees</b>	<b>225</b>	539

Fees payable to Deloitte 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 report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Corporate finance services relate to the provision of various services connected to the Group's aborted acquisition of Domestic & General Group plc including due diligence and working capital reports.

Tax services during the year include the provision of advice in respect of a number of compliance matters, including those relating to the Group's expatriate management personnel and UK corporation tax returns.



## 9. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2009 number	Restated 2008 number
UK Membership	2,454	2,425
UK Emergency Services	2,585	2,609
Continental Europe (excluding joint ventures)	239	141
United States of America	234	119
	<b>5,512</b>	5,294

Due to the re-alignment of business segments (note 5) the 2008 comparatives have been amended.

	2009 £000	2008 £000
Their aggregate remuneration comprised:		
Wages and salaries	141,064	132,966
Social security costs	12,273	14,264
Other pension costs (note 39)	3,269	3,326
	<b>156,606</b>	150,556

## 10. Investment income

	2009 £000	2008 £000
Interest on bank deposits	1,353	1,102

## 11. Finance costs

	2009 £000	2008 £000
Interest on bank overdrafts and revolving credit facilities	5,116	6,241
Unwinding of discount on deferred and contingent consideration	445	484
Loan note interest	10	28
	<b>5,571</b>	6,753

There were no amounts in the year (2008: £nil) removed from equity and included in the income statement for the year in respect of cash flow hedges.

## Notes to the financial statements

year ended 31 March 2009

### 12. Tax

	2009 £000	2008 £000
Current tax		
- Current year	<b>23,856</b>	24,311
- Prior year	<b>(857)</b>	(427)
Total current tax	<b>22,999</b>	23,884
Deferred tax (note 24)		
- Current year	<b>(9,711)</b>	(1,378)
- Prior year	<b>308</b>	56
Total deferred tax	<b>(9,403)</b>	(1,322)
Total tax charge	<b>13,596</b>	22,562

UK corporation tax is calculated at 28% (2008: 30%) of the estimated assessable (loss)/profit for the year.

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

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

	2009 £000	2008 £000
Profit before tax and impairment	<b>75,474</b>	71,838
Impairment	<b>(97,184)</b>	—
(Loss)/profit before tax	<b>(21,710)</b>	71,838
Tax at the UK corporation tax rate of 28% (2008: 30%) pre impairment	<b>21,133</b>	21,551
Tax effect of expenses that are not deductible in determining taxable profit	<b>2,077</b>	1,108
Adjustments in respect of prior years – current tax	<b>(856)</b>	(438)
Adjustments in respect of prior years – deferred tax	<b>308</b>	56
Taxable unremitted overseas profits	<b>622</b>	—
Effect of overseas losses excluding joint ventures	<b>281</b>	1,422
Adjustments in respect of the change in tax rate	<b>—</b>	(610)
Tax effect of share of results of joint venture	<b>(966)</b>	(527)
Tax expense for the year before the impact of impairment	<b>22,599</b>	22,562
Tax effect of impairment at UK corporation tax rate of 28%	<b>(27,212)</b>	—
Goodwill impairment not deductible	<b>16,570</b>	—
Other non allowable items	<b>1,639</b>	—
Tax credit for the year on impairment	<b>(9,003)</b>	—
Tax expense for the year after the impact of impairment	<b>13,596</b>	22,562

### 13. Dividends

	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2008 of 21.85p (2007: 17.5p) per share	<b>13,772</b>	11,010
Interim dividend for the year ended 31 March 2009 of 10.50p (2008: 9.4p) per share	<b>6,643</b>	5,883
	<b>20,415</b>	16,893

The proposed final dividend for the year ended 31 March 2009 is 25.00p per share amounting to £15,795,000 (2008: 21.85p per share amounting to £13,772,000).

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 financial statements.

#### 14. (Loss)/earnings per share

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

	Core 2009 £000	Total 2009 £000	Core 2008 £000	Total 2008 £000
Profit/(loss) for the year	<b>56,436</b>	<b>(35,306)</b>	47,219	49,276
Amortisation of acquisition intangibles	<b>3,664</b>	<b>12,105</b>	2,251	10,320
Exceptional operating costs (note 6)	<b>2,317</b>	<b>6,549</b>	2,154	2,154
Impairment of UK Emergency Services assets (note 7)	<b>—</b>	<b>97,184</b>	—	—
Tax impact arising on amortisation of acquisition intangibles, impairment and exceptional operating costs	<b>(1,477)</b>	<b>(13,611)</b>	(1,309)	(3,706)
Adjusted profit for the year	<b>60,940</b>	<b>66,921</b>	50,315	58,044
Weighted average number of shares ('000)				
Basic		<b>62,878</b>		62,412
Dilutive impact of share options		<b>2,003</b>		2,456
Diluted		<b>64,881</b>		64,868

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles, exceptional operating costs and impairment. This is considered to be a better indicator of the performance of the Group. As profit/(loss) 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 £1,941,000 (2008: £991,000).

	Core 2009 pence	Total 2009 pence	Core 2008 pence	Total 2008 pence
Adjusted basic	<b>96.9</b>	<b>106.4</b>	80.6	93.0
Adjusted diluted	<b>93.9</b>	<b>103.1</b>	77.6	89.5
Basic	<b>89.8</b>	<b>(56.2)</b>	75.7	79.0
Diluted	<b>87.0</b>	<b>(56.2)</b>	72.8	76.0

For 2009, due to the statutory loss, the effect of share options is anti-dilutive. Consequently, diluted earnings per share has been stated as consistent with basic earnings per share for the total Group.

## Notes to the financial statements

year ended 31 March 2009

### 15. Goodwill

	£000
<b>Cost</b>	
At 1 April 2007	189,039
Recognised on acquisitions	32,119
Reduction in consideration	(3,088)
At 1 April 2008 (restated)	218,070
Recognised on acquisitions (note 35)	16,776
<b>At 31 March 2009</b>	<b>234,846</b>
<b>Accumulated impairment losses</b>	
At 1 April 2007, 1 April 2008	—
Impairment (note 7)	59,179
<b>At 31 March 2009</b>	<b>59,179</b>
<b>Carrying amount</b>	
<b>At 31 March 2009</b>	<b>175,667</b>
At 31 March 2008 (restated)	218,070

During the year, the contingent consideration payable on the 2008 acquisition of Anglia (NW) Limited was reduced by £3,088,000. Goodwill on the acquisition has been reduced accordingly, with the goodwill and contingent consideration being restated in the comparative period.

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:

	2009 £000	Restated 2008 £000
Minority interest buy-out	66,940	66,940
Other Policy Businesses (comprising several CGUs)	70,191	59,334
<b>UK Membership</b>	<b>137,131</b>	<b>126,274</b>
Glass & Locks	22,296	38,983
Improveline	—	6,458
Property Repairs	—	9,533
Chem-Dry	—	7,141
Contents Services	—	2,246
Anglia	—	14,134
Other Emergency Services Businesses (comprising several CGUs)	—	2,667
<b>UK Emergency Services</b>	<b>22,296</b>	<b>81,162</b>
Reparalia	10,634	10,634
SPT	5,606	—
<b>Continental Europe</b>	<b>16,240</b>	<b>10,634</b>
<b>United States of America</b>	<b>—</b>	<b>—</b>
	<b>175,667</b>	<b>218,070</b>

During the year, following the transfer of claims management and policy repair networks from UK Emergency Services to UK Membership, £4,846,000 goodwill has been transferred to UK Membership in the prior year analysis.

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 annual cash flow forecasts derived from the most recent financial budgets approved by the Directors and extrapolates cash flows based on an estimated growth rate of 2.5% (2008: 2.5%) representing long-term growth rates based in respective country GDP rates. The pre-tax rate used to discount the forecast cash flows for all CGUs is 11.3% (2008: 11.3%).

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. Details in respect of the impairment of the non-core UK Emergency Services division, including assessment of the most likely reasonably possible changes which could impact upon the carrying value, are set out in note 7. In respect of the Group's other businesses, the key assumptions are as noted above. Management believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying amount of goodwill exceeding the recoverable amount. This view is based upon inherently judgemental assumptions, however, takes account of the headroom in management's internal growth targets versus the conservative growth estimates used in the impairment review.

## 16. Other intangible assets

	Acquisition intangibles			Total acquisition intangibles £000	Software £000	Total intangibles £000
	Customer relationships £000	Customer databases £000	Franchise assets £000			
<b>Cost</b>						
At 1 April 2007	26,362	8,840	10,344	<b>45,546</b>	13,387	<b>58,933</b>
Additions	—	—	—	—	10,104	<b>10,104</b>
Disposals	—	—	—	—	(1,205)	<b>(1,205)</b>
Acquisitions	16,976	4,983	814	<b>22,773</b>	461	<b>23,234</b>
At 1 April 2008	43,338	13,823	11,158	<b>68,319</b>	22,747	<b>91,066</b>
Additions	—	—	—	—	13,210	<b>13,210</b>
Disposals	—	—	—	—	(250)	<b>(250)</b>
Acquisitions	2,742	4,026	—	<b>6,768</b>	8	<b>6,776</b>
Exchange differences	109	3,256	—	<b>3,365</b>	393	<b>3,758</b>
<b>At 31 March 2009</b>	<b>46,189</b>	<b>21,105</b>	<b>11,158</b>	<b>78,452</b>	<b>36,108</b>	<b>114,560</b>
<b>Accumulated amortisation and impairment</b>						
At 1 April 2007	6,629	1,440	2,350	<b>10,419</b>	6,442	<b>16,861</b>
Charge for the year	7,558	1,261	1,501	<b>10,320</b>	2,402	<b>12,722</b>
Disposals	—	—	—	—	(882)	<b>(882)</b>
At 1 April 2008	14,187	2,701	3,851	<b>20,739</b>	7,962	<b>28,701</b>
Charge for the year	8,850	1,854	1,401	<b>12,105</b>	4,217	<b>16,322</b>
Impairment (note 7)	11,059	—	5,906	<b>16,965</b>	8,739	<b>25,704</b>
Disposals	—	—	—	—	(250)	<b>(250)</b>
Exchange differences	—	—	—	—	269	<b>269</b>
<b>At 31 March 2009</b>	<b>34,096</b>	<b>4,555</b>	<b>11,158</b>	<b>49,809</b>	<b>20,937</b>	<b>70,746</b>
<b>Carrying amount</b>						
<b>At 31 March 2009</b>	<b>12,093</b>	<b>16,550</b>	<b>—</b>	<b>28,643</b>	<b>15,171</b>	<b>43,814</b>
At 31 March 2008	29,151	11,122	7,307	47,580	14,785	62,365

## Notes to the financial statements

year ended 31 March 2009

### 16. Other intangible assets (continued)

Acquisition intangibles represent non-monetary assets separately identifiable from goodwill and include customer relationships, customer databases/exclusive marketing agreements and franchise assets relating to purchased franchise licences.

### 17. Property, plant and equipment

	Land and buildings £000	Furniture, fixtures and equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>					
At 1 April 2007	28,605	8,802	14,721	2,867	<b>54,995</b>
Additions	4,130	2,798	2,828	307	<b>10,063</b>
Acquisitions	1,428	1,628	23	243	<b>3,322</b>
Disposals	(1,259)	(1,189)	(356)	(1,366)	<b>(4,170)</b>
At 1 April 2008	32,904	12,039	17,216	2,051	<b>64,210</b>
Additions	847	1,945	988	285	<b>4,065</b>
Acquisitions	361	5	307	130	<b>803</b>
Exchange differences	50	78	300	—	<b>428</b>
Disposals	(259)	(1,470)	(1,202)	(1,118)	<b>(4,049)</b>
<b>At 31 March 2009</b>	<b>33,903</b>	<b>12,597</b>	<b>17,609</b>	<b>1,348</b>	<b>65,457</b>
<b>Accumulated depreciation and impairment</b>					
At 1 April 2007	2,926	4,167	8,583	1,299	<b>16,975</b>
Charge for the year	1,378	1,847	2,661	505	<b>6,391</b>
Disposals	—	(750)	(248)	(962)	<b>(1,960)</b>
At 1 April 2008	4,304	5,264	10,996	842	<b>21,406</b>
Charge for the year	1,456	2,447	2,736	67	<b>6,706</b>
Impairment (note 7)	2,323	1,973	485	368	<b>5,149</b>
Exchange differences	7	37	50	2	<b>96</b>
Disposals	(219)	(571)	(899)	(729)	<b>(2,418)</b>
<b>At 31 March 2009</b>	<b>7,871</b>	<b>9,150</b>	<b>13,368</b>	<b>550</b>	<b>30,939</b>
<b>Carrying amount</b>					
<b>At 31 March 2009</b>	<b>26,032</b>	<b>3,447</b>	<b>4,241</b>	<b>798</b>	<b>34,518</b>
At 31 March 2008	28,600	6,775	6,220	1,209	42,804

The carrying amount of the Group's fixtures and equipment includes an amount of £nil (2008: £nil) in respect of assets held under finance leases.

At the balance sheet date, there are no contractual commitments for the purchase of property, plant and equipment (2008: £nil).

### 18. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 47 to the Company's separate financial statements.

## 19. Interests in joint ventures

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

	Doméo £000	2009 Doméo Assistance £000	Total £000	Doméo £000	2008 Doméo Assistance £000	Total £000
<b>Summary balance sheet</b>						
Non-current assets	1,889	147	2,036	1,174	109	1,283
Current assets	32,017	3,142	35,159	24,610	2,654	27,264
Total assets	33,906	3,289	37,195	25,784	2,763	28,547
Current liabilities	(26,499)	(3,348)	(29,847)	(20,400)	(3,875)	(24,275)
Net assets/(liabilities)	7,407	(59)	7,348	5,384	(1,112)	4,272
Group share, 49%	3,629	(29)	3,600	2,638	(545)	2,093
Amount recognisable	3,629	—	3,629	2,638	—	2,638
Goodwill	864	731	1,595	864	—	864
Carrying amount	4,493	731	5,224	3,502	—	3,502
<b>Summary income statement</b>						
Total revenue	49,625	4,303	53,928	25,904	2,017	27,921
Total profit/(loss) after tax	7,043	(86)	6,957	3,582	(635)	2,947
Amount recognisable	3,451	—	3,451	1,755	—	1,755

During the year, a further investment of £731,000 was made in Doméo Assistance, represented as goodwill in the table above.

The Group's share of the above results is only £3,451,000 (2008: £1,755,000) reflecting the net liabilities of the Doméo Assistance joint venture in the current and prior year.

In respect of Doméo Assistance, the Group's unrecognised share of losses for the year is £42,000 (2008: £311,000) and share of cumulative losses is £353,000 (2008: £311,000). Based on the guidance of IAS28 'Investments in Associates', provision for the Group's share of joint venture profits/(losses) are not recognised if the recognition of such losses reduces the Group's share of joint venture's net assets below zero.

In respect of the interests in joint ventures, there are no capital commitments or contingent liabilities which require disclosure (2008: £nil).

## 20. Inventories

	2009 £000	2008 £000
Raw materials	1,184	1,185
Work-in-progress	7,222	5,378
Finished goods	1,089	1,350
	9,495	7,913

## 21. Other financial assets

### Trade and other receivables

	2009 £000	2008 £000
Amounts receivable for the provision of services	140,050	116,574
Other receivables	47,714	63,128
Loans to joint ventures	777	750
Prepayments and accrued income	17,591	13,463
	206,132	193,915

## Notes to the financial statements

year ended 31 March 2009

### 21. Other financial assets (continued)

#### Trade receivables

The Group has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the credit worthiness of the counterparty. In addition, an impairment of £7,152,000 has been included to recognise the surplus of the UK Emergency Services assets impairment against the pre-impairment carrying value of the non-current assets, for certain cash generating units within the division.

Of the trade receivables balance at the end of the year, there is no significant concentration of credit risk, with exposure spread across a large number of counterparties and customers. £5.6m (2008: £5.9m) is due from Royal Bank of Scotland, the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of £20.9m (2008: £32.4m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 62 days (2008: 37 days).

Ageing of past due but not impaired receivables:

	2009 £000	2008 £000
1–30 days	8,450	13,910
31–60 days	2,930	5,524
61–90 days	1,503	3,858
91 days +	8,304	9,118
Balance at 31 March past due but not impaired	21,187	32,410
Current	118,863	84,164
Balance at 31 March	140,050	116,574

Movement in the allowance for doubtful debts:

	2009 £000	2008 £000
At 1 April	3,461	3,024
Acquisitions	—	713
Impairment losses recognised	2,102	1,112
Recognised as part of UK Emergency Services impairment (note 7)	7,152	—
Amounts written off as uncollectible	(1,097)	(924)
Amounts recovered during the year	(39)	(464)
Balance at 31 March	11,579	3,461

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables:

	2009 £000	2008 £000
1–30 days	296	402
31–60 days	641	83
61–90 days	559	232
91 days +	10,083	2,744
	11,579	3,461

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



### Other receivables

As part of our activities, the Group serves as an intermediary, whereby it is responsible for the collection of cash on behalf of third parties. Other receivables mainly represent those amounts to be collected from policyholders, but to be remitted to third parties for components such as underwriting fees, commission and Insurance Premium Tax. The concentration of credit risk is limited due to individual receivables being small and spread across a diverse policyholder base. In addition, overall balance sheet exposure is mitigated as defaults on these receivables can, in the most part, be offset against the corresponding payable included in 'Other creditors'.

### Cash balances and cash equivalents

Cash balances and cash equivalents of £21,345,000 (2008: £47,198,000) 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.

## 22. Derivative financial instruments

	2009 £000	2008 £000
<b>Derivatives that are designated and effective as hedging instruments carried at fair value</b>		
Interest rate swap	<b>1,947</b>	—

The interest rate swap is to hedge loans subject to variable interest rates linked to LIBOR, with a fixed interest rate. Further details are set out in note 43.

## 23. Bank overdrafts and revolving credit facilities

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

	2009 £000	2008 £000
Bank overdrafts and revolving credit facilities	<b>55,000</b>	90,000
Loan notes	<b>300</b>	304
	<b>55,300</b>	90,304
The borrowings are repayable as follows:		
On demand or within one year	<b>55,300</b>	90,304
	2009 %	2008 %
The weighted average interest rates paid were as follows:		
Bank overdrafts and revolving credit facilities	<b>5.4</b>	6.3
Loan notes	<b>3.6</b>	5.2

All the Group's bank overdrafts and revolving credit facilities are unsecured.

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

	2009 £000	2008 £000
Bank overdrafts and revolving credit facilities	<b>55,000</b>	90,000
Loan notes	<b>300</b>	304
	<b>55,300</b>	90,304

## Notes to the financial statements

year ended 31 March 2009

### 23. Bank overdrafts and revolving credit facilities (continued)

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

- Bank overdrafts are repayable on demand.
- The Group has revolving credit facilities with a number of banks totalling £150m (2008: £150m). The revolving credit facility was taken out on 20 December 2007 and has a term of five years.
- Loan notes are repayable on demand, subject to a minimum initial maturity of six months.
- All of the Group's borrowings are currently at floating rates at margins of between 0.1% and 1% above LIBOR, thus exposing the Group to cash flow interest rate risk.
- The covenants associated with the credit facilities are 'net debt to EBITDA of less than 3.5 times' and 'interest cover greater than 4 times operating profit before amortisation'. The Group has complied with all covenant requirements in the current and prior year.

During the previous year, the Group entered into an interest rate swap arrangement with a notional value of £50.0m. This interest rate swap is for a further one year, and requires fixed interest payments of 4.93%, in return for one month LIBOR.

At 31 March 2009, the Group had available £95.0m (2008: £60.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

### 24. 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:

	Timings differences including accelerated tax depreciation £000	Unremitted overseas profits £000	Elected goodwill deductions £000	Retirement benefit obligations £000	Share schemes £000	Acquired intangible assets £000	Unutilised losses £000	Acquired property £000	Total £000
At 1 April 2007	(1,118)	—	—	194	8,168	(6,898)	426	(561)	211
Reclassification	308	(308)	—	—	—	—	—	—	—
Reclassification to current tax	170	—	—	—	—	—	—	—	170
(Charge)/credit to income	(364)	(1,536)	(67)	—	1,042	2,764	(554)	37	1,322
(Charge)/credit to equity	—	—	—	(194)	609	—	—	12	427
Acquisitions	(45)	—	—	—	—	(4,480)	1,701	—	(2,824)
At 1 April 2008	(1,049)	(1,844)	(67)	—	9,819	(8,614)	1,573	(512)	(694)
Credit/(charge) to income	3,800	(626)	(17)	—	(489)	6,206	519	10	9,403
Credit/(charge) to equity	—	—	—	537	(4,777)	—	—	—	(4,240)
Exchange differences	—	—	—	—	—	—	426	—	426
Acquisitions	—	—	—	—	—	(706)	—	—	(706)
<b>At 31 March 2009</b>	<b>2,751</b>	<b>(2,470)</b>	<b>(84)</b>	<b>537</b>	<b>4,553</b>	<b>(3,114)</b>	<b>2,518</b>	<b>(502)</b>	<b>4,189</b>

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:

	UK	Continental Europe	USA	2009 £000	2008 £000
Deferred tax assets	4,553	1,298	1,220	<b>7,071</b>	11,392
Deferred tax liabilities	(2,882)	—	—	<b>(2,882)</b>	(12,086)
Net deferred tax asset/(liability)	1,671	1,298	1,220	<b>4,189</b>	(694)

At the balance sheet date, the Group has unused tax losses of £23.7m (2008: £19.8m) available for offset against future profits and which can be carried forward indefinitely. A deferred tax asset of £2,518,000 has been recognised in respect of these losses – deferred tax has not been recognised on the remainder of these losses due to the uncertainty over the timing of future recovery.

Temporary differences arising in connection with interests in joint ventures are not material.

## 25. Current liabilities – trade and other payables

	2009 £000	Restated (note 15) 2008 £000
Trade creditors and accruals	<b>123,051</b>	109,646
Contingent consideration	<b>2,631</b>	3,716
Deferred consideration	<b>2,364</b>	4,155
Payments in advance	<b>1,315</b>	732
Deferred income	<b>894</b>	4,221
Taxes and social security, excluding current tax	<b>5,660</b>	5,643
Other creditors	<b>70,118</b>	73,122
	<b>206,033</b>	201,235

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 68 days (2008: 67 days).

Other creditors mainly represent liabilities for amounts to be collected from policyholders in respect of underwriting fees, commission and Insurance Premium Tax. In addition, short term cash advances from customers are included in other creditors until the services are performed and the customer is invoiced.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

## 26. Non-current liabilities – other financial liabilities

	Deferred income £000	Restated (note 15) Contingent consideration £000	Deferred consideration £000	Total £000
At 1 April 2008	2,438	287	4,763	7,488
Movement in year	(1,432)	1,409	2,946	2,923
<b>At 31 March 2009</b>	<b>1,006</b>	<b>1,696</b>	<b>7,709</b>	<b>10,411</b>

Contingent consideration and deferred consideration relates to future amounts payable on the acquisitions in the current year of SPT and Endesa policies and the prior period acquisitions of California Water policies and First Energy policies. The movement in the year represents the reclassification of an element of the liability to less than one year, foreign exchange movements and acquisitions in the year.

Deferred income represents Membership Business revenue where an obligation exists to provide future services. An appropriate proportion of monies received in advance are treated as deferred income and recognised over the relevant period. No discounting is applied to deferred income balances.

## 27. Share capital

	2009 £000	2008 £000
Authorised:		
70,400,000 ordinary shares of 12½p each	<b>8,800</b>	8,800
Issued and fully paid:		
65,333,000 ordinary shares of 12½p each (2008: 65,172,000 ordinary shares of 12½p each)	<b>8,167</b>	8,147

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 161,000 shares for total consideration of £999,000 (2008: 215,000 shares for total consideration of £1,156,000).

## Notes to the financial statements

year ended 31 March 2009

### 28. Share premium account

	£000
Balance at 1 April 2007	31,379
Premium arising on issue of equity shares	1,128
Balance at 1 April 2008	32,507
Premium arising on issue of equity shares	979
<b>Balance at 31 March 2009</b>	<b>33,486</b>

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

### 29. Merger reserve

	£000
<b>Balance at 1 April 2007, 1 April 2008 and 31 March 2009</b>	<b>70,992</b>

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.

### 30. Own shares reserve

	Number (‘000)	£000
Balance at 1 April 2007	2,411	25,047
Acquired in the year	417	7,331
Issued from the employee benefit trust	(411)	(2,792)
Balance at 1 April 2008	2,417	29,586
Issued from the employee benefit trust	(307)	(2,063)
<b>Balance at 31 March 2009</b>	<b>2,110</b>	<b>27,523</b>

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 obligations under the Group’s share options schemes and are recognised at cost.

### 31. Share incentive reserve

	£000
Balance at 1 April 2007	4,727
Share based payment charges in the year	4,131
Share options exercised in the year	(2,308)
Balance at 1 April 2008	6,550
Share based payment charges in the year	3,217
Share options exercised in the year	(1,386)
<b>Balance at 31 March 2009</b>	<b>8,381</b>

The share incentive reserve represents the cumulative charges to income under IFRS2 ‘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.

### 32. Capital redemption reserve

	£000
<b>Balance at 1 April 2007, 1 April 2008 and 31 March 2009</b>	<b>1,200</b>

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

### 33. Hedging and currency translation reserve

	Hedging reserve £000	Currency translation reserve £000	Total £000
Balance at 1 April 2007	—	64	64
Movement in the year	—	46	46
Balance at 31 March 2008	—	110	110
Loss on cash flow hedge	(1,947)	—	(1,947)
Movement in the year	—	4,173	4,173
<b>Balance at 31 March 2009</b>	<b>(1,947)</b>	<b>4,283</b>	<b>2,336</b>

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

There were no amounts in the year (2008: £nil) removed from equity and included in the income statement for the period in respect of cash flow hedges.

### 34. Retained earnings

	£000
Balance at 1 April 2007	139,014
Dividends	(16,893)
Total statement of recognised income and expense	50,463
Share options exercised in the year	2,308
Issue of trust shares	(269)
Current tax on exercised share options taken directly to equity	916
Exchange differences	(46)
Balance at 1 April 2008	175,493
Dividends	(20,415)
Total statement of recognised income and expense	(39,369)
Share options exercised in the year	1,386
Issue of trust shares	(53)
Current tax on exercised share options taken directly to equity	1,129
Exchange differences	(4,173)
Movement in interest rate swap liability	1,947
<b>Balance at 31 March 2009</b>	<b>115,945</b>

### 35. Business combinations

On 15 December 2008, the Group acquired 100% of the share capital of SPT Consult GCV, Belgium's leading claims handling and subcontractor repair network.

On 17 March 2009, the Group acquired 27,000 household contracts from Endesa Energia S.A. one of Spain's leading providers of electricity and gas supply services, and signed a marketing agreement with Endesa providing access of up to 9.2m households.

There were a number of other acquisitions in the year which individually were not significant. These related to acquisitions of plumbing and drainage contractors.

All these transactions have been accounted for by the purchase method of accounting. Fair values are reported as provisional for a period of 12 months following acquisition to allow the incorporation of any subsequent amendments to completion accounts, contingent consideration or directly attributable costs. The acquisition of the Endesa household contract policies has been accounted for using the purchase method of accounting as the Directors consider that the number of policies acquired, combined with the extended and exclusive access to the customer database represent the purchase of a significant business activity.

## Notes to the financial statements

year ended 31 March 2009

### 35. Business combinations (continued)

Fair value adjustments to the acquired underlying book value of assets and liabilities, prior to the recognition of intangible assets identified on acquisition, were not significant, and in summary terms consisted of:

- SPT – Acquired book value of net assets of £801,000, reduced by £133,000 for provision against certain receivables and to recognise additional liabilities
- Other – Acquired book value of net assets of £1,618,000, reduced by £386,000 principally to recognise impairment against redundant fixed assets.

As these adjustments were not significant, no separate tabular summary of pre-adjusted balance sheets, together with analysis of the line items that these adjustments relate to, has been presented.

The provisional fair values, after the adjustments noted above, together with the assessment of the fair value of intangible assets identified on acquisition, are set out in the table below:

	SPT £000	Endesa policies £000	Other £000	Total £000
Net assets acquired:				
Property, plant and equipment	502	—	301	<b>803</b>
Intangible assets	8	—	—	<b>8</b>
Inventories	—	—	35	<b>35</b>
Trade and other receivables	594	—	1,536	<b>2,130</b>
Cash and cash equivalents	1,587	—	769	<b>2,356</b>
Trade and other payables	(1,255)	—	(1,471)	<b>(2,726)</b>
Deferred tax (liability)/asset	(768)	—	62	<b>(706)</b>
	668	—	1,232	<b>1,900</b>
Intangible assets identified on acquisition	2,742	4,026	—	<b>6,768</b>
Goodwill	5,606	—	11,170	<b>16,776</b>
Total consideration	9,016	4,026	12,402	<b>25,444</b>
Satisfied by:				
Cash	4,893	539	11,963	<b>17,395</b>
Contingent consideration	3,869	—	—	<b>3,869</b>
Deferred consideration	—	3,387	—	<b>3,387</b>
Directly attributable costs	254	100	439	<b>793</b>
	9,016	4,026	12,402	<b>25,444</b>
Net cash outflow arising on acquisition:				
Cash consideration	5,147	639	12,402	<b>18,188</b>
Cash and cash equivalents acquired	(1,587)	—	(769)	<b>(2,356)</b>
	3,560	639	11,633	<b>15,832</b>

Intangible assets identified on the acquisitions of SPT and Endesa policies represent the Directors' estimate of the value of the customer relationships at acquisition, the expected value of trade names associated with the business or the value of acquired customer policy databases. Goodwill represents future cross sell opportunities, efficiency savings and synergies from these acquisitions.

If all the acquisitions had been completed on the first day of the financial year, the Group revenues for the year and Group loss before tax attributable to equity holders of the parent would have been £522,310,000 and £19,776,000 respectively.

In addition to the net cash outflow arising on the acquisitions above of £15,832,000 contingent and deferred consideration of £7,548,000 was paid relating to the prior acquisitions of Recommend Limited (trading as Improveline), First Energy and California Water policies and Anglia (NW) Limited.

The post acquisition operating profit from these acquisitions in the year ended 31 March 2009 was as follows:

	SPT £000	Endesa policies £000	Other £000	Total £000
Operating profit	404	—	312	<b>716</b>

### 36. Notes to the cash flow statement

	2009 £000	2008 £000
Operating (loss)/profit	<b>(17,492)</b>	77,489
Adjustments for:		
Depreciation of property, plant and equipment	<b>6,706</b>	6,391
Amortisation of acquisition intangible assets	<b>12,105</b>	10,320
Amortisation of other intangible assets	<b>4,217</b>	2,402
Impairment of UK Emergency Services assets	<b>97,184</b>	—
Share based payments expense	<b>3,217</b>	4,131
Share of results in joint ventures	<b>(3,451)</b>	(1,755)
Profit/(loss) on disposal of property, plant and equipment and software	<b>527</b>	(52)
Operating cash flows before movements in working capital	<b>103,013</b>	98,926
(Increase)/decrease in inventories	<b>(1,547)</b>	1,592
Increase in receivables	<b>(14,435)</b>	(28,148)
Increase in payables	<b>5,199</b>	24,990
Cash generated by operations	<b>92,230</b>	97,360
Income taxes paid	<b>(21,009)</b>	(24,118)
Interest paid	<b>(5,739)</b>	(6,269)
Net cash from continuing operating activities	<b>65,482</b>	66,973

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 an original maturity of three months or less.

### 37. Operating lease arrangements

The Group as lessee

	2009 £000	2008 £000
Minimum lease payments under operating leases recognised in income for the year	<b>7,756</b>	8,292

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:

	2009 £000	2008 £000
Within one year	<b>9,571</b>	8,352
In the second to fifth years inclusive	<b>16,424</b>	13,024
After five years	<b>12,472</b>	10,861
	<b>38,467</b>	32,237

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

## Notes to the financial statements

year ended 31 March 2009

### 38. Share based payments

During the year ended 31 March 2009, the Group had 6 (2008: 6) 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. In addition, since 2006, vesting has also been dependant upon a share price target. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

#### ii) 2005 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 ended 31 March 2009 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 between three and five years and is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. 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 <sup>1</sup>	SAYE	CSS
<b>2008</b>						
<b>Number</b>						
Outstanding at 1 April 2007	2,302,119	1,456,130	466,440	170,188	649,082	49,207
Granted	653,242	—	15,732	96,038	156,259	—
Expired	(132,007)	(181,000)	(24,485)	(10,738)	(71,869)	—
Exercised	(409,213)	—	(34,515)	—	(9,169)	(12,301)
Outstanding at 31 March 2008	2,414,141	1,275,130	423,172	255,488	724,303	36,906
Exercisable at 31 March 2008	855,373	—	—	—	153,239	—
<b>Weighted average exercise price (£)</b>						
Outstanding at 1 April 2007	8.82	11.70	—	—	9.33	—
Granted	17.18	—	—	—	14.50	—
Expired	14.18	11.80	—	—	11.14	—
Exercised	6.73	—	—	—	5.95	—
Outstanding at 31 March 2009	11.14	11.68	—	—	10.31	—
Exercisable at 31 March 2009	5.74	—	—	—	5.21	—
<b>Range of exercise price of options outstanding at 31 March 2008</b>						
£0.00 to £4.99	237,500	—	—	—	32,223	—
£5.00 to £9.99	1,039,873	897,000	—	—	374,499	—
£10.00 to £14.99	512,316	68,000	—	—	317,581	—
£15.00 to £19.99	624,452	310,130	—	—	—	—
Weighted average remaining contractual life	7	8	1	1	3	2
Weighted average fair value of options awarded in 2008	£3.93	—	£8.58	£6.98	£5.21	—
	ESOP	KEIP	LTIP	DBP <sup>1</sup>	SAYE	CSS
<b>2009</b>						
<b>Number</b>						
Outstanding at 1 April 2008	2,414,141	1,275,130	423,172	255,488	724,303	36,906
Granted	—	—	595,637	—	490,920	—
Lapsed	(288,124)	(829,138)	(50,939)	—	(238,080)	—
Exercised	(269,089)	(85,953)	(43,232)	—	(201,216)	—
Outstanding at 31 March 2009	1,856,928	360,039	924,638	255,488	775,927	36,906
Exercisable at 31 March 2009	1,032,377	253,489	—	50,769	44,346	12,302
<b>Weighted average exercise price (£)</b>						
Outstanding at 1 April 2008	11.14	11.68	—	—	10.31	—
Granted	—	—	—	—	7.60	—
Lapsed	15.19	9.49	—	—	12.85	—
Exercised	8.70	10.56	—	—	6.32	—
Outstanding at 31 March 2009	10.87	12.49	—	—	8.85	—
Exercisable at 31 March 2009	6.87	10.18	—	—	9.18	—
<b>Range of exercise price of options outstanding at 31 March 2009</b>						
£0.00 to £4.99	182,262	—	—	—	—	—
£5.00 to £9.99	850,115	213,556	—	—	637,253	—
£10.00 to £14.99	345,391	23,409	—	—	138,674	—
£15.00 to £19.99	479,160	123,074	—	—	—	—
Weighted average remaining contractual life	6	7	1	—	3	1
Weighted average fair value of options awarded in 2009	—	—	—	—	2.64	—

<sup>1</sup> The figures in the table relate to the number of deferred options only.

The weighted average share price at the date of exercise for share options exercised during the year was £14.87 (2008: £18.31).

## Notes to the financial statements

year ended 31 March 2009

### 38. Share based payments (continued)

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	3.8% - 5.2%

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

The Group recognised total expenses of £3,217,000 (2008: £4,131,000) related to equity-settled share-based payment transactions.

### 39. Retirement benefit schemes

#### 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 the contributions fully vesting, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £2,890,000 (2008: £2,847,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2009, contributions of £nil (2008: £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 31 March 2008 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.

	2009 £000	Valuation at 2008 £000
Key assumptions used:		
Discount rate at 31 March	6.9%	6.5%
Retail price inflation	3.4%	3.7%
Expected rate of salary increases	4.9%	5.7%
Future pension increases	3.4%	3.7%
Expected rate of return on scheme assets at 31 March	8.0%	7.7%
Life expectancy of male aged 60 at balance sheet date	26.3 years	26.8 years

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	2009 £000	2008 £000
Current service cost	430	603
Interest cost	874	767
Expected return on scheme assets	(1,033)	(1,087)
Past service cost	108	196
	<b>379</b>	479

Of the charge for the year, £379,000 (2008: £479,000) 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 a loss of £3,410,000 (2008: loss of £874,000).

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

	2009 £000	2008 £000
Present value of defined benefit obligations	(12,363)	(13,283)
Fair value of scheme assets	10,444	13,458
(Deficit)/surplus in scheme	(1,919)	175
Non-recognition of surplus	—	(175)
Liability recognised in the balance sheet	(1,919)	—

This amount is presented in the balance sheet as follows:

	2009 £000	2008 £000
Non-current liabilities	1,919	—

In the prior year the Group opted not to recognise in the balance sheet any surplus on its defined benefit scheme as there was no anticipated refund due from the scheme nor the expectation of a lower schedule of contributions as a result of the surplus.

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

	2009 £000	2008 £000
At 1 April	13,283	14,535
Employer's part of the current service cost	430	603
Interest cost	874	767
Contributions from scheme members	73	94
Actuarial gains and losses	(2,219)	(2,675)
Benefits paid	(186)	(237)
Past service cost	108	196
At 31 March	<b>12,363</b>	13,283

## Notes to the financial statements

year ended 31 March 2009

### 39. Retirement benefit schemes (continued)

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

	2009 £000	2008 £000
At 1 April	<b>13,458</b>	13,888
Expected return on scheme assets	<b>1,033</b>	1,087
Actuarial gains and losses	<b>(4,443)</b>	(1,961)
Contributions from the sponsoring companies	<b>582</b>	587
Contributions from scheme members	<b>—</b>	94
Benefits paid	<b>(186)</b>	(237)
At 31 March	<b>10,444</b>	13,458

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 2009 is a loss of £2,049,000 (2008: gain of £714,000). The cumulative amount recognised outside profit and loss at 31 March 2009 is a loss of £1,650,000.

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	
	2009 %	2008 %	2009 £000	2008 £000
Equity instruments	<b>8.0</b>	7.7	<b>10,439</b>	13,457
Other assets	<b>4.2</b>	4.4	<b>5</b>	1
			<b>10,444</b>	13,458

The overall expected rate of return on assets for the financial year ending 31 March 2009 was 8.0% p.a. (2008: 7.8% p.a.). 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 2008.

The history of experience adjustments is as follows.

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	<b>(12,363)</b>	(13,283)	(14,535)	(13,200)	(9,854)
Fair value of scheme assets	<b>10,444</b>	13,458	13,888	12,044	7,276
Surplus/(deficit) in scheme	<b>(1,919)</b>	175	(647)	(1,156)	(2,578)
Experience adjustments on scheme liabilities					
Amount of loss/(gain) (£000)	<b>807</b>	(164)	144	95	(107)
Percentage of scheme liabilities (%)	<b>7</b>	1	1	1	(1)
Experience adjustments on scheme assets					
Amount of loss/(gain) (£000)	<b>4,443</b>	1,961	(420)	(1,628)	(206)
Percentage of scheme assets (%)	<b>43</b>	15	(3)	(14)	(3)

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £0.8m (2008: £0.6m) plus any Pension Protection Fund levy payable.

### 40. Events after the balance sheet date

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

#### 41. 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 53).

##### 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		Amounts owed to related parties	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Harpin Limited	—	2	232	301	—	—	35	98
Pilot Services (GB) Limited	—	—	39	59	—	—	5	23
Joint ventures	2,026	1,332	—	—	1,581	750	—	—

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 and members of the Executive Committee, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report.

	2009 £000	2008 £000
Short-term employee benefits	5,258	4,535
Post-employment benefits	488	516
Share-based payment	1,767	2,002
	<b>7,513</b>	<b>7,053</b>

##### 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 £271,000 (2008: £360,000) and the balance due to Harpin Limited and Pilot Services (GB) Limited at the year end amounted to £40,000 (2007: £121,000).

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

## Notes to the financial statements

year ended 31 March 2009

### 42. Insurance contracts

During previous years the Group, through its subsidiary Affinity Partners Limited, entered into contracts of reinsurance with an independent insurance Company that underwrites the policies marketed and administered by HomeServe Membership Limited. Under these arrangements, Affinity Partners Limited underwrote 49% of the risk and reward associated with these policies ('the policies').

The policies were entered into between the customers of HomeServe Membership 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.

Affinity Partners ceased to underwrite new policies from 1 October 2007.

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

	2009 £000	2008 £000
Revenue	<b>3,505</b>	39,421
Claims costs	<b>(2,012)</b>	(34,509)
Deferred income	—	3,036

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 £nil (2008: £0.1m).

### 43. Financial instruments

#### Principal financial instruments

The principal financial instruments used by the Group and the Company from which financial instrument risk arises are as follows:

#### Group

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- loans to joint ventures
- trade payables
- loan notes

#### Company

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- inter-company receivables and payables
- trade payables

All principal financial instruments are stated at amortised cost.

#### Capital risk management

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 27 to 34.

The table below presents quantitative data for the components the Group manages as capital:

	2009 £000	2008 £000
Shareholders' funds	212,984	265,413
Bank overdrafts and revolving credit facilities	55,000	90,000
Unsecured loan notes	300	304

Certain of the entities in the Group are subject to externally imposed capital requirements from the Financial Services Authority. Where such requirements exist, the Group manages the risk through the close monitoring of performance and distributable capital within the entities impacted by the regulations. The Group has complied with all such arrangements throughout the current and preceding year.

#### Financial risk management objectives

The Group's principal financial instruments, comprise bank loans and overdrafts, loan notes and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial instruments such as trade receivables and trade payables, derivatives and loans to joint ventures which arise directly from its operations.

#### Classification of financial instruments

In addition to the other financial assets and liabilities disclosed in notes 21, 23 and 25, the Group has derivative instruments in designated hedge accounting relationships with a notional value of £50.0m (2008: £50.0m) and a carrying value and fair value of £1,947,000 liability (2008: £nil). The fair value of these derivative instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, sourced from observable market data.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt requirements with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

## Notes to the financial statements

year ended 31 March 2009

### 43. Financial instruments (continued)

The maturity profile of the Group's financial liabilities is provided in the table below. Interest is payable on the bank overdraft and revolving credit facilities and loan notes. Deferred and contingent consideration payments are stated on the basis of expected cash outflows, before discounting.

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
<b>2009</b>					
Under 2 months	55,000	123,051	300	1,702	180,053
Between 2 and 6 months	—	—	—	657	657
Between 6 and 12 months	—	—	—	3,054	3,054
Between 1 and 2 years	—	—	—	2,037	2,037
Between 2 and 3 years	—	—	—	2,730	2,730
Between 3 and 4 years	—	—	—	2,606	2,606
Between 4 and 5 years	—	—	—	822	822
After 5 years	—	—	—	3,290	3,290
<b>Total</b>	<b>55,000</b>	<b>123,051</b>	<b>300</b>	<b>16,898</b>	<b>195,249</b>

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
<b>2008</b>					
Under 2 months	50,000	109,646	304	—	159,950
Between 2 and 6 months	40,000	—	—	280	40,280
Between 6 and 12 months	—	—	—	8,061	8,061
Between 1 and 2 years	—	—	—	847	847
Between 2 and 3 years	—	—	—	4,230	4,230
Between 3 and 4 years	—	—	—	586	586
Between 4 and 5 years	—	—	—	586	586
After 5 years	—	—	—	3,188	3,188
<b>Total</b>	<b>90,000</b>	<b>109,646</b>	<b>304</b>	<b>17,778</b>	<b>217,728</b>

The Group has entered into an interest rate swap in order to manage the interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

At 31 March 2009 the Group had in place an interest rate swap to hedge loans subject to variable interest rates linked to LIBOR whereby it receives a floating rate of interest based on one month LIBOR on a notional principal of £50m (2008: £50m) and pays a fixed rate of interest of 4.9% (2008: 4.9%). The remaining term of the interest rate swap is one year. The fair value of the interest rate swap at 31 March 2009 was £1,947,000 liability (2008: £nil). The timing of the impact on the income statement of the swap is up to one year from the balance sheet date. The impact of the cash flow hedge on the income statement will be expensed through the finance cost line.

The following table demonstrates the sensitivity to a reasonably possible change of 10% increase in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	2009 £000	2008 £000
Increase in interest rate	<b>10%</b>	10%
Reduction in profit before tax (£000)	<b>422</b>	517



### Foreign currency risk

The Group has exposure to fluctuations in foreign currencies where it has investments in overseas operations which are affected by foreign exchange movements.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the year end are as follows:

	Assets		Liabilities	
	2009 £000	2008 £000	2009 £000	2008 £000
Euro	<b>31,762</b>	42,494	<b>(25,584)</b>	(42,891)
US dollar	<b>39,968</b>	20,174	<b>(44,733)</b>	(27,837)

The following table demonstrates the sensitivity to a reasonably possible change of 10% increase in sterling against the relevant foreign currencies, with all other variables held constant, of the Group's profit before tax.

	2009 £000	2008 £000
Increase in £:\$ exchange rate:	<b>10%</b>	10%
Effect on profit before tax (£000)	<b>51</b>	266
Effect on equity (£000)	<b>1,255</b>	697
Increase/(decrease) in £:€ exchange rate:	<b>10%</b>	10%
Effect on profit before tax (£000)	<b>501</b>	(2)
Effect on equity (£000)	<b>194</b>	36

### Credit risk

The Group trades only with creditworthy third parties. It is the Group's policy that, with the exception of our policy membership customers, customers who wish to trade on credit terms are reviewed for financial stability.

The majority of the Group's trade receivables consist of a large number of individual members and hence for these balances the Group does not have any significant credit risk exposure to a single counterparty. In addition, receivable balances within our Emergency Services business are monitored on an ongoing basis. As a result, the Group's exposure to bad debts is not considered to be significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and investment in joint ventures, the Group's exposure to credit risk arises from default of the counterparty.

The Group manages the risk associated with cash and cash equivalents through depositing funds only with reputable and creditworthy banking institutions. The risk associated with the investment in joint ventures is mitigated through the close management and regular review of the performance of the assets.

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Group's Board which sets the framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 23 are details of the undrawn facilities that are available to the Group to further reduce liquidity risk.

With the exception of deferred and contingent consideration, all of the Group's financial liabilities are due for payment within one year, based on contractual payment terms.

## Independent auditors' report

We have audited the parent Company financial statements of HomeServe plc for the year ended 31 March 2009 which comprise the Company balance sheet, the Company cash flow statement, the Company statement of recognised income and expense and the related notes 44 to 59. 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 2009 and on the information in the 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. 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 Principal activities section of the Directors' report.

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 judgements 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 31 March 2009;
- 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 LLP**

Chartered Accountants and Registered Auditors  
Birmingham  
19 May 2009

## Company statement of recognised income and expense

year ended 31 March 2009

	Notes	2009 £000	2008 £000
Actuarial (losses)/gains on defined benefit pension scheme		<b>(2,049)</b>	714
Loss on cash flow hedge	33	<b>(1,947)</b>	—
Tax on items taken directly to equity	51	<b>(1,476)</b>	(107)
Net (expense)/income recognised directly in equity		<b>(5,472)</b>	607
(Loss)/profit for the year		<b>(6,121)</b>	43,965
Total recognised income and expense for the year attributable to equity holders of the Company		<b>(11,593)</b>	44,572

## Company balance sheet

31 March 2009

	Notes	2009 £000	2008 £000
<b>Non-current assets</b>			
Investment in subsidiaries	47	<b>108,468</b>	108,468
Deferred tax assets	51	<b>2,456</b>	4,138
		<b>110,924</b>	112,606
<b>Current assets</b>			
Trade and other receivables	48	<b>153,568</b>	150,630
Cash and cash equivalents	48	<b>65,515</b>	76,839
		<b>219,083</b>	227,469
<b>Total assets</b>		<b>330,007</b>	340,075
<b>Current liabilities</b>			
Trade and other payables	49	<b>(67,403)</b>	(13,330)
Current tax liabilities		<b>(2,718)</b>	(2,685)
Derivative financial instruments	22	<b>(1,947)</b>	—
Bank overdrafts and revolving credit facilities	50	<b>(55,000)</b>	(90,000)
		<b>(127,068)</b>	(106,015)
<b>Net current assets</b>		<b>92,015</b>	121,454
<b>Non-current liabilities</b>			
Retirement benefit obligation	39	<b>(1,919)</b>	—
		<b>(1,919)</b>	—
<b>Total liabilities</b>		<b>(128,987)</b>	(106,015)
<b>Net assets</b>		<b>201,020</b>	234,060
<b>Equity</b>			
Share capital	27	<b>8,167</b>	8,147
Share premium account	28	<b>33,486</b>	32,507
Merger reserve	29	<b>70,992</b>	70,992
Share incentive reserve	57	<b>2,623</b>	1,551
Capital redemption reserve	32	<b>1,200</b>	1,200
Hedging reserve	33	<b>(1,947)</b>	—
Retained earnings	58	<b>86,499</b>	119,663
<b>Total equity</b>		<b>201,020</b>	234,060

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2009. They were signed on its behalf by:

**Jonathan Simpson-Dent**  
Chief Financial Officer  
19 May 2009

**Company cash flow statement**

year ended 31 March 2009

	Notes	2009 £000	Restated 2008 £000
Net cash inflow/(outflow) from operating activities	45	<b>35,317</b>	(1,685)
Investing activities			
Interest received		<b>5,765</b>	1,082
Dividends received from subsidiary undertakings		—	53,000
Purchase of own shares		—	(7,331)
Issue of shares from the employee benefit trust		<b>2,010</b>	2,523
Net cash from investing activities		<b>7,775</b>	49,274
<b>Financing activities</b>			
Dividends paid		<b>(20,415)</b>	(16,893)
Share capital issued		<b>999</b>	1,156
Decrease in bank overdraft and revolving credit facilities		<b>(35,000)</b>	44,987
<b>Net cash (used in)/from financing activities</b>		<b>(54,416)</b>	29,250
<b>Net movement in cash and cash equivalents</b>		<b>(10,324)</b>	76,839
<b>Cash and cash equivalents at beginning and end of year</b>		<b>76,839</b>	—
<b>Cash and cash equivalents at end of year</b>		<b>65,515</b>	76,839

## Notes to the financial statements

year ended 31 March 2009

### Company only

The following notes 44 to 59 relate to the Company only position for the year ended 31 March 2009.

#### 44. Significant accounting policies

As provided by s230 of the Companies Act 1985, the Company has not presented its own income statement. The Company's loss for the year was £6,121,000 (2008: £43,965,000 profit).

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, except for the revaluation of financial instruments. 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.

Included within 'Amounts receivable from Group companies' are amounts advanced to the HomeServe plc Employee Benefit Trust for the purchase of shares. The shares are held in trust to satisfy obligations under share option schemes and are recognised at cost.

#### 45. Notes to the cash flow statement

	2009 £000	2008 £000
Operating loss	(10,651)	(13,451)
Adjustments for:		
Share based payment expense	1,405	1,307
Operating cash flows before movements in working capital	(9,246)	(12,144)
(Increase)/decrease in receivables	(5,003)	1,078
Increase in payables	50,320	5,340
Cash generated from/(used in) operations	36,071	(5,726)
Income taxes received	1,911	4,041
Interest paid	(2,665)	—
Net cash inflow/(outflow) from operating activities	35,317	(1,685)

#### 46. Other information

The average monthly number of employees (including Executive Directors) was:

	2009 Number	2008 Number
	154	120

Their aggregate remuneration comprised:

	£000	£000
Wages and salaries	10,335	12,541
Social security costs	322	1,849
Other pension costs	822	644
	11,479	15,034

	2009 £000	2008 £000
Fees payable to the Company's auditors for the audit of the Company's financial statements	50	45
<b>Total audit fees</b>	<b>50</b>	<b>45</b>

	2009 £000	2008 £000
Other services pursuant to legislation	—	—
Tax services	63	52
<b>Total non-audit fees</b>	<b>63</b>	<b>52</b>

## Notes to the financial statements

year ended 31 March 2009

### 47. Subsidiaries

Details of the Company's principal subsidiaries at 31 March 2009 are as follows. All companies are accounted for using the acquisition method.

	Place of incorporation ownership (or registration) and operations	Proportion of voting interest %	Proportion of power held %
<b>Intermediate Holding Companies</b>			
HomeServe Assistance Limited*	England	100	100
HomeServe Enterprises Limited*	England	100	100
HomeServe International Limited	England	100	100
<b>UK Membership</b>			
HomeServe Care Solutions Limited	England	100	100
HomeServe Retail Warranties Limited	England	100	100
HomeServe Warranties Limited	England	100	100
HomeServe Membership Limited	England	100	100
HomeServe At Home Limited	England	100	100
HomeServe Claims Management Limited	England	100	100
Affinity Partners Limited	Guernsey	100	100
<b>UK Emergency Services</b>			
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 Contents Services Limited	England	100	100
Anglia (NW) Limited	England	100	100
<b>Continental Europe</b>			
HomeServe Ibérica SL	Spain	100	100
Reparalia S.A.	Spain	100	100
SPT Consult GCV	Belgium	100	100
<b>United States of America</b>			
Home Service USA Corp	USA	100	100
Home Service Repair Management Corp	USA	100	100

\* Directly held investments. All other subsidiary investments are held indirectly through these intermediary holding companies.

The movement in investments is as follows:

	£000
<b>1 April 2007, 1 April 2008 and 31 March 2009</b>	<b>108,468</b>



## 48. Financial assets

### Trade and other receivables

	2009 £000	2008 £000
Accounts receivable from Group companies	<b>151,616</b>	149,262
Other receivables	<b>890</b>	200
Prepayments and accrued income	<b>1,062</b>	1,168
	<b>153,568</b>	150,630

#### Trade receivables

The Company has a policy for providing fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the credit worthiness of the counterparty.

Of the trade receivables balance at the end of the year, there is no significant concentration of credit risk, with exposure spread across a large number of subsidiary undertakings.

Included in the Company's trade receivable balance are debtors with a carrying amount of £nil (2008: £23,000) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of receivables not impaired is 15 days (2008: 15 days).

Ageing of past due but not impaired receivables:

	2009 £000	2008 £000
1–30 days	—	23
31–60 days	—	—
61–90 days	—	—
91 days +	—	—
Balance at 31 March past due but not impaired	—	23
Current	<b>151,616</b>	149,239
Balance at 31 March	<b>151,616</b>	149,262

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large.

No allowance for doubtful debts are considered necessary based on prior experience and the Directors' assessment of the current economic environment.

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 £65,515,000 (2008: £76,839,000) comprise cash held by the Company and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

## Notes to the financial statements

year ended 31 March 2009

### 49. Financial liabilities

#### Trade and other payables

	2009 £000	2008 £000
Trade creditors and accruals	4,686	2,981
Amounts payable to Group companies	61,254	5,285
Taxes and social security, excluding corporation tax	612	760
Other creditors	851	4,304
	<b>67,403</b>	<b>13,330</b>

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 (2008: 45 days).

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

### 50. Bank overdrafts and revolving credit facilities

	2009 £000	2008 £000
Bank overdrafts and revolving credit facilities	<b>55,000</b>	<b>90,000</b>

Details of the borrowing facilities are given in note 23 to the financial statements.

### 51. 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 2007	194	3,798	3,992
Credit to income	—	253	253
(Charge)/credit to equity	(194)	87	(107)
At 1 April 2008	—	4,138	4,138
Credit to income	—	(206)	(206)
Credit/(charge) to equity	537	(2,013)	(1,476)
<b>At 31 March 2009</b>	<b>537</b>	<b>1,919</b>	<b>2,456</b>

There is no unprovided deferred tax.

### 52. Events after the balance sheet date

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

### 53. Related party transactions

	Provision of services		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Harpin Limited	—	2	177	278	—	—	35	98
Pilot Services (GB) Limited	—	—	33	57	—	—	5	23
Joint Ventures	2,026	—	—	—	1,581	—	—	—
Subsidiary Companies	8,394	7,731	—	—	151,616	149,262	61,254	5,285

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.

### 54. Share capital, share premium account, merger reserve, capital redemption reserve and hedging reserve

The movements on these items are disclosed in notes 27, 28, 29, 32 and 33 to the financial statements.

### 55. Share based payments

During the year ended 31 March 2009, the Company had five (2008: five) 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. In addition, since 2006, vesting has also been dependent upon a share price target. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

#### ii) 2005 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 2009 and is subject to a minimum share price criteria during the year ending 31 March 2010. 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 between three and five years and is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. 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 financial statements

year ended 31 March 2009

### 55. Share based payments (continued)

	ESOP	KEIP	LTIP	DBP <sup>1</sup>	SAYE
<b>2008</b>					
<b>Number</b>					
Outstanding at 1 April 2007	969,575	334,352	241,500	124,432	80,178
Granted	169,966	—	15,732	33,969	16,305
Expired	(42,450)	(35,000)	(24,485)	(10,738)	(5,700)
Exercised	(105,000)	—	(34,515)	—	(292)
Outstanding at 31 March 2008	992,091	299,352	198,232	147,663	90,491
Exercisable at 31 March 2008	553,000	—	—	—	25,702
<b>Weighted average exercise price (£)</b>					
Outstanding at 1 April 2007	8.01	13.10	—	—	8.41
Granted	17.18	—	—	—	14.50
Expired	13.37	12.77	—	—	7.33
Exercised	7.64	—	—	—	5.43
Outstanding at 31 March 2008	9.39	13.14	—	—	9.52
Exercisable at 31 March 2008	5.74	—	—	—	5.19
<b>Range of weighted average exercise price of options outstanding at 31 March 2008</b>					
£0.00 to £4.99	140,000	—	—	—	7,851
£5.00 to £9.99	539,000	148,000	—	—	51,639
£10.00 to £14.99	143,125	25,000	—	—	31,001
£15.00 to £19.99	169,966	126,352	—	—	90,491
Weighted average remaining contractual life	6	8	1	1	2
Weighted average fair value of options awarded in 2008	£3.93	—	£8.58	£6.98	£5.07
	ESOP	KEIP	LTIP	DBP <sup>1</sup>	SAYE
<b>2009</b>					
<b>Number</b>					
Outstanding at 1 April 2008	992,091	299,352	198,232	147,663	90,491
Granted	—	—	237,849	—	53,687
Lapsed	(61,535)	(186,043)	(23,439)	—	(22,918)
Exercised	(10,000)	(16,640)	(15,732)	—	(32,765)
Outstanding at 31 March 2009	920,556	96,669	396,910	147,665	88,495
Exercisable at 31 March 2009	669,000	48,311	—	43,160	2,563
<b>Weighted average exercise price (£)</b>					
Outstanding at 1 April 2008	9.39	13.14	—	—	9.52
Granted	—	—	—	—	7.60
Lapsed	15.67	12.69	—	—	12.33
Exercised	9.61	9.61	—	—	6.24
Outstanding at 31 March 2009	8.97	14.63	—	—	8.74
Exercisable at 31 March 2009	6.41	13.09	—	—	9.18
<b>Range of weighted average exercise price of options outstanding at 31 March 2009</b>					
£0.00 to £4.99	140,000	—	—	—	—
£5.00 to £9.99	529,000	27,197	—	—	74,117
£10.00 to £14.99	113,220	11,475	—	—	14,378
£15.00 to £19.99	138,336	57,997	—	—	—
Weighted average remaining contractual life	5	7	1	—	3
Weighted average fair value of options awarded in 2009	—	—	—	—	£2.61

<sup>1</sup> The figures in the table relate to the number of deferred options only.

The weighted average share price at the date of exercise for share options exercised during the year was £14.68 (2008: £18.70).

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:

<b>Input</b>	<b>Assumption</b>
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	3.8% - 5.2%

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

The Company recognised total expenses of £1,405,000 (2008: £1,307,000) related to equity-settled share-based payment transactions.

### 56. Retirement benefit schemes

Details of the Company only defined contribution and defined benefit schemes are provided in note 39.

### 57. Share incentive reserve

	£000
Balance at 1 April 2007	1,544
Share based payment charges in the year	1,307
Share options exercised in year	(1,300)
Balance at 1 April 2008	1,551
Share based payment charges in the year	1,405
Share options exercised in year	(333)
<b>Balance at 31 March 2009</b>	<b>2,623</b>

### 58. Retained earnings

	£000
Balance at 1 April 2007	90,524
Dividends	(16,893)
Total statement of recognised income and expense	44,572
Current tax on exercised share option gains taken directly to equity	429
Issue of trust shares	(269)
Share options exercised in the year	1,300
Balance at 1 April 2008	119,663
Dividends	(20,415)
Total statement of recognised income and expense	(11,593)
Adjustment to prior year dividends	(3,500)
Current tax on exercised share options taken directly to equity	117
Issue of trust shares	(53)
Share options exercised in the year	333
Movement in cash flow hedge	1,947
<b>Balance at 31 March 2009</b>	<b>86,499</b>

## Notes to the financial statements

year ended 31 March 2009

### 59. Financial instruments

#### Principal financial instruments

The principal financial instruments used by the Company from which financial instrument risk arises are as follows:

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- inter-company receivables and payables
- trade payables

All principal financial instruments are stated at amortised cost.

#### Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 50, cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in notes 54, 57 and 58.

The table below presents quantitative data for the components the Company manages as capital:

	2009 £000	2008 £000
Shareholders' funds	<b>201,020</b>	234,060
Bank overdrafts and revolving credit facilities	<b>(10,515)</b>	13,161

#### Financial risk management objectives

The Company's principal financial instruments comprise bank loans and overdrafts. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk.

#### Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt requirements with floating interest rates. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The maturity profile of the Company's financial liabilities is provided in the table below. Interest is payable on the bank overdraft and revolving credit facilities.

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Total £000
<b>2009</b>			
Under two months	55,000	67,403	122,403
Between two and six months	—	—	—
<b>Total</b>	<b>55,000</b>	<b>67,403</b>	<b>122,403</b>

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Total £000
<b>2008</b>			
Under two months	50,000	13,330	63,330
Between two and six months	40,000	—	40,000
<b>Total</b>	<b>90,000</b>	<b>13,330</b>	<b>103,330</b>

The Company has entered into an interest rate swap in order to manage the interest rate risks arising from the Company's operations and its sources of finance. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

At 31 March 2009 the Company had in place an interest rate swap to hedge loans subject to variable interest rates linked to LIBOR whereby it receives a floating rate of interest based on one month LIBOR on a notional principal of £50m (2008: £50m) and pays a fixed rate of interest of 4.9% (2008: 4.9%). The remaining term of the interest rate swap is one year. The fair value of the interest rate swap at 31 March 2009 was £1,947,000 liability (2008: £nil). The timing of the impact on the income statement of the swap is up to one year from the balance sheet date. The impact of the cash flow hedge on the income statement will be expensed through the finance cost line.

The following table demonstrates the sensitivity to a reasonably possible change of 10% increase in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings).

	2009	2008
Increase in interest rate	<b>10%</b>	10%
Reduction in profit before tax (£000)	<b>207</b>	102

## Notes to the financial statements

year ended 31 March 2009

### Credit risk

The Company trades only with creditworthy third parties and subsidiary undertakings. It is the Company's policy that customers who wish to trade on credit terms are reviewed for financial stability.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents the Company's exposure to credit risk arises from default of the counterparty.

The Company manages the risk associated with cash and cash equivalents through depositing funds only with reputable and creditworthy banking institutions.

The Company has a maximum exposure equal to the carrying amount of the above receivables and instruments.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Company's Board which sets the framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 23 are details of the undrawn facilities that are available to the Company and the Group to further reduce liquidity risk.

All of the Company's financial liabilities are due for payment within one year, based on contractual payment terms.



## Five year summary

2005–2009

### Continuing operations

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
<b>Revenue</b>					
UK Membership	<b>228,183</b>	236,452	188,157	159,386	127,300
UK Emergency Services	<b>233,601</b>	291,660	297,209	218,106	100,243
Continental Europe (excluding joint ventures)	<b>40,250</b>	18,961	9	151	104
United States of America	<b>15,904</b>	8,097	3,841	1,857	793
Eliminations	<b>(497)</b>	(295)	(11,854)	(12,499)	(7,729)
<b>External Sales</b>	<b>517,441</b>	554,875	477,362	367,001	220,711
<b>Profit/(loss)</b>					
UK Membership	<b>87,228</b>	76,302	56,720	43,960	38,904
UK Emergency Services	<b>8,006</b>	15,144	15,977	13,077	4,473
Continental Europe	<b>3,406</b>	765	(221)	(1,595)	(630)
United States of America	<b>(294)</b>	(2,248)	(2,381)	(1,032)	(508)
	<b>98,346</b>	89,963	70,095	54,410	42,239
Amortisation of acquisition intangibles	<b>(12,105)</b>	(10,320)	(6,451)	(3,658)	(310)
Exceptional costs	<b>(6,549)</b>	(2,154)	—	—	(2,787)
Impairment of UK Emergency Services assets	<b>(97,184)</b>	—	—	—	—
Operating (loss)/profit	<b>(17,492)</b>	77,489	63,644	50,752	39,142
Net interest	<b>(4,218)</b>	(5,651)	(2,566)	(776)	(320)
(Loss)/profit before tax	<b>(21,710)</b>	71,838	61,078	49,976	38,822

Following the transfer of the claims management and policy repair networks from UK Emergency Services to UK Membership, the information for 2008 has been re-presented to be consistent with the Group structure for 2009. It is not practicable to re-present this information for 2005, 2006 and 2007.

## Shareholder analysis

as at 31 March 2009

Number of shares	Number of shareholders	% of total shareholders	% of shares
1–1,000	1,435	63.6	0.6
1,001–10,000	557	24.7	2.6
10,001–50,000	157	7.0	5.6
50,001–100,000	35	1.6	3.6
100,001–250,000	29	1.3	7.7
250,001–500,000	19	0.8	10.3
500,001–1,000,000	11	0.5	12.0
Over 1,000,000	12	0.5	57.6
	2,255	100	100
Unit trusts			39
Private investors			27
Pension funds			16
Other			15
Unknown			3
			100

## Shareholder information

### Financial calendar

#### 2009

31 July	Annual General Meeting
4 August	Final dividend for the year ended 31 March 2009 to be paid
November	Interim results for the six months ending 30 September 2009 to be announced

#### 2010

January	Interim dividend for the year ending 31 March 2010 to be paid
May	Preliminary announcement of results for the year ending 31 March 2010
June	2010 Annual 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:

Tel: 0870 707 1053

Address: PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH

Website: [www-uk.computershare.com/investor](http://www-uk.computershare.com/investor)

### Website

The HomeServe website at [www.homeserve.com](http://www.homeserve.com) provides news and details of the Company's activities plus information for shareholders. The investor section of the website contains real time and historical share price data as well as the latest results and announcements.





**HomeServe**

**HomeServe plc**

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