



HomeServe
homserve.com



HomeServe

Annual Report & Accounts 2010

HomeServe provides home emergency insured repair solutions. With access to thousands of skilled tradesmen worldwide and a high quality customer service team all just one phone call away, we give all our customers the peace of mind they need in their busy lives.



OUR VISION

To be the first place people turn to for home emergencies and repairs

OUR MISSION

To provide a membership service which frees our customers from the worry and inconvenience of home emergencies and repairs

OUR VALUES

- Put our customers at the heart of everything we do
- Develop and engage great people who are passionate about taking responsibility and making things happen
- Combine relentless innovation with integrity and professionalism
- Strive to be the best in the world at what we do

HOMESERVE AT A GLANCE

HomeServe is an international home emergency and repairs company providing services to 4.7m households across the UK, Continental Europe and the USA. Our businesses are responsible for the marketing and administration of 10.3m home emergency and repair policies.



UNITED KINGDOM

Marketable households

23.4m

Customers

3.3m

Policies

7.6m

Revenue¹

£286.4m

Operating profit²

£95.8m

CONTINENTAL EUROPE

Marketable households

24.3m

Customers

0.8m

Policies

2.0m

Revenue³

£86.5m

Operating profit²

£7.2m

USA

Marketable households

20.3m

Customers

0.6m

Policies

0.8m

Revenue¹

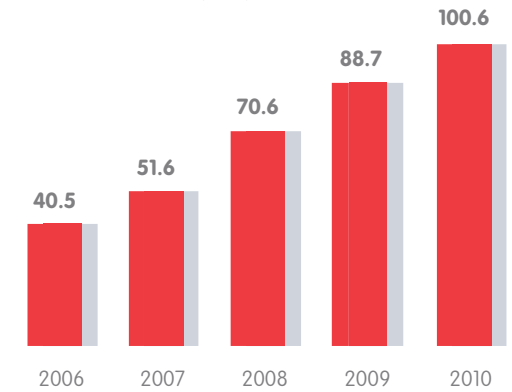
£25.7m

Operating profit²

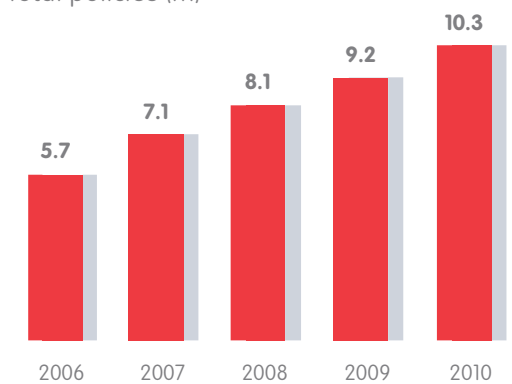
£1.5m

WORLDWIDE SUMMARY

Profit before tax (£m)



Total policies (m)



Marketable households

68.1m

Employees

c3,200

Customers

4.7m

Policies

10.3m

Group revenue¹

£369.0m

Operating profit²

£104.4m

¹ Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period. ² Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation. ³ Includes £29.8m of joint venture revenue not included in the statutory profit and loss.

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For our latest financial information or to view our Annual Report online, go to:
www.homeserveplc.com

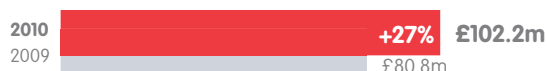


Download the latest HomeServe iPhone app at:
www.homeserve.com/apps

HIGHLIGHTS

REVENUE¹OPERATING PROFIT²PROFIT BEFORE TAX²

PROFIT BEFORE TAX

EARNINGS PER SHARE³

DIVIDEND PER SHARE



- Worldwide membership operations
 - 21% revenue¹ growth to £369.0m
 - 13% growth in operating profit² to £104.4m
 - 10.3m policies (2009: 9.2m) and 4.7m customers (2009: 4.3m)
 - Access to 68m households (2009: 56m)
- 24% increase in dividend per share
- 14% growth in earnings per share³
- 3% customer growth in the UK and a retention rate of 82.5% (2009: 83.0%)
- 72% increase in international operating profits² to £8.7m (2009: £5.1m)
- Acquisition of National Grid Energy Services' contract business
- Doubling the US footprint with signing of long-term affinity partner agreements with National Grid USA, Piedmont Natural Gas and Southern California Gas
- Long-term affinity partner agreement signed with Agbar in Spain
- Exit from UK emergency services complete resulting in loss of £42.0m in discontinued operations
- Statutory profit for the year £30.7m (2009: loss of £35.3m)

¹ Including gross up of commissions in 2010 and 2009, but excluding exceptional operating items during the year, see Financial Review and notes 4, 5 and 13.

² Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation see Financial Review and notes 5 and 13.

³ Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 5 and 13.

CHAIRMAN'S STATEMENT

"With a clear and focused membership-only strategy and a strong pipeline of business development opportunities, HomeServe remains well positioned for the future."

J M Barry Gibson
Chairman

We are pleased to announce that HomeServe has delivered another year of double-digit profits growth with earnings per share³ growing by 14% driven by the strong performance of our UK and international operations. Revenues¹ for our continuing operations have grown by 21% to £369.0m and profit before tax² by 13% to £100.6m on the back of continuing good levels of customer and policy growth with over 10.3m policies from 4.7m customers worldwide.

STRATEGIC DEVELOPMENTS

During the year we successfully completed the exit from our UK Emergency Services business allowing us to focus all of our resources on the growth and development of our membership businesses.

We announced the acquisition of SFG in France in May 2009, an important step in the development of our European appliance warranty business and, after the year end, the acquisition in the US of the service contract business from National Grid Energy Services.

We have also expanded our global marketing footprint with the addition of a number of new affinity partners including Dyson and GB Oils in the UK, Agbar in Spain and Piedmont Gas in the US. After the year end, we also announced the further expansion of our US footprint with the signing of long-term affinity partner agreements with National Grid USA and Southern California Gas.



Our focus remains on delivering long-term value for shareholders through a combination of strong organic growth on the back of the continuing development of our existing membership businesses and selective acquisitions.

RESULTS

In the year, revenues¹ grew by 21% to £369.0m (2009: £304.3m) and operating profit² by 13% to £104.4m (2009: £92.3m) with operating margin reducing in line with our expectations by 2.0 percentage points to 28.3% (2009: 30.3%) reflecting the planned increase in customer acquisition marketing in the UK and continued investment in business development across all our membership businesses. Earnings per share³ grew by 14% to 110.9p per share (2009: 96.9p per share).

I am pleased to say that we have delivered against the targets we set ourselves at the start of the year including 3% customer growth and a retention rate of 82.5% in the UK, a maiden operating profit² in the US and the continued expansion of our international household footprint.

The business continues to be very cash generative delivering a cash inflow from continuing and discontinued operations of £73.4m (2009: £92.2m) representing cash conversion of 93.4% (2009: 115.7%). Our balance sheet remains strong with net debt at the year end of £52.9m (2009: £34.0m) and £150m of banking facilities in place until December 2012 providing us with significant flexibility to take advantage of selective acquisition opportunities as they arise.

DIVIDEND

The Board is proposing a final dividend of 8.5p per share bringing the total dividend for the year to 44.0p (2009: 35.5p), a year on year increase of 24%. This reflects the Board's confidence in the continuing strength and resilience of our membership businesses following the exit from UK Emergency Services. The Board intends to continue to follow a policy of growing future dividends in line with earnings per share³ growth.

SHARE SUB-DIVISION

A 5 for 1 sub-division of the share capital of the Company is proposed, the intended effect of which is to seek to improve the liquidity and marketability of the ordinary shares of the Company by reducing the market price of an ordinary share and increasing the number of shares in issue. The Board will seek approval from shareholders for the proposed sub-division at the Company's AGM on 30 July 2010.

BOARD CHANGES

There were a number of changes to the Board during the year. On 26 June 2009, Martin Bennett was appointed Chief Financial Officer following the departure of Jonathan Simpson-Dent and on 31 March 2010, Brian Whitty, Executive Chairman since 2004 retired from the Board. As a result, I was appointed Non-Executive Chairman on 1 April 2010 and Ian Chippendale was appointed Senior Independent Director. The Board is extremely grateful for the significant contribution to the development and growth of the business made by Brian over the last 14 years not only as Chairman of HomeServe but also before that as Chief Executive of South Staffordshire Group plc.

PEOPLE

These results and the fulfilment of the Company's future potential are only made possible by the dedication of its people, whose expertise and commitment remain our most important assets. On behalf of the Board, I should like to thank them for their contribution to another set of excellent results.

OUTLOOK

We have made a positive start to the new financial year with all of our membership businesses performing well and the recent announcement of two new large affinity partner deals in the US.

Our focus remains on delivering long-term value for shareholders through a combination of strong organic growth on the back of the continuing development of our existing membership businesses and selective acquisitions.

With a clear and focused membership-only strategy and a strong pipeline of business development opportunities HomeServe remains well positioned for the future and we look forward to another year of strong growth.

J M Barry Gibson

Chairman

25 May 2010

PRODUCTS PEOPLE WANT

Every household in the world experiences home emergencies and breakdowns.



However, these aren't covered by most home insurance policies, and it's often hard to find a reliable, affordable tradesman in an emergency. That's where we come in.

We offer a dedicated membership service, giving homeowners fast, 24-hour access to expert tradespeople in an emergency.

Our products are accessible, understandable and free our customers from the worry and inconvenience of home emergencies and repairs.



OUR STRATEGY

We have a successful, membership-focused business model that provides us with a sustainable competitive advantage and high levels of recurring income. We have a clear and simple strategy to grow, which is built on the seven key pillars of this business model.

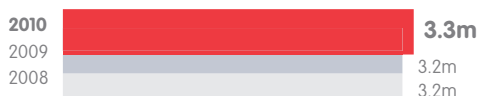
PRODUCTS PEOPLE WANT	We create products that take the worry and inconvenience out of home emergencies, offering simple introductory products for new customers, cross-sell products for increased cover and combined policies for complete peace of mind.
STRONG PARTNERSHIPS AND BRANDS	We build long-term relationships with partners whose brands have an affinity with our products, providing us with direct access to millions of customers via trusted brands. Our partners benefit from risk-free income and are able to offer their customers value-added products that build their customer relationships and differentiate them from competitors.
WINNING SALES AND MARKETING	We use our expertise in direct marketing and telephony to sell our products directly to customers, and constantly innovate to ensure our marketing is fresh and relevant.
EXCELLENT CUSTOMER SERVICE	We operate our own local call centres to handle customers' claims, and manage our own networks of qualified engineers in order to offer our customers the best service when they experience a home emergency.
LOYAL CUSTOMERS	We encourage our customers to renew their policies year after year, securing high levels of recurring income, by offering them great service and loyalty initiatives.
GREAT PEOPLE	We recognise the importance of our people and are investing in training, including apprenticeships, and in building rewarding career paths for our employees.
GLOBAL EXPANSION	Homeowners all over the world experience home emergencies and need our services so we are expanding our business into new countries and transferring best practice across the Group. Our focus is on organic growth, but we will consider buying local service delivery capabilities and policy books if they are available.

MEASURING OUR PROGRESS

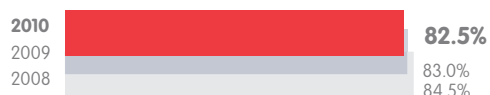
In order to assist in the management of our business and to provide evidence of achieving its strategic priorities, the Board regularly reviews a number of key performance indicators.

UK

CUSTOMERS



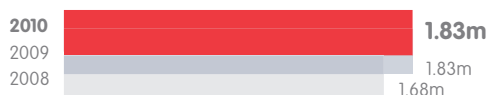
RETENTION RATE



POLICIES

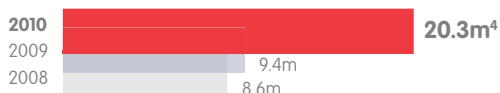


GROSS NEW POLICIES



USA

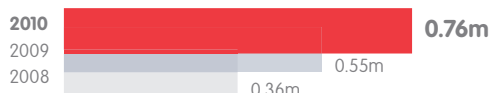
AFFINITY PARTNER HOUSEHOLDS



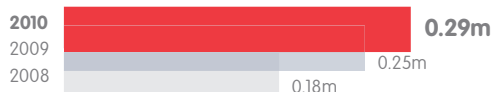
RETENTION RATE



POLICIES

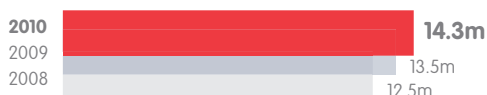


GROSS NEW POLICIES



FRANCE

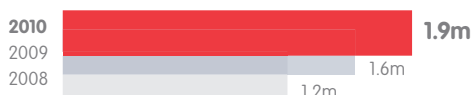
AFFINITY PARTNER HOUSEHOLDS



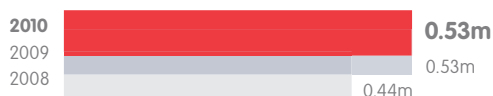
RETENTION RATE



POLICIES

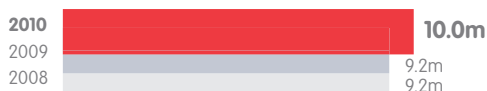


GROSS NEW POLICIES

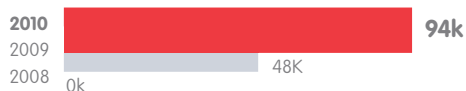


SPAIN

AFFINITY PARTNER HOUSEHOLDS



POLICIES



⁴ Includes 5.3m households from SoCalGas and 5m households from National Grid USA which were announced after the year end.

CHIEF EXECUTIVE'S REVIEW



“These results demonstrate strong progress in all our membership businesses and reinforce our strategy to focus solely on policy membership.”

Richard Harpin
Chief Executive Officer

Our mission is to provide a membership service which frees our customers from the worry and inconvenience of home emergencies and repairs. We deliver this through building long-term relationships with business partners, leveraging our product development expertise, producing winning sales and marketing, delivering excellent customer service and investing in great people.

These results demonstrate strong progress in all our membership businesses and reinforce our strategy to focus solely on policy membership. We now have access to 68.1m⁴ households globally through our affinity partners, of which two-thirds are outside the UK. We sold 2.7m gross new policies in the year (2009: 2.6m) and increased total customers and policies by 8% and 12% respectively.

¹ Including gross up of commissions in 2010 and 2009, but excluding exceptional operating items during the year, see Financial Review and notes 4, 5 and 13.

² Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation see Financial Review and notes 5 and 13.

³ Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 5 and 13.

⁴ Includes 5.3m households from SoCalGas and 5m households from National Grid USA which were announced after the year end.

GLOBAL MEMBERSHIP BUSINESS METRICS

	Continental			Total	Total	Change
	UK	Europe	USA	2010	2009	
Affinity Partner Households (m)	23.4	24.3	20.3 ⁴	68.1	55.5	22.7%
Customers (m)	3.3	0.8	0.6	4.7	4.3	8.1%
Policies (m)	7.6	2.0	0.8	10.3	9.2	12.1%
Policies per customer	2.32	2.38	1.30	2.21	2.13	
Retention (%)	82.5	88.3	82.6	83.6	83.7	-0.1pppts
Penetration (%)	13.9	3.5	2.9	6.9	7.8	-0.9pppts

With the exception of affinity partner households, which for the US shows the position as at 25 May 2010, the policy, customer and market performance metrics of our membership businesses as at 31 March 2010 are shown above.

UK MEMBERSHIP

As at 31 March 2010, the policy, customer and market performance metrics of our UK Membership business are shown on page 12.

Revenue¹ increased by 16% to £286.7m (2009: £246.6m) driven by high levels of renewals income and new policy sales. As reported at our interim results, the UK business increased investment in marketing in line with our focus on customer growth resulting in operating profit² increasing by 10% to £95.8m (2009: £87.2m).

I am pleased to report that the UK business achieved a key objective of 3% customer growth for the year which was mainly driven by our core utility and manufacturer marketing channels. This, combined with the continued success of cross-sell, enabled the business to deliver gross new policy sales of 1.83m (2009: 1.83m).

We are particularly pleased with our retention performance having delivered a retention rate of 82.5% (2009: 83.0%) which is ahead of our expectations at the start of the year. This performance reflects the success of a range of retention-specific initiatives including the introduction of the customer magazine, the use of personalised renewals notices and improved call centre efficiency.

The continued success of Combined Policies, which now represent 17% (2009: 14%) of our customers, helped to increase policies per customer to 2.32 (2009: 2.23) with income per customer growing 14% to £74 (2009: £65).

Our UK manufacturer warranty business has had another successful year with total policies growing by 17% to 387,000 (2009: 331,000). We have recently signed a long-term agreement with Dyson to undertake the marketing and administration of their manufacturer extended warranty scheme in the UK.

The addition of Dyson and Baumatic earlier in the year takes the total number of manufacturer partner brands to 24 across the boiler, shower, white and brown goods sectors and the pipeline of potential partners remains strong. We are now actively applying our UK warranty expertise and best practice to the development of our European warranty business Société Française de Garantie (SFG).

As well as meeting our customer growth targets through our core marketing channels, we have made good progress with a number of new customer growth initiatives aimed at attracting customers from outside our core demographic through new marketing channels.

We have made good progress developing our pay on use service, One Contact, which is now available on a national basis. In September we purchased Reactfast, a national emergency trades business, which is providing an excellent source of new customer leads and emergency jobs for our repair networks having been fully integrated into our membership operations.

Having proved the business model of converting pay on use customers into full policy members our focus now is to create additional ways of maximising the number of emergency jobs and new customer leads by leveraging existing and accessing new marketing channels.

In the energy sector, we announced in March the signing of a long-term affinity partner agreement with GB Oils, the UK's leading residential oil distributor to offer boiler breakdown cover to their oil customers. We believe that this part of the domestic energy market represents a significant opportunity for us, with over 1m households in the UK using oil as their main source of fuel.

At the start of April we signed a two year agreement with nPower to market electrical breakdown and emergency cover as a customer acquisition product and we will be working closely with them to develop a range of home assistance products during the financial year.

Our product for Landlords is making good progress on the back of direct advertising under the HomeServe brand and we are now in discussions with a range of potential partners to broaden our marketing channels and accelerate take up rates for this product.

Discussions with other potential distribution partners including credit card companies, IFAs and travel companies to offer an insured home emergency product are progressing well.

We have continued to improve the efficiency of our network during the year through the successful acquisition and integration of a number of small plumbing businesses and as at the end of the year, over 80% of all plumbing jobs were being carried out by our network of 285 directly employed plumbers. Increasing the proportion of work carried out by our own engineers will enable us to deliver enhanced customer service together with productivity gains and to steadily reduce the average cost per job. Having completed the franchising of our Electrics and Gas networks we have now started to franchise our plumbing network in remote parts of the UK thereby further increasing the number of HomeServe branded vehicles and engineers in the network. In addition, we continue to invest in systems that support our network to improve customer service and operational efficiency.

Our expectations for the UK business for the coming year are to build on the success we have had this year with the delivery of further customer growth of 3–4% and up to a 1 percentage point reduction in the retention rate.

UK MEMBERSHIP

	2010	2009	Change
Total number of households (m)	25.9	25.9	
Affinity partner households (m)	23.4	23.4	
Total customers ('000)	3,255	3,159	3.0%
Penetration of affinity partner households (%)	13.9	13.5	
Policies per customer	2.32	2.23	
Number of policies ('000):			
– Plumbing & drains and water supply pipe	4,175	4,100	
– Electrical	780	767	
– Gas and gas supply pipe	843	845	
– Manufacturer warranties	387	331	
– Other, including housebuilder	1,367	1,011	
Total policies ('000)	7,552	7,054	7.0%
Retention rate (%)	82.5	83.0	-0.5ppts
Income per customer (£)	74	65	13.7%

CONTINENTAL EUROPE

Our European business has had another very good year with local currency revenues increasing by 31% (36% in GBP) and operating profit² by 27% (35% in GBP). We now have access to 24.3m (2009: 22.7m) households in Europe and 2.0m (2009: 1.6m) policies with total penetration of 3.5% (2009: 3.2%).

FRANCE – DOMÉO

As at 31 March 2010, the policy, customer and market performance metrics of our French business were as shown below.

The total number of policies in our French joint venture, Doméo, has increased by 23% in the year to 1.93m (2009: 1.57m). Gross new policy sales in the year were 0.53m (2009: 0.53m) with 15% of new sales on the back of the successful introduction of two new products, Internal Plumbing and Plumbing and Drainage 'Max'. The retention rate remained high at 88.3% (2009: 87.9%).

Doméo has grown its policy book across all categories through a combination of customer growth and the sale of additional policies to existing customers through cross-sell. During the period, customer numbers grew by 13% to 769,000 (2009: 683,000) with policies per customer increasing from 2.29 to 2.51.

Our European business has had another very good year with local currency revenues increasing by 31% and we now have access to 24.3m households across Continental Europe.

The operating profit² contribution from our share of the Doméo joint venture in the period was £5.7m (2009: £4.8m) representing growth of 17%.

This year, the key focus for the Doméo business will be to generate further customer growth and increased penetration through a combination of signing up new affinity partners and new product development.

FRANCE

	2010	2009	Change
Total number of households (excl apartments) (m)	18.9	18.6	
Affinity partner households (excl apartments) (m)	14.3	13.5	
Penetration of affinity partner households (%)	5.4	5.1	
Total customers ('000)	769	683	12.6%
Policies per customer	2.51	2.29	
Number of policies ('000):			
– Plumbing & drains and water supply pipe	1,060	876	
– Electrical	228	174	
– Other, including water-loss and gas products	640	517	
Total policies ('000)	1,928	1,567	23.1%
Retention rate (%)	88.3	87.9	0.4ppts
Income per customer (€)	88	80	10%

STRONG PARTNERSHIPS & BRANDS

By nurturing strong relationships with partners we get direct access to millions of households.



We choose partners whose brands have a natural affinity with our products, such as utilities and appliance manufacturers.

We use these brands to contact customers, benefiting from the customer's existing relationship with the brand.

Our partners benefit too, by offering their customers new products that help them stand out from competitors, as well as making extra income.





100th Reparalia franchisee

A contractor since 2003, Oscar Adams Corredor has recently become Reparalia's 100th franchisee.

In May 2009, we acquired SFG, France's leading provider of warranties for domestic appliances. In the period to 31 March 2010, SFG contributed £7.0m of revenue and £0.7m operating profit² to the European result. Having invested in personnel and systems during the year, the infrastructure required to replicate our successful UK manufacturer warranty model is now in place and discussions with potential manufacturer warranty partners are well underway.

In Spain we signed a deal with Agbar, Spain's largest water utility, increasing our affinity partner households to 10m.

SPAIN

As at 31 March 2010, the policy, customer and market performance metrics of our Spanish business were as shown below.

Our Spanish business grew revenues by 14% in local currency (19% in GBP) during the year with another strong performance from our claims handling business, Reparalia, on the back of increased volumes from key customers.

As in the previous financial year, the overall operating profit² result for Spain of £0.4m (2009: £0.1m) reflects the reinvestment of profits from our claims handling business in the development of our Spanish policy business where we continue to make good progress. In the 12 months to March 2010, the number of policies nearly doubled to 94,000 (2009: 48,000) following an encouraging start to full scale marketing with Endesa and against a backdrop of an extremely tough economic environment.

In February, we announced a significant development for our Spanish business with the signing of a long-term marketing agreement with Agbar, Spain's largest water company with over 4 million residential customers. The agreement represents an important step for our Spanish business enabling us to launch full scale marketing in Spain under a water brand and increasing our footprint of affinity partner households to 10.0m.

SPAIN

	2010	2009	Change
Total number of households (m)	20.8	20.8	
Affinity partner households (m)	10.0	9.2	
Penetration of affinity partner households (%)	0.8	0.5	
Total customers ('000)	79	47	67.0%
Policies per customer	1.19	1.01	
Total policies ('000)	94	48	97.6%

Given the relative size of the Spanish policy business, the retention rate and income per customer metrics have not been presented.

BELGIUM

Our Belgian business, under its first full year of HomeServe ownership, reported revenues of £2.8m (2009: £0.9m) and operating profit² of £0.4m (2009: £0.4m). The operating profit result reflects the investment we have made during the year in building our marketing capability and the infrastructure required to start a policy business in the Benelux region. At the end of the financial year we successfully conducted a small operational marketing test and we continue to progress discussions with potential utility and other affinity partners in the region.

UNITED STATES OF AMERICA

With the exception of affinity partner households which shows the position as at 25 May 2010, the policy, customer and market performance metrics of our US Membership business as at 31 March 2010 were as shown below.

The US has had another strong year generating an increase in revenue¹ in local currency of 41% (GBP 43%) and a maiden operating profit² of £1.5m. The total number of policies has grown by 38% to 756,000, driven by continued high levels of gross new policy sales of 290,000 (2009: 246,000) and an increase in customer numbers of 31% to 580,000.

We have announced the further development and expansion of our US business with the acquisition of National Grid Energy Services' contract business.

The retention rate has also increased to 82.6% (2009: 80.0%) as a result of a greater proportion of customers paying for their policies via their utility bill and the success of "Easi-Pay" which encourages cheque paying customers to switch to continuous payment.

Policy growth in the US has been driven by strong take-ups with our new gas affinity partners SEMCO Energy and Piedmont Gas and we have also been successful in attracting new customers under our own brand in those areas where we have not yet signed up an affinity partner.

UNITED STATES OF AMERICA

	2010	2009	Change
Total number of households (m)	128	128	
Affinity partner households (m)⁴	20.3	9.4	
Total customers ('000)	580	442	31.2%
Penetration of affinity partner households (%)	2.9	4.7	
Policies per customer	1.30	1.24	
Number of policies ('000):			
– Plumbing & drains and water supply pipe	518	419	
– Electrical	82	60	
– Other	156	70	
Total policies ('000)	756	549	37.6%
Retention rate (%)	82.6	80.0	2.6ppts
Income per customer (\$)	70	65	8%

⁴ Includes 5.3m households from SoCalGas and 5m households from National Grid USA which were announced after the year end.



10 million policy holders worldwide

In February 2010 Dallas Foster, of Raleigh, North Carolina in the United States became our 10 millionth policy holder, buying a Progress Energy water heater repair service plan offered in partnership with our US business, Home Service USA.

Mr Foster, a Business Program Adviser, bought the policy because he'd previously had a problem with a water heater that caused a real mess in his house. After more than 37 years in his home, he and his wife are now adding a long-awaited master bedroom suite, and wanted to make sure it would be protected. When he saw the Progress Energy mailing, he thought it was good value, easy to understand and that no reasonable person would turn it down! Over 78,000 Progress Energy customers agree, and have also signed up for the plan since July 2008.

Our agreement with SoCalGas and completion of the transaction with National Grid USA doubles our US household footprint to over 20m.

On 14 April 2010, we announced the further development and expansion of our US business with the acquisition of National Grid Energy Services' service contract business and the signing of a 10 year marketing agreement with National Grid USA, one of the largest utilities in the USA with over 5 million residential households.

The contract business has 365,000 annual service contracts across 186,000 customers and delivers its services through a network of directly employed engineers. The acquisition and marketing agreement, which we expect to complete by the end of August, provides our US operations with a robust and profitable platform to support further business development in the region as well as a significant increase in the scale of our operations in terms of customer and policy numbers and marketing footprint.

On 29 April 2010, we announced the signing of a five year marketing agreement with Southern California Gas Co. ("SoCalGas") an energy and services company primarily engaged in the distribution of gas throughout southern California with 5.3 million residential customers. The agreement with SoCalGas and expected completion of the transaction with National Grid USA doubles our US household footprint to over 20m.

SUMMARY

We are pleased to report a year of significant progress for HomeServe and another set of strong results for our membership businesses despite the economic conditions. The market opportunities for all our membership businesses are exciting and we are confident that each of them will continue to deliver strong growth over the coming years. The disposal of our UK Emergency Services business allows us to focus exclusively on maximising shareholder value from policy membership through growth in existing markets and further international expansion.

Richard Harpin

Chief Executive Officer

25 May 2010

WINNING SALES & MARKETING

We use our marketing expertise to sell our products directly to millions of customers.



We have nearly 20 years' experience in direct marketing and telephony, and we understand what makes a good campaign.

As technology develops, we are adapting our approach to reach new audiences via the internet, email and mobile telephones, as well as other kinds of high impact advertising.



FINANCIAL REVIEW



“Our membership businesses have delivered another strong year of growth with revenue up 21% and operating profit up 13%.”

Martin Bennett
Chief Financial Officer

These financial results, which have been prepared in accordance with International Financial Reporting Standards (IFRS), focus on the performance of our continuing membership operations following the exit from our UK Emergency Services business during the year, which is treated as a discontinued operation within these results.

Partner commission is included within revenue in these results reflecting our membership-only status (see note 2 to the accounts). The results for the year ending 31 March 2009 have been restated on this basis. This has resulted in an increase in both revenue and operating costs of £23.3m in the year ended 31 March 2010 (2009: £20.4m). Aside from this change, the accounting policies used are consistent with the prior year.

GROUP STATUTORY RESULTS

The headline statutory financial results for the Group are presented on the opposite page.

In accordance with IFRS, statutory operating profit for continuing operations, which has increased by 26% to £106.1m (2009: profit of £84.4m), includes exceptional income of £10.2m, amortisation of acquisition intangibles of £6.5m and our share of the operating result of our joint venture in France of £3.6m.

¹ Including gross up of commissions in 2010 and 2009, but excluding exceptional operating items during the year, see Financial Review and notes 4, 5 and 13.

² Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation see Financial Review and notes 5 and 13.

³ Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 5 and 13.

⁴ Includes 5.3m households from SoCalGas and 5m households from National Grid USA which were announced after the year end.

The amortisation of acquisition intangibles of £6.5m (2009: £3.7m) 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 impact of the SFG, SPT and Reactfast acquisitions. Exceptional operating income of £10.2m relates to the recovery of previous years' Insurance Premium Tax in UK Membership. For our French joint venture, the operating result is defined as profit after tax and hence £2.0m (2009: £1.9m) of taxation is reported within operating profit and profit before tax.

In accordance with IFRS, statutory operating profit for continuing operations, after amortisation of acquisition intangibles, tax on joint ventures and exceptional operating items, were: UK Membership £104.7m (2009: £83.9m); Continental Europe £1.4m (2009: £2.2m); and USA £35k (2009: loss of £1.7m) resulting in a statutory operating profit for continuing operations of £106.1m (2009: £84.4m). The discontinued operations reported a statutory operating loss of £42.0m.

The Group's net interest charge increased marginally in the year to £3.9m (2009: £3.6m) with a more benign interest rate environment offset by an increase in the deferred consideration interest charge relating to past acquisitions. The interest charge was covered 27 times by operating profit².

The effective rate of corporation tax is 28.9% (2009: 30.1%). The reduction in the rate is primarily due to the availability of brought forward tax losses in our international businesses which we can start to utilise as those businesses reach profitability.

The earnings of our Doméo joint venture are shown net of tax within pre tax profit. With the increasing profitability (and tax impact of Doméo), it is appropriate to highlight the joint venture adjusted tax rate. Adjusting the tax rate to show the tax relating to joint ventures on a gross basis, the joint venture adjusted tax rate is 30.3% (2009: 31.8%).

The headline statutory financial results for the Group are shown below.

CONTINUING OPERATIONS

£million	2010	Restated 2009
Revenue ¹	369.0	304.3
Exceptional revenue	10.2	—
Total revenue	379.2	304.3
Operating profit	106.1	84.4
Net interest	(3.9)	(3.6)
Profit before tax ²	100.6	88.7
Amortisation of acquisition intangibles	(6.5)	(3.7)
Exceptional items	10.2	(2.3)
Tax on joint venture	(2.0)	(1.9)
Statutory profit before tax	102.2	80.8
Tax	(29.5)	(24.4)
Profit for the period	72.7	56.4
Loss for the period from discontinued operations	(42.0)	(91.7)
Profit/(loss) for the period, being attributable to equity holders of the parent	30.7	(35.3)

Internationally we have achieved revenue growth of 42% and a 72% increase in operating profit to £8.7m.

Based on current corporation tax rates applicable to our businesses, with the increasing significance of international profits chargeable at higher tax rates than the UK, we anticipate that the joint venture adjusted tax rate will increase marginally over the medium-term.

Earnings per share³ for our continuing operations in the period has increased by 14% from 96.9p to 110.9p.

GROUP REPORTED RESULTS

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 exceptional income of £10.2m (2009: exceptional costs of £2.3m) is excluded in calculating these pro-forma managerial measures. The revenue¹ and operating profit² of our continuing operations is set out opposite.

Revenue¹ for continuing operations has increased by 21% to £369.0m (2009: £304.3m). Operating profit² has increased by 13% to £104.4m (2009: £92.3m). Excluding the impact of acquisitions (SFG which completed in the year, a full year contribution from SPT in Belgium acquired in December 2008 and Reactfast) and foreign currency movements, revenue¹ increased by 15% and operating profit² increased by 13%.

Our UK business has delivered another strong year of growth with operating profit² up 10% (2009: 14%), policy growth of 7% (2009: 7%), a retention rate of 82.5% (2009: 83.0%) and improved efficiency in handling customer claims and service delivery.

The contribution from our Continental European business increased by 35% with operating profit² increasing to £7.2m (2009: £5.3m) and revenue growing by 36% to £86.5m (2009: £63.4m). The operating profit² result for Continental Europe of £7.2m comprises £5.7m contribution from our share in the French joint venture Doméo (2009: £4.8m), a £0.7m contribution from SFG, a £0.4m contribution from Spain (2009: £0.1m) and a £0.4m contribution from Belgium. Excluding acquisitions and the impact of foreign currency translation, operating profit² in Europe grew by 28%.

Policy growth of 38% in the US on the back of successful marketing and good take up rates with our gas utility partners and own brand marketing has resulted in a maiden operating profit² of £1.5m (2009: loss² of £0.3m).

CASH FLOW AND FINANCING

Cash generated from continuing and discontinued operations amounted to £73.4m (2009: £92.2m), representing a cash conversion (defined as cash generated from operations as a proportion of operating profit²) ratio of 93.2% (2009: 115.7%).

During the year, we incurred net capital expenditure of £25.5m (2009: £16.9m) in respect of information systems to support our growing membership businesses and capital payments made to affinity partners for provision of exclusive database access rights.

Overall, net debt in the year increased by £18.9m to £52.9m (2009: £34.0m), including the impact of acquisitions and disposals of £25.8m (2009: £23.4m). There was a net cash inflow of £3.1m (2009: £29.5m) before acquisitions and disposals, share purchases and financing. We continue to have a low level of financial gearing and our priority remains 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 £20.8m reflecting growth in our membership businesses, with a greater proportion of customers moving to combined policies and paying for their policies monthly via direct debit.

The revenue¹ and operating profit² of our continuing operations are shown below.

CONTINUING OPERATIONS

£million	2010	Restated 2009	Change
Revenue¹			
– UK	286.7	246.6	16%
– Continental Europe	86.5	63.4	36%
– USA	25.7	17.9	43%
– JV	(29.8)	(23.7)	-26%
Total revenue	369.0	304.3	21%
Operating profit²			
– UK	95.8	87.2	10%
– Continental Europe	7.2	5.3	35%
– USA	1.5	(0.3)	+£1.8m
Total operating profit	104.4	92.3	13%
Interest	(3.9)	(3.6)	£(0.3)m
Profit before tax²	100.6	88.7	13%

The reconciliation between the statutory and pro-forma measures is set out below.

£million	2010	2009
Operating profit (statutory)	106.1	84.4
Amortisation of acquisition intangibles	6.5	3.7
Exceptional items	(10.2)	2.3
Tax on joint ventures	2.0	1.9
Operating profit²	104.4	92.3
Profit before tax (statutory)	102.2	80.8
Amortisation of acquisition intangibles	6.5	3.7
Exceptional items	(10.2)	2.3
Tax on joint ventures	2.0	1.9
Profit before tax²	100.6	88.7
Pence per share		
Earnings per share (statutory)	114.7	89.8
Amortisation of acquisition intangibles	7.8	4.4
Exceptional items	(11.6)	2.8
Earnings per share³	110.9	96.9

EXCELLENT CUSTOMER SERVICE

Delivering excellent customer service is the key to unlocking customer loyalty and long-term value.



We want our members to be so delighted with our service that they recommend us to their friends. It's vital that we empower our people to develop the best customer service.

Service excellence counts at every point of contact with our members. Our local contact centres play a crucial role, dealing with customer calls and handling claims.

Our engineers, and those belonging to our franchisees and sub contractors, fix members' home emergencies, and we guarantee the quality of their work.



CASH FLOW

£million	2010	2009
Operating profit ² from continuing operations	104.4	92.3
Exceptional items, tax on joint venture and amortisation of acquisition intangibles	1.2	(7.9)
Operating loss from discontinued operations	(27.6)	(4.7)
Operating profit from continuing and discontinued operations	78.1	79.7
Depreciation, amortisation and other non-cash items	15.7	23.3
Increase in working capital	(20.9)	(10.8)
Cash generated by continuing and discontinued operations	72.8	92.2
Net interest	(3.4)	(4.4)
Taxation	(21.5)	(21.0)
Capital expenditure	(25.5)	(16.9)
Acquisitions/disposals	(25.8)	(23.4)
Equity dividends paid	(23.2)	(20.4)
Equity dividends received	3.3	—
Issue of shares	4.1	3.0
Net movement in cash and bank borrowings	(19.2)	9.1
Impact of foreign exchange	0.3	—
Net (debt)/cash	(52.9)	(34.0)

DIVIDEND

The proposed payment of a final dividend of 8.5p per share together with the payment of the first and second interim dividend payments of 11.5p and 24.0p per share respectively brings the total dividend for the year to 44.0p (2009: 35.5p), a year on year increase of 24% (2009: 14%). The final dividend is to be paid on 4 August 2010 to shareholders on the register on 2 July 2010.

DISCONTINUED OPERATIONS

The loss from our discontinued operations of £42.0m reflects the decision to exit our UK Emergency Services business.

EXCEPTIONAL ITEMS

During the period, we benefited from a one off exceptional revenue gain of £10.2m (2009: exceptional cost of £2.3m relating to the reorganisation of our UK businesses) in respect of previous years' Insurance Premium Tax following a successful appeal to the High Court.

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 ('KPIs') including customer and policy numbers which are set out opposite for our membership businesses.

CHANGING THE WAY WE MEASURE AND REPORT OUR KPI'S

Core Renewable Customers ('CRCs'), are those customers that we have recruited under an affinity partner brand (such as a utility or manufacturer) or our own brand and where we have a direct ongoing relationship with the customer including the right to renew. Revenue Customers are those customers where we receive income for providing a policy or service but where we do not have a direct ongoing customer relationship or renewal rights.

In the future, our KPIs will be reported on a Core Renewable basis only as we believe this represents a more accurate picture of our customer numbers and associated KPIs (policies, policies per customer, retention etc). This change in approach only impacts our UK Membership business as all of our international businesses already report KPIs on a Core Renewable basis.

UK KPI's

	Old basis including Revenue			Core Renewable Basis		
	2010	2009	Change	2010	2009	Change
UK Membership						
Affinity Partner Households ⁵ (m)	23.4	23.4	—	23.4	23.4	—
Total Policies ('000)	7,552	7,054	7.0%	7,097	6,645	6.8%
Customers ('000)	3,255	3,159	3.0%	2,876	2,807	2.4%
Retention rate (%)	82.5	83.0	-0.5ppts	83.0	83.2	-0.2ppts
Policies per customer	2.32	2.23		2.47	2.37	
Income per customer (£)	74	65	13.7%	82	72	14.6%
Gross new policies ('000)	1,834	1,826	0.5%	1,581	1,619	-2.4%

INTERNATIONAL KPI's

With the exception of affinity partner households which for the US shows the position as at 25 May 2010, the policy, customer and market performance metrics of our membership businesses as at 31 March 2010 were as shown below.

	2010	2009	Change
France			
Affinity Partner Households ⁵ (excl apartments) (m)	14.3	13.5	6.2%
Total Policies ('000)	1,928	1,567	23.1%
Customers ('000)	769	683	12.6%
Retention rate (%)	88.3	87.9	0.4ppts
Policies per customer	2.51	2.29	
Gross new policies ('000)	532	526	1.1%
Spain			
Affinity Partner Households ⁵ (m)	10.0	9.2	8.7%
Total Policies ('000)	94	48	97.6%
Customers ('000)	79	47	67.0%
Policies per customer	1.19	1.01	
Gross new policies ('000)	53	47	13.1%
USA			
Affinity Partner Households ⁵ (m)	20.3 ⁶	9.4	117%
Total Policies ('000)	756	549	37.6%
Customers ('000)	580	442	31.2%
Retention rate (%)	82.6	80.0	2.6ppts
Policies per customer	1.30	1.24	
Gross new policies ('000)	290	246	17.6%

⁵ Affinity Partner households are those households that we market to under an affinity partner brand.

⁶ Includes 5.3m households from SoCalGas and 5m from National Grid USA announced after the year end.

FOREIGN EXCHANGE IMPACT

The financial performance reported for our international businesses and comparison with last year is impacted by foreign exchange movements on translation. The reported revenue growth in Europe and the US of 36% and 43% respectively, equates to 31% and 41% in local currency. The total reported operating profit² of £8.7m in our international membership divisions was reduced by £0.4m as a result of adverse foreign currency movements, reflecting the seasonality of the business and weighting of profits towards the second half.

ACQUISITIONS

HomeServe continues to add to its organic growth through the completion of carefully selected acquisitions. Acquisition expenditure during the year totalled £25.5m, including the purchase of SFG (£15.6m), acquisitions within our UK Plumbing and Drainage business (£7.0m), and Reactfast (£2.0m), with a further £0.9m of deferred consideration paid in relation to acquisitions completed in prior years. After the year end, we announced the acquisition of National Grid Energy Services' contract business for net consideration of \$14m. This transaction is expected to complete by the end of August 2010.

RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties that could have an impact on the Group's performance as detailed below.

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.

The business is not currently exposed to significant foreign currency risk in relation to overseas transactions. However, as the overseas businesses grow, its exposure to risks relating to the translation of overseas profits increases. These risks are kept under constant review and policies exist to mitigate them should they 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 continuing operations relate to our membership customers who pay for their policies on a monthly or quarterly basis through continuous payment methods, such as direct debit.

INTEREST RATE RISK

The Group's exposure to the risks 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 for certain periods, 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.

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.

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. 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 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

I am pleased to report another very good financial performance for HomeServe for the year. Our membership businesses have once again delivered strong levels of profit growth including an increased contribution from our international operations. With the UK delivering another good year including customer growth of 3% and a significant increase in our international footprint, the Group is well placed to continue to deliver further profitable growth this financial year and into the future. The business continues to generate strong levels of cash conversion and this, combined with low financial gearing enables us to access the funds required to make strategic acquisitions and accelerate development as a membership-focused business.

Martin Bennett

Chief Financial Officer

25 May 2010

LOYAL CUSTOMERS

We rely on loyal customers renewing their policies year after year for the majority of our income.



We have over 4.7 million members, and we want to develop long-term, direct relationships with them.

We want our members to renew their policies each year – renewals are critical for our success as it's much more cost-effective to keep a customer than acquire a new one.

We make it easy for members to renew automatically, but developing a really loyal customer base means getting all the other aspects of our strategy right, especially customer service.



CORPORATE RESPONSIBILITY

HomeServe is committed to developing and implementing a successful Corporate Responsibility programme that positively impacts all key stakeholders. We believe that a successful and sustainable business must also be a responsible business.

We aim to:

- Achieve sustainable profits for our shareholders.
- Build long lasting relationships with key stakeholders, including our customers, partners and the community.
- Value our employees.
- Respect the environment.
- Use our core skills to give something back to the communities we operate in.

Our business is centred on providing emergency services to people in their homes and our corporate responsibility objectives support this. Our key focus is around the following three areas:

1. COMMUNITY

- Use our core skills to give something back to the community.
- Support more vulnerable members of the community.
- Develop partnerships with charitable and other organisations which are closely aligned to our business activities and therefore maximise our contribution.
- Support and encourage employee involvement in charitable giving and volunteering, using relevant employee skills to support the community.

2. EMPLOYEES

- Embed customer focused values within our business operations.
- Hire, develop and retain talent to ensure our customers receive a positive experience in the event of a home emergency.
- Provide a safe, healthy and inclusive environment for our people.

3. ENVIRONMENT

- Reduce our carbon emissions per head.
- Use resources efficiently.

We believe that our Corporate Responsibility principles and plans should be part of the way we operate on a daily basis and reflect the way we deal with customers, employees, partners and the community. A Corporate Responsibility steering committee is being established this year to govern and ensure successful implementation. This will be chaired by Jon Florsheim.

Our commitment to Corporate Responsibility is supported by dedicated Environment and Charity Managers, ensuring our robust plans are delivered successfully.

COMMUNITY

HomeServe has always been committed to the community in which it operates. This year the business has increased its focus on the community and has formed its first national community partnership in the UK with Marie Curie Cancer Care.

Marie Curie looks after approximately 30,000 patients each year who are terminally ill. 5,000 patients are cared for in their eight UK hospices, but the vast majority of patients are cared for in their own homes by their relatives and Marie Curie nurses.

HomeServe chose Marie Curie as our first national charity partner because, in addition to the traditional fundraising channels, we are in a unique position to help Marie Curie patients in their own homes. Utilising our network of tradesmen and engineers, we plan to undertake emergency and repair work in patients' homes to provide support to them during their illness.

HomeServe has pledged to raise £1,000,000 for Marie Curie over the next three years (April 2010 – March 2013). The target will be made up of employee fundraising and volunteering, customer donations, sponsorship and gift-in-kind contributions.

Initiatives for 2010/11 include:

- Launching a Marie Curie Complete Cover patient policy

HomeServe aims to give each patient being cared for in their own home free cover for all home emergencies and repairs. A pilot test will be launched this summer to 2,000 patients.

- Sponsorship of Walk Ten

Marie Curie has three flagship events each year: The Great Daffodil Appeal; Blooming Great Tea Party and now, Walk Ten. HomeServe is delighted to announce that we are to be the headline sponsor for the launch of Walk Ten in August and September 2010. HomeServe's cash sponsorship of Walk Ten contributes towards our fundraising target.

Walk Ten is a series of 10k walks in the grounds of National Trust properties and stately homes throughout the UK, which finish at 10:00pm – marking the start of the Marie Curie nurse night shift.

- Employee fundraising

To encourage employee participation HomeServe has set fundraising targets for each of our four regional sites (Banbury, Preston, Walsall and Weston). These targets are based on the number of employees working out of each site and equate to approximately £20 per employee per year. Every £20 raised pays for one hour of Marie Curie nursing care. A Fundraising Calendar of Events for the next 12 months is to be agreed with each site.

- Pennies for Patients

The Pennies for Patients payroll scheme enables employees to donate the loose change from their monthly wage direct to Marie Curie. Over 1,000 employees currently contribute to Marie Curie within their monthly pay.

- Volunteering

Volunteering is promoted and encouraged by HomeServe and our 'Employee Volunteering Policy' stipulates that all full-time employees may use up to 16 hours of work time per annum (at full pay) for volunteering projects. We will now aim to integrate this with Marie Curie activity.

In addition to our partnership with Marie Curie, HomeServe is also proud to support ad-hoc charity appeals throughout the year. This year, these have included Comic Relief, Sport Relief and Children in Need.

For Sports Relief in 2010, HomeServe committed to opening 70 donation lines during the live BBC show (7.00pm – midnight). 120 volunteers (HomeServe employees, family and friends) answered nearly 4,000 calls and raised over £125,000.

HomeServe is also focused on supporting local charities. Amongst other things, the business provides annual grants for 25 local youth teams linked to HomeServe employees.

Cause related marketing

In addition to our employee fundraising and business donations, we recognise that our customers may also be interested in supporting our national charity, Marie Curie. Therefore, as part of our relationship with Marie Curie Cancer Care we intend to integrate 'cause related marketing' into our acquisition and cross sales marketing activity, to enable our customers to support our community plans. This summer we are running a test which will enable customers to opt in to donate £1 to Marie Curie. Customers will be able to tick a box, that will be printed on the letters that we send them to donate £1, when they take out a new or upgrade an existing policy. These donations will contribute towards our fundraising target.

An example of how a customer donation could be requested is shown below:



Please help HomeServe raise £1 million for Marie Curie Cancer Care and provide care for patients with terminal illnesses in their own homes. To donate £1, please tick the relevant boxes on the front & reverse of the form below.

For more information, visit homeserve.com

SUPPLY CHAIN

During the year HomeServe implemented Ethical & Sustainable Procurement Policies to work in conjunction with their main Procurement Policy. These policies have now been integrated into the general procurement process and all tenders that are issued are now in line with these requirements. In this way HomeServe aims to apply its responsible, sustainable and ethical principles throughout its supply chain in all dealings with its goods and service providers.

EMPLOYEES

Over the last year HomeServe has reviewed and refocused its business values, ensuring they align to our Company vision, mission and strategy. In addition, the Company has undertaken research into the key leadership behaviours which have made HomeServe successful, bring our values to life, and support our continued expansion. Six key leadership characteristics have now been agreed and defined and will form one of the foundations of our recruitment and development strategies.

HomeServe is committed to developing talent within its businesses, and has introduced a formal succession planning programme, complementing the performance management process and overseen by the Executive Committee. The Committee formally reviews available talent and key current and future opportunities twice a year, ensuring a planned and robust approach to resourcing, development, and the appointment of individuals to key roles.

We have successfully employed interns in our French joint venture for some time, and have now introduced a graduate training scheme into our UK Membership business. Four graduates have been appointed to roles in the UK Marketing Department, an approach which allows them to benefit from practical experience as well as a formal development programme. Feedback from both graduates and managers is very encouraging and the Company plans to extend the scheme into other businesses in due course.

We have developed an accredited training and development programme for our call centre staff in the UK, providing them with training which is externally recognised as well as improving personal and business performance. The Company has actively supported trade apprenticeships for some time and this commitment will be enhanced with the establishment of a formal, accredited apprenticeship programme for plumbing and drainage engineers in 2010.

We continue to recognise the importance of effective communication with both managers and employees. The Company's strategy has been circulated as a booklet to all employees in the UK and will be cascaded to all employees as part of the annual performance management and objective setting process. We are also continuing to make effective use of Company intranets, staff magazines and employee representative forums both to disseminate information and to receive feedback and ideas from employees regarding business strategy and performance.

The Company's employee recognition scheme, HomeServe Heroes, has seen dozens of staff recognised and rewarded for their contribution to HomeServe's success with a second annual award ceremony being held in June 2010.

HEALTH AND SAFETY

HomeServe has continued to strive to successfully manage health and safety and where possible, deliver improvements in its performance. HomeServe's strategy is to ensure compliance with legal standards as a minimum, but where practicable adopt good industry practice, whilst ensuring good practice is shared across the businesses.

During the last 12 months HomeServe has continued to engage proactively with its customers, clients, contractors and partners. HomeServe has had limited contact with the health and safety enforcing authorities during this reporting period, with no prosecutions or other enforcement action being taken against the Company for breaches of health and safety regulations.

During the last year the Company has undergone a significant restructure, including the disposal of a number of its operating businesses, however during this period the effective management of health and safety has remained a key business driver. The Company has consistently achieved an acceptable health and safety record through good leadership from the senior management team, the employment of competent health and safety professionals and active engagement with the workforce.

Each of the operating businesses is required to have a specific Health and Safety Policy which is underpinned by an appropriate management system that ensures an effective risk assessment process exists within those businesses. A key element for the effective management of health and safety within the organisation is the development of a culture in which line management actively demonstrates ownership of health and safety issues. HomeServe expects each of its operating businesses to ensure compliance with relevant health and safety legislation regardless of the country in which it is operating. Martin Bennett is 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.

There are a number of good practices being implemented within the UK businesses to ensure the continued safety of stakeholders. HomeServe continues to believe, and drives the principle that, line management must own and take responsibility for the effective management of the health and safety process.

Over the last two years HomeServe has invested in the use of proprietary training packages such as 'IOSH Managing Safety' and 'IOSH Health and Safety for Senior Managers' to ensure its managers have the correct toolkits for managing health and safety effectively. In addition, during the year, the network management business in the UK has achieved the ROSPA 'Silver' award for its health and safety performance.

HomeServe has continued to maintain acceptable standards of performance in terms of health and safety throughout the year, one measure of that performance is its accident and injury rates. During 2009/10 the accident rate across the UK operating businesses has continued to show an improving trend, although this was contributed to by the disposal of some businesses that operated in a potentially higher risk environment, such as the Glass and Locks business and the Property Repair business.

Number of RIDDOR reportable incidents

In 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. HomeServe has had a good year in terms of the number of the reportable incidents with no fatalities, no defined major injuries or dangerous occurrences. However it did have a total of 16 defined '3 day' RIDDOR reportable lost-time incidents, but this is a reduction from the previous year's performance in which 37 such incidents were recorded.

In total during this period there were 126 accidents recorded, of which eight accidents required an employee to attend hospital for treatment. Overall a total of 252 working days were lost as a result of work related accidents.

As with previous years the main causes of the accidents or incidents were in respect of manual handling, slips, trips and falls, cuts and bruises or muscular strains. The overall incident rate for reportable incidents per 1,000 employees was 5.69, compared with a rate of 7.59 the previous year.

HomeServe continues to see the management of its contractors as critical to the effective management of health and safety risks. To improve the current process there has been continued investment in the internal auditing resource. A significant amount of time is spent working with contractors who work on domestic gas systems to ensure excellent standards of health and safety are achieved.

HomeServe ensures employees receive occupational health support when required and this is currently provided by the business HR functions.

Although a number of achievements have been made by the business in effectively managing health and safety it is expected that successful health and safety will remain a continued priority for HomeServe, with particular emphasis being placed on the continued reduction in the overall accident rate.

ENVIRONMENT

To continue to improve the governance, control and environmental performance of the business this year, HomeServe has continued to deliver several existing initiatives while developing several new environmental initiatives and projects.

Governance

The Environmental Steering Committee, which was set up in 2008 and chaired by Brian Whitty, continued to meet on a quarterly basis throughout the year. The steering committee has provided direction for the environmental strategy of the Company and senior level support for the changes which have been made to improve the environmental management and performance of the business.

Going forward the environmental steering committee will become a key part of the corporate responsibility steering committee.

Environmental management system

As an essential business tool which supports the business to operate in a controlled and compliant way, HomeServe is continuing to develop its environmental management system and plans to have the system operating across the UK business this financial year.

The benefits of having an environmental management system will include; having environmental objectives which the Company will commit to achieving, having a clear environmental statement and policy which the Company will commit to delivering against, ensuring that environmental management is embedded across the Company as part of business as usual operations; improved control through the integration of new or enhanced processes which will prevent environmental incidents arising.

Fleet initiatives

The commercial fleet of HomeServe contributes the highest proportion of carbon to our carbon footprint. We are therefore focusing on reducing the impact the fleet has on the environment by improving the fuel efficiency of the vehicles which constitute our fleet.

The initiatives which have been implemented this year and will continue during 2010/2011 include the following;

- Every van will have a telematics system installed to enable the business to monitor, amongst other measures, speed and the distance it has travelled in any given period.
- A league table of the commercial fleet drivers, showing the fuel efficiency levels each person is achieving, is used to encourage employees to drive more efficiently. A prize incentive will be given to the employee who achieves the highest fuel efficiency levels over the year.
- A move to newer and more fuel efficient commercial vans from 2010.

In addition, our current company car list has been reviewed, with the highest carbon dioxide emission levels per kilometre vehicle being reduced from 225gCO₂/km to 180gCO₂/km. Employees can now select vehicles with emission levels as low as 118gCO₂/km.

Energy efficiency

Reducing the amount of energy our offices consume is a key area of focus this year. HomeServe will be seeking to invest in projects which will lower our total energy consumption and our carbon footprint by 320 tonnes of carbon dioxide equivalent. To enable us to achieve this we are aiming to:

- Implement software which will ensure that PCs and monitors are automatically switched off at the end of the working day.
- Invest in the heating, ventilation and cooling system at our head office by installing centralised control over the whole system, which will ensure a more efficient use of energy.
- Continue to install passive infra red sensors in our offices so that the lighting goes off when the offices are unoccupied.

Recycling

At the start of 2010 we reached an agreement with a waste management company that is now working with HomeServe to support us in recycling as much of our waste as possible, with the aim of diverting all waste away from landfill by 2012.

Now that we have recycling facilities in place across the UK business we aim to set recycling targets this year and to further drive the "reduce, reuse and recycle" message to employees to ensure we achieve the targets we set.

Reducing our paper consumption

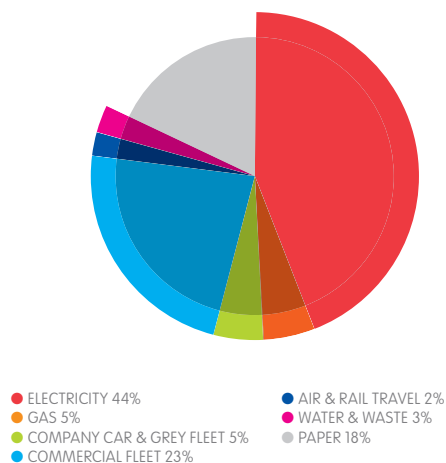
As a business which relies heavily on direct mail to communicate with our customers we utilise thousands of tonnes of paper each year. However we are continually looking into ways of reducing the impact of the paper we use. All of our direct mail packs are made using sustainably sourced wood (PEFC).

Employee travel

To encourage our employees to travel to work using low carbon modes of transport we launched the HomeServe Cycle2Work scheme in partnership with Halfords in the summer of 2009. The scheme is a tax efficient way for employees to purchase a bicycle which they use to travel to and from work for some or all of their journeys. The scheme has been well received and will continue to be offered to employees this year.

HomeServe's carbon footprint

At HomeServe we are committed to measuring our carbon footprint. Analysis of the data will enable us to focus attention on the areas which when improved, will benefit both the business and the climate. In 2009/10 we emitted 16,048 tonnes of carbon dioxide equivalent (tCO₂e). Of this 9,897 tCO₂e was emitted by the membership businesses and 6,151 tCO₂e by the discontinued operations.



GREAT PEOPLE

We can only deliver the best experience for our customers if all our people have the right attitude, skills and tools.



This means we need to hire the right people, and then invest in their training and development to give them the skills and experience they need.

We also need to develop ways of working which make it easier for our people to do a great job, and make coming to work more enjoyable.

And we also want our people to work with us in giving something back to our communities.



DIRECTORS

**J M Barry Gibson (58)** ¹²³⁴

Appointed to the Board in April 2004 and appointed as Chairman on 1 April 2010 following a year as Senior Non-Executive Director. Currently non-executive director of Playtech plc. Previously group retailing director at BAA plc, group chief executive of Littlewoods plc and non-executive director of Somerfield plc, National Express plc and William Hill plc.

**Richard Harpin (45)**

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.

**Martin Bennett (41)**

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 10 years at Arthur Andersen where he qualified as a chartered accountant.

**Jon Florsheim (50)**

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.

**Ian Chippendale (61)** ¹²³⁴

Appointed to the Board in January 2007 and as Senior Non-Executive Director on 1 April 2010. Currently an independent director of Transatlantic Holdings Inc and also of Aioi Motor and General Insurance Company of Europe Ltd. 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.

**Mark Morris (50)** ¹²³⁴

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.

**Andrew Sibbald (43)** ¹

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.

**Anna Maughan (40)**

Appointed Company Secretary in July 2008 following 12 years as assistant company secretary. Also secretary to the industry wide Water Companies Pension Scheme.

**Jonathan King (49)**

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.

**Rachael Hughes (39)**

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 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.

KEY

- Main Board
- Executive Committee only
- 1 Non-Executive
- 2 Audit Committee (Chairman: Mark Morris)
- 3 Nomination Committee (Chairman: J M Barry Gibson)
- 4 Remuneration Committee (Chairman: Ian Chippendale)

DIRECTORS AND ADVISERS

Directors	John Michael Barry Gibson Richard David Harpin Martin John Bennett Jonathan Florsheim Ian Hugh Chippendale Mark Christopher Morris Andrew Sibbald
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 2010.

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 on pages 3 to 31.

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 9.

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 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 2010 of a final dividend of 8.5p per ordinary share to shareholders on the register at the close of business on 2 July 2010 which, together with the net interim dividends of 11.5p per ordinary share paid on 3 January 2010 and 24.0p per ordinary share paid on 1 April 2010, results in a total net dividend for the year of 44.0p per share (2009: 35.5p). For further details of the dividend see note 12 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 26. 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 Act 2006 and any relevant authority of the Company in general meeting, the Company has authority to issue new shares.

The AGM held in 2009 authorised the Directors to allot shares in the capital of the Company up to a maximum nominal amount of £2,841,739 (being approximately 35% of the then issued share capital) with a further authority to allot shares up to a maximum nominal value of £406,462 (being approximately 5% of the then issued share capital) as if statutory pre-emption rights did not apply.

The authorities given to the Directors to allot shares at the 2009 AGM were granted for a period expiring at the 2010 AGM of the Company or 31 October 2010, if earlier. Similar resolutions will be put to the forthcoming AGM to renew this authority.

The 2009 AGM authorised the purchase by the Company of up to 6,535,405 ordinary shares (being approximately 10% of the then issued share capital) and this authority will remain available until the forthcoming AGM, when the granting of a similar authority will be proposed. No shares were purchased during the year and no shares are held in Treasury.

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:

Richard Harpin
 Martin Bennett (appointed 26 June 2009)
 Jon Florsheim
 Ian Chippendale
 JM Barry Gibson
 Mark Morris
 Andrew Sibbald
 Brian Whitty (resigned 31 March 2010)
 Jonathan Simpson-Dent (resigned 26 June 2009)

Having been appointed since the notice of the last AGM, Martin Bennett will retire from the Board in accordance with the Articles of Association and, being eligible, will offer himself for election. Ian Chippendale retires by rotation and, being eligible, offers himself for re-election. Martin Bennett serves under a contract of employment terminable on 12 months' notice by either party. Ian Chippendale serves under a three year renewable letter of appointment with no liquidated damages.

In respect of the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 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 report.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2010 and 25 May 2010 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 2010 Annual General Meeting of the Company is to be held on 30 July 2010 at 10.00am. The notice of the meeting accompanies this report.

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 £5.2m (2009: £4.1m) during the year.

DONATIONS

Charitable donations of £23,000 (2009: £43,000) 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 2010 represented 49 days of purchases during the year (2009: 68 days) for the Group and 45 for the Company (2009: 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 10 May 2010, except for the following:

Name	Ordinary shares	%
AMVESCAP PLC	11,662,738	17.74
Richard Harpin ¹	11,021,714	16.76
Schroders plc	5,182,416	7.88
Standard Life Investments Ltd	4,676,196	7.11
Baillie Gifford & Co	4,176,287	6.35
Jeremy Middleton	2,500,000	3.80
Legal & General Group plc	2,262,623	3.44

¹ Includes an indirect interest of 5,700 shares.

DIRECTORS' REPORT

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 plc and its subsidiaries apply employment policies that are fair and equitable for all employees and these ensure that 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 also 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 remain employed by the Group.

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.

We continue to make effective use of Company intranets, staff magazines and employee representative forums both to disseminate information and to receive feedback and ideas from employees regarding business strategy and performance. Consultation between management and staff is an ongoing process and employees are consulted on issues directly affecting them as soon as is practicable.

By Order of the Board

Anna Maughan
Company Secretary
25 May 2010

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 2008 ('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 on pages 52 to 65 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 on pages 3 to 31.

THE BOARD

The Board of Directors leads and controls the Company by holding 10 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 inform 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 Executive Chairman, who also served as a member of the Board's Nomination Committee.

The Chairman's responsibilities were clearly defined in a written specification agreed by the Board and which made clear the division of responsibilities between the Executive Chairman and the Chief Executive. They included 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 included the management of the Emergency Services businesses and those relating to property, legal and governance matters.

Brian Whitty retired on 31 March 2010 and Barry Gibson was appointed as Non-Executive Chairman. Mr Gibson's responsibilities have been clearly set out in his letter of appointment.

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 include Jon Florsheim, Martin Bennett and the Chief Executives of HomeServe Europe and HomeService USA.

During the year, four independent Non-Executive Directors (Messrs Gibson, Chippendale, Morris and Sibbald) with extensive business, finance and marketing backgrounds, provided the Board with a breadth of experience and with independent judgement. Barry Gibson served as the Company's independent Senior Non-Executive Director until 31 March 2010 when he was replaced by Ian Chippendale.

CORPORATE GOVERNANCE

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.

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 2010. Directors completed evaluation questionnaires and a formal written report summarising their views and containing recommendations to further improve the effectiveness of the Board was prepared and reviewed by the whole Board in March 2010. The Board concluded that it was operating effectively, although a number of recommendations for further improvement were approved.

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 Martin Bennett. 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, was under normal circumstances chaired by Brian Whitty with the other members being the independent Non-Executive Directors. This Committee met informally to consider the position of Chief Financial Officer to which Martin Bennett was appointed on 26 June 2009. Following this, Andrew Sibbald assumed the role of Chairman of the Committee, heading up the process to identify a Non-Executive Chairman. Messrs Chippendale, Morris and Harpin sat on the Committee for this purpose and met informally on a number of occasions and formally twice before a recommendation was made to the Board.

The Committee draws on the advice of such professional advisers as it considers necessary and did so during the year in respect of both the Chairman and Chief Financial Officer appointments.

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

AUDIT COMMITTEE

The Audit Committee was chaired by Mark Morris who comes from a strong financial background having worked in audit, business advisory and corporate finance before becoming a plc finance director. The Committee comprises only independent Non-Executive Directors with Barry Gibson and Ian Chippendale being the other members.

The Committee meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include agreeing audit strategy, monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors. The internal and external auditors and the Chief Financial Officer are invited but are not entitled to attend all meetings. Where appropriate, 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. In addition any proposed spend over a predetermined limit must be approved by the Committee. This year due to the sale and closure of the Emergency Services businesses and some specific projects agreed in 2008/9 but completed in 2009/10, external auditor fees for non-audit services exceeded the audit fees.

The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness and that of the internal and external audit process. The results of the last review of the external audit process were considered by the Audit Committee in May 2010.

REMUNERATION COMMITTEE

The Committee was chaired throughout the year by Ian Chippendale. The Committee comprises only independent Non-Executive Directors, Barry Gibson and Mark Morris being its other members.

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the Executive Directors and other members of the Executive 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 42.

CORPORATE GOVERNANCE

ATTENDANCE AT MEETINGS

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

	Board	Audit Committee	Remuneration Committee
Number of Meetings Held	10	3	3
Meetings attended			
B H Whitty ¹	10		
R D Harpin	10		
M J Bennett ²	7		
J Florsheim	10		
J Simpson-Dent ³	2		
J M B Gibson	10	3	3
I Chippendale	10	3	3
A Sibbald	10		
M Morris	10	3	3

¹ Brian Whitty left the Company on 31 March 2010.

² Martin Bennett was appointed on 26 June 2009.

³ Jonathan Simpson-Dent left the Company on 26 June 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 Chairman and independent Senior Non-Executive Director, 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 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.

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 at least eight times a year 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, franchisees and sub-contractors who wish to raise any issues of concern relating to the Group'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 established 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.
- The Risk 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 on a quarterly basis and updates the Audit Committee and the Board regularly.

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 the provisions of the Companies Act 2006 (the 'Act') and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 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 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 2008 ('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 throughout the year by Ian Chippendale. The other members of the Committee were Barry Gibson and Mark Morris. All of the members are independent Non-Executive Directors. The Board has determined that the new Chairman, Barry Gibson, should remain a member of the Committee taking account of the fact that he is considered to be independent and also that, as a former Chairman of the Remuneration Committee, his knowledge of the development of the remuneration policy and practices at HomeServe is invaluable. He takes no part in discussions relating to his own remuneration.

Meetings

Attendance at Committee meetings held during the year and the number of meetings held is set out on page 50.

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 and Anna Maughan, the Company Secretary, 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, with the potential to deliver above market levels of reward for outstanding performance.

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

The charts 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.

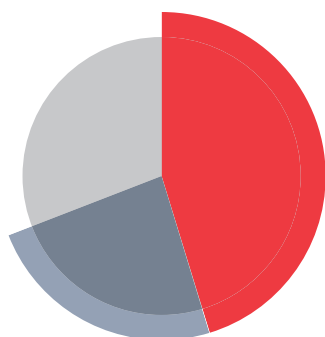
The Committee has the discretion to take into account performance on environmental, social and governance matters when setting the remuneration of the Executive Directors. However, the Committee has chosen not to take these into specific account in setting performance targets for 2010/11 in the belief 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.

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:

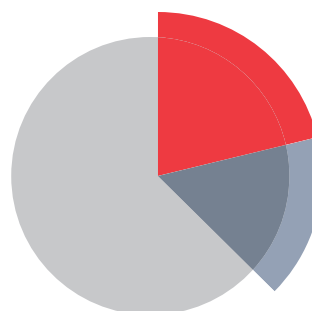
- Review of salary levels for the Executive Directors and other members of the Executive Committee;
- Agree the bonuses payable for the 2008/9 financial year;
- Determination of the targets for the 2009/10 annual bonus plan;
- Approval of the 2009 Remuneration report and review of the final outcome of the Annual General Meeting 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 2006 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, including that of the Chairman, Brian Whitty;
- Review of the remuneration arrangements for the Executive Directors and other members of the Executive Committee for 2010; and
- Consideration of institutional investor guidelines on executive compensation.

ON-TARGET REMUNERATION



- Fixed pay 46%
- Short-term variable pay 22%
- Long-term variable pay 32%

MAXIMUM REMUNERATION



- Fixed pay 21%
- Short-term variable pay 16%
- Long-term variable pay 63%

REMUNERATION REPORT

SUMMARY OF COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION

Type	Objective	Performance Period	Policy
Basic salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies.	Annual (reviewed on 1 April)	Individual pay is determined by reference to the median pay for the top-half of the FTSE 250 or roles of a similar type. Consideration is also given to pay and employment conditions elsewhere in the Company when determining base salary increases.
Performance-related bonus	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.
Pension	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.
Other benefits	To provide benefits comparable with similar roles in similar companies.	N/A	Other benefits comprise a fully expensed car (or cash alternative), private health and (for Messrs Florsheim and Bennett) long-term sickness cover.
Long-term incentives	To drive long-term delivery of the Group's objectives, to align Directors' interests with those of the Company's shareholders and to encourage exceptional performance with the opportunity to receive upper quartile rewards.	Three years	Awards under the 2008 LTIP will deliver rewards based on relative TSR performance (subject to satisfactory underlying earnings performance) and EPS growth.

SUMMARY OF CHANGES TO THE BOARD STRUCTURE AND INDIVIDUAL ROLES AND RESPONSIBILITIES IN THE YEAR

On 31 March 2010, Brian Whitty, Executive Chairman, retired and was replaced by Barry Gibson as Non-Executive Chairman. Mr Whitty had begun to reduce his overall executive involvement in the business following the reorganisation of the UK businesses which was announced in November 2008. He assumed responsibility for Emergency Services at that time and, following the sale of certain of those businesses in September 2009 and the closure of Property Repairs in January 2010, continued to reduce his executive responsibilities. Mr Gibson will fulfil a conventional Non-Executive chairman role.

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 2009 the Committee determined that the top-half of the FTSE 250 was the most appropriate comparator group against which to benchmark salaries. 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%.

HNBS updated their review in February 2010 using the top-half of the FTSE 250 as a comparator group (at the time of the review the Company was ranked 163rd in the FTSE). It was agreed that the basic salaries of the Board and Executive Committee be increased by 2% with effect from 1 April 2010. This was also the budgeted increase for the general workforce.

Current salaries are set out below:

Name of Director	2009/10 Salary	2010/11 Salary
R D Harpin	£500,000	£510,000
M Bennett	£300,000	£306,000
J Florsheim	£500,000	£510,000

Annual bonus

The annual bonus is designed to drive and reward excellent short-term operating performance of the Company and encourage real year-on-year growth in profitability. No annual bonus is paid unless a very high level of profit performance is achieved. The maximum annual bonus for 2010/11 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. 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.

For 2010/11 the maximum limits will remain the same and the weighting between business and personal objectives will remain 80% financial: 20% personal. Provided their personal objectives are met in full, the normal 'on-target' bonus payable to Executive Directors in any year is expected to be in the region of 60% of their basic salary (90% for Jon Florsheim).

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 and an EPS target.

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 and 2009, the Committee intends to limit the size of performance share awards in 2010 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 has conducted a review of the performance targets to be attached to the 2010 awards under the LTIP. Following the review the Committee concluded that TSR remains an important performance condition and should be retained. However, in order to balance this measure with one which provides a stronger link to the long-term financial performance of the Company, the Committee has decided that it would be appropriate to incorporate a stretching Earnings per Share ('EPS') target. The Committee considers that the use of both EPS and TSR creates a balance between internal financial and external relative stock market measures and both measures are aligned to shareholder value creation.

REMUNERATION REPORT

Accordingly, 50% of the award of performance and matching shares will be subject to TSR targets. 25% of any award subject to TSR will vest if HomeServe's TSR performance is equal to the FTSE-250 index, increasing in a straight line basis to 100% vesting where TSR performance exceeds the Index by an average of 15 percentage points per annum.

In determining the vesting of awards in any year under the TSR part of the award, the Committee will also take into account the underlying financial performance of the business.

50% of the award will be subject to a target based on a range of EPS growth. 25% of any award subject to EPS will vest for average annual EPS growth of RPI + 4%, increasing in a straight line to 100% vesting where average annual EPS growth is RPI + 10%.

For both conditions performance will be measured over a period of three financial years.

The fair value of LTIP awards granted in 2009 was 60% of the face value of the share at the time of grant.

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 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). No performance criteria are attached to this scheme.

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 61.

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
R D Harpin	18 January 2002
M Bennett	26 June 2009
J Florsheim	5 March 2007

The company may terminate the executive's employment by making a payment equivalent to one year's remuneration (excluding bonus in the case of Martin Bennett). Notice periods and payments are not extendable in takeover situations.

Brian Whitty left the Company on 31 March 2010. Details of his termination package are provided in the notes to the emoluments table on page 59.

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 and Richard Harpin were members of the WCPS during the year. 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 $\frac{3}{80}$ ths cash;
- life assurance of five times pensionable salary for Brian Whitty or five times basic salary for Richard Harpin;
- 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, an unapproved pension payment, equal to 20% of the amount by which his 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 were 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 Martin Bennett are members of the HMP. In respect of Martin Bennett, its main features are:

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

In respect of Jon Florsheim, its main features are:

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

Where the benefits provided to Executive Directors under the scheme are restricted as a result of the 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 Martin Bennett, 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. Previously these letters included provisions in respect of liquidated damages limited to the payment of one year's fee. This provision has been reviewed during the year and removed. The Non-Executive Directors now have a notice period of three months but no liquidated damages are payable.

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	1 April 2010
I Chippendale	1 January 2010
A Sibbald	1 June 2007
M Morris	27 February 2009

The fees for the Non-Executive Directors were last reviewed in January 2010 with the changes being effective from 1 April 2010. The fee policy for Non-Executive Directors during the year was 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. During the year, Barry Gibson received an additional fee of £40,000 on top of his base and committee membership fees as Senior Independent Director. The Board considered the level of the additional fee to be appropriate taking into account the time commitment and the prominence of the role in the absence of a Non-Executive Chairman. From 1 April 2010 Barry Gibson will take up the role of Non-Executive Chairman for which he will receive a fee of £200,000.

With effect from 1 April 2010 the base Board fee will be £44,000 with a premium for Chairmanship of the Audit and Remuneration Committees of £8,500. Ian Chippendale will receive an additional fee of £5,000 for his role as Senior Independent Director.

REMUNERATION REPORT

EXECUTIVE COMMITTEE

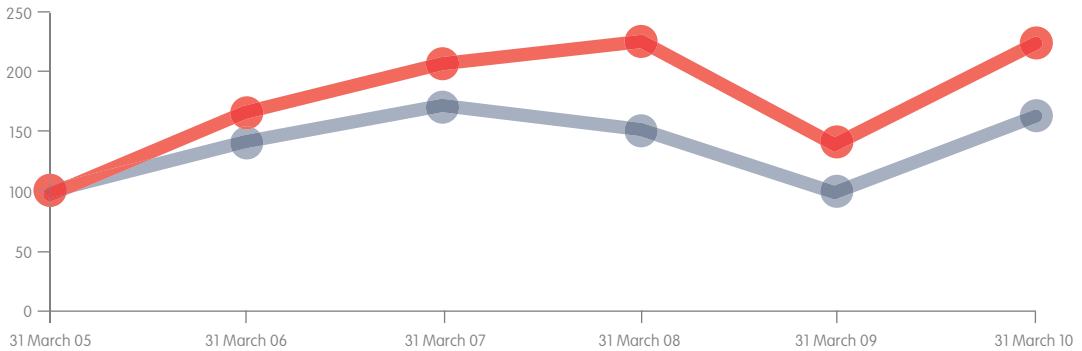
The following table sets out the base salaries of executive members of the Executive Committee (other than Executive Directors) on a banded basis at 31 March 2010.

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

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 2010. This comparator has been chosen as it is a broad equity index of which the Company is a constituent and it is also the one used in assessing relative TSR performance under the 2008 LTIP.

TOTAL SHAREHOLDER RETURN
Source: Thomson Reuters



This graph shows the value, by the 31 March 2010, of £100 invested in HomeServe plc on 31 March 2005 compared with that of £100 invested in the FTSE 250 index. The other points plotted are the values at intervening financial year-ends.

- HomeServe plc
- FTSE 250 index

AUDITED INFORMATION DIRECTORS' EMOLUMENTS

	Basic salary £000	Benefits £000	Bonus £000	Compensation for loss of office £000	Total emoluments and compensation 2010 £000	2009 £000
Executive						
R D Harpin	500	30	500	—	1,030	595
M Bennett ¹	225	15	300	—	540	—
J Florsheim	500	54	500	—	1,054	764
B H Whitty ²	424	24	407	536	1,391	556
J Simpson-Dent ³	88	5	—	501	594	434
I Carlisle ⁴	—	—	—	—	—	750
Non-Executive						
J M B Gibson	85	—	—	—	85	65
I H Chippendale	50	—	—	—	50	45
M C Morris	50	—	—	—	50	4
A Sibbald	40	—	—	—	40	40
J H Maxwell ⁵	—	—	—	—	—	99
Total 2010	1,962	128	1,707	1,037	4,834	
Total 2009	2,169	134	536	513		3,352

1 Martin Bennett was appointed on 26 June 2009.

2 Brian Whitty left on 31 March 2010.

3 Jonathan Simpson-Dent left on 26 June 2009.

4 Ian Carlisle left on 31 January 2009.

5 John Maxwell left on 27 February 2009.

The annual bonus payable to each Director in respect of 2009/10 reflects an excellent year and represents the full achievement of the Group financial target in respect of profit before tax, amortisation and exceptional items and an assessment of each Director's personal targets.

Benefits comprise company car and fuel allowance and medical insurance. Contributions to money purchase pension schemes are shown separately on page 60.

The amounts paid to Jonathan Simpson-Dent as compensation for loss of office represent pay in lieu of his contractual salary, benefits and compensation for loss of office in respect of his notice period of 12 months.

The amounts paid to Brian Whitty as compensation for loss of office represent pay in lieu of his contractual salary, benefits and compensation for loss of office in respect of his 12 month notice period. In addition, under the terms of his contract, Brian Whitty is entitled to participate in the bonus plan for 2010/11.

A payment equivalent to 20% of his bonus entitlement has already been paid (this being the portion which would have been assessed on personal targets). The remainder of the 2010/11 bonus will be subject to the same profit related target as will apply to the other Executive Directors and will be assessed and paid (if appropriate) after the Preliminary Results for the year ending 31 March 2011 are announced.

AGGREGATE DIRECTORS' REMUNERATION

The total amounts for Directors' remuneration were as follows:

	2010 £000	2009 £000
Emoluments	3,797	2,839
Compensation for loss of office	1,037	513
Gains on exercise of share options	4,296	282
Money purchase pension contributions	183	214
	9,313	3,848

REMUNERATION REPORT

DIRECTORS' PENSION

Two 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 2010 £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 2009 £000	Transfer value of increase £000
B H Whitty ¹	63	19	19	44	518
R D Harpin	41	7	7	34	111

¹ Brian Whitty left on 31 March 2010.

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 2010 £000	Contributions made by the Director £000	Increase in transfer value in the year net contributions £000	Transfer value 31 March 2009 £000
B H Whitty ¹	1,738	—	768	970
R D Harpin	661	—	134	527

¹ Brian Whitty left on 31 March 2010.

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. Brian Whitty left the Company on 31 March 2010 but will remain an active member of the scheme until 30 March 2011 (reflecting his notice period of 12 months) and will draw his pension benefits on 1 April 2011. The increase in transfer value shown above includes the cost of this additional year of service and reflects the fact that pension benefits will be payable from 1 April 2011.

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

	2010 £000	2009 £000
R D Harpin	76	65
M Bennett ¹	49	—
J Florsheim	40	39
J Simpson-Dent ²	18	70

¹ Martin Bennett was appointed on 26 June 2009.

² Jonathan Simpson-Dent left on 26 June 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 2010	31 March 2009
R D Harpin ¹	11,021,714	11,012,416
M Bennett ²	7,014	3,971
J Florsheim	63,216	29,167
I H Chippendale	3,000	3,000
J M B Gibson	11,500	6,675
A Sibbald	2,000	—
M C Morris	3,500	—
B H Whitty	202,463	91,813

¹ Includes an indirect interest of 5,700 shares.

² Martin Bennett was appointed on 26 June 2009.

There were no changes in the Directors' interests in shares between 31 March and 25 May 2010.

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 2010	Granted during year	Exercised during year	31 March 2009	Option price	Date granted	Date exercisable from
R D Harpin	1,753	—	—	1,753	£9.18	23.12.05	1.3.11
M Bennett ¹	—	—	3,043	3,043	£5.43	30.12.04	1.3.10
J Florsheim	1,263	—	—	1,263	£7.60	22.12.08	1.3.12
J Simpson-Dent ²	662	—	—	662	£14.50	19.12.07	1.3.11
B H Whitty ³	1,263	—	—	1,263	£7.60	22.12.08	1.3.12

¹ Martin Bennett was appointed on 26 June 2009.

² Jonathan Simpson-Dent left on 26 June 2009 and was treated as a good leaver under the rules of the scheme. He was therefore permitted to exercise a proportion of this option.

³ Brian Whitty left on 31 March 2010 and was treated as a good leaver under the rules of the scheme. He will therefore be permitted to exercise a proportion of this option.

The price of an ordinary share on 1 March 2010 when Mr Bennett exercised his option was £16.80.

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

REMUNERATION REPORT

ESOP

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

	31 March 2010	Granted during year	Lapsed during year	Exercised during year	31 March 2009	Option price	Date granted
R D Harpin	49,000	—	—	—	49,000	£5.50	17.7.01
	44,000	—	—	—	44,000	£5.89	8.7.02
	60,000	—	—	—	60,000	£4.70	1.7.03
	83,000	—	—	—	83,000	£6.61	27.5.04
	51,000	—	—	—	51,000	£9.61	28.6.05
	—	—	38,380	—	38,380	£14.07	23.5.06
	32,375	—	—	—	32,375	£17.18	4.9.07
M Bennett ¹	—	—	11,727	—	11,727	£14.07	23.5.06
	10,387	—	—	—	10,387	£17.18	4.9.07
J Florsheim	39,290	—	—	—	39,290	£17.18	4.9.07
J Simpson-Dent ²	—	—	26,193	—	26,193	£17.18	4.9.07
B H Whitty ³	—	—	—	72,500	72,500	£5.50	17.7.01
	—	—	—	65,000	65,000	£5.89	8.7.02
	—	—	—	80,000	80,000	£4.70	1.7.03
	99,500	—	—	—	99,500	£6.61	27.5.04
	55,000	—	—	—	55,000	£9.61	28.6.05
	—	—	42,644	—	42,644	£14.07	23.5.06
	—	—	35,972	—	35,972	£17.18	4.9.07

¹ Martin Bennett was appointed on 26 June 2009.

² Jonathan Simpson-Dent left on 26 June 2009 and was treated as a good leaver under the rules of the plan. However, the options granted in 2007 lapsed on leaving following an assessment of the performance conditions.

³ Brian Whitty left on 31 March 2010 and was treated as a good leaver under the rules of the plan. The options granted between 2001 and 2005 had already vested so are exercisable for a limited period. The options granted in 2007 lapsed on leaving following an assessment of the performance conditions.

The price of an ordinary share on 31 March 2010 when Mr Whitty exercised options was £17.92.

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 ¹ growth per annum over 3 financial years	Vesting level as percentage of overall award (%)
RPI + 4%	25
RPI + 6%	50
RPI + 8%	75
RPI + 10%	100

¹ 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 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. Options granted in 2006 lapsed as neither the EPS nor share price targets had been met at the end of the performance period.

There were no changes in the options held under the ESOP between 31 March and 25 May 2010.

2004 LTIP

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

	31 March 2010	Awarded during year	Lapsed during year	Vested during year	31 March 2009
R D Harpin	—	—	83,000	—	83,000
B H Whitty	—	—	99,500	—	99,500

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. Awards were granted as nil cost share options.

Awards were subject to absolute TSR performance. TSR is independently calculated by HNBS and verified by the Committee. At the end of the performance period, the required absolute TSR had not been achieved and these awards therefore lapsed.

CONDITIONAL SHARE SCHEME AWARDS (CSS)

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

	31 March 2010	Awarded during year	Lapsed during year	Vested during year	31 March 2009
J Florsheim	—	—	—	24,604	24,604

On 12 March 2007, pursuant to Listing Rule 9.4.2. (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 vested on the third anniversary of the grant. The price of an ordinary share on 12 March 2010, the date on which this third and final tranche of the award vested, was £16.89.

KEY EXECUTIVE INCENTIVE PLAN AWARDS

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

	31 March 2010	Granted during year	Lapsed during year	Exercised during year	31 March 2009	Option price	Date granted
M Bennett ¹	19,508	—	—	—	19,508	£9.61	28.6.05
J Florsheim	100,278	—	—	—	100,278	£17.95	30.3.07
J Simpson-Dent ²	—	—	66,852	—	66,852	£17.95	30.3.07

¹ Martin Bennett was appointed on 26 June 2009.

² Jonathan Simpson-Dent left on 26 June 2009. The award lapsed on leaving.

On 30 March 2007, a grant of share options was made to Jon Florsheim and Jonathan Simpson-Dent under a Key Executive Incentive Plan. 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. As the share price target has not been achieved these options will lapse.

On 28 June 2005, Martin Bennett received an award under the Key Executive Incentive Plan (along with a number of other executives below Board level). These options are fully vested.

REMUNERATION REPORT

DBP

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

	31 March 2010	Awarded during year	Lapsed during year	Vested during year	31 March 2009	Date granted
R D Harpin	51,399	—	—	—	51,399	2.8.05
	—	—	27,204	17,886	45,090	25.5.06
	50,954	—	—	—	50,954	6.9.07
B H Whitty ¹	—	—	—	61,680	61,680	2.8.05
	—	—	28,021	18,422	46,443	23.5.06

¹ Brian Whitty left on 31 March 2010. At the end of the performance period of the award granted in 2005, he had opted to roll the award over into a nil priced option, as permitted under the rules of the plan. This fully vested option, over 61,680 shares, was exercised on leaving.

The price of an ordinary share on 31 March 2010 when Mr Whitty exercised options was £17.92.

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

¹ TSR is averaged over the three months prior to the beginning and end of the performance period.

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

Shares invested in the DBP by Executive Directors may be withdrawn at any time but any entitlement to matching shares will be forfeit in such circumstances.

At the end of the performance period for the 2006 awards, HomeServe's was ranked between median and upper decile against the constituents of the FTSE 350 Index. Accordingly 1.19 matching shares vested for each invested share out of a maximum three matching shares for each invested share. The price of an ordinary share on 26 June 2009, the date on which the 2006 invested shares vested was £14.81.

In relation to the 2007 awards, at March 2010 the Company's TSR performance in the period from the date of grant of awards is below the upper decile in comparison with the comparator Group. If this performance were unchanged at the end of the performance period, the number of matching shares available to each participant would be 1.70.

2008 LTIP

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

	31 March 2010	Awarded during year	Lapsed during year	Vested during year	31 March 2009	Date granted	Type of award
R D Harpin	37,965	—	—	—	37,965	6.8.08	Performance
	28,603	—	—	—	28,603	6.8.08	Matching
	51,688	51,688	—	—	—	23.6.09	Performance
	16,850	16,850	—	—	—	26.6.09	Matching
M Bennett ¹	4,872	—	—	—	4,872	6.8.08	Performance
	8,369	—	—	—	8,369	6.8.08	Performance
	31,013	—	—	—	31,013	23.6.09	Performance
J Florsheim	46,074	—	—	—	46,074	6.8.08	Performance
	31,133	—	—	—	31,133	6.8.08	Matching
	28,458	—	—	—	28,458	4.12.08	Performance
	51,688	51,688	—	—	—	23.6.09	Performance
	32,016	32,016	—	—	—	26.6.09	Matching
B H Whitty ²	42,183	—	—	—	42,183	6.8.08	Performance
J Simpson-Dent ³	34,791	—	—	—	34,791	6.8.08	Performance
	22,346	—	—	—	22,346	6.8.08	Matching

¹ Martin Bennett was appointed on 26 June 2009.

² Brian Whitty left on 31 March 2010 and was treated as a good leaver under the rules of the plan. His award may vest on the third anniversary of grant subject to the performance conditions and will be pro-rated for time.

³ Jonathan Simpson-Dent left on 26 June 2009 and was treated as a good leaver under the rules of the plan. His awards may vest at the end of the three year performance period subject to the performance conditions and will be pro-rated for time.

The market price of the Company's shares on 23 June 2009, the date the awards were granted was £14.63.

The performance conditions in respect of the 2008 LTIP awards granted in 2008 and 2009 are based exclusively on a TSR performance condition, as described in the unaudited section of this report in relation to the TSR part of the award.

For awards granted in 2008, as at 31 March 2010 the Company's TSR performance was below that of the FTSE 250 Index. If this level of performance was maintained until the end of the performance period, no part of the performance or matching awards would vest.

For awards granted in 2009, as at 31 March 2010 the Company's TSR performance was greater than the Index but less than 15% p.a. compound. If this level of performance was maintained until the end of the performance period 41.4% and 33.7% respectively of the performance and matching awards made in June 2009 would vest.

GENERAL

The market price of the Company's shares at 31 March 2010 was £17.92 (2009: £11.70). During the year the price ranged from £11.70 to £18.04.

The shares required for share options and awards under any of the long-term incentive schemes described above 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 2010 amounted to 1,811,498 ordinary shares. Shares may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme (fully compliant with investor guidelines).

By Order of the Board

Ian Chippendale

Chairman of the Remuneration Committee

25 May 2010

GLOBAL EXPANSION

Homeowners all over the world experience home emergencies and need our services.



Homeowners everywhere have trouble finding and paying for a reliable tradesman. To address this gap in the market, we are taking our products to new countries.

Outside of the UK we are already in France, the US, Spain and Belgium, and have ambitions to expand further.

We focus on countries with large populations, a high proportion of homeowners and enough income to afford our policies.



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 2006 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 2006. 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 Officer
25 May 2010

Martin Bennett
Chief Financial Officer
25 May 2010

GROUP INDEPENDENT AUDITORS' REPORT

We have audited the Group financial statements of HomeServe plc for the year ended 31 March 2010 which comprise the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and the related notes 1 to 42. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Corporate Governance statement in relation to going concern; and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the parent Company financial statements of HomeServe plc for the year ended 31 March 2010 and on the information in the Directors' Remuneration report that is described as having been audited.

Christopher Robertson

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Birmingham

25 May 2010

GROUP INCOME STATEMENT

YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	Restated (note 4) 2009 £000
Continuing operations			
Revenue	4	368,995	304,281
Exceptional revenue ¹	6	10,195	—
Total revenue		379,190	304,281
Operating costs:			
Exceptional operating costs ¹	6	—	(2,317)
Amortisation of acquisition intangibles	7	(6,484)	(3,664)
Other operating costs		(270,250)	(217,392)
Operating costs	7	(276,734)	(223,373)
Share of profit of joint ventures	18	3,643	3,451
Operating profit		106,099	84,359
Investment income	9	191	1,237
Finance costs	10	(4,054)	(4,808)
Profit before tax, amortisation of acquisition intangibles, exceptional items¹ and tax on joint ventures		100,574	88,710
Exceptional revenue ¹	6	10,195	—
Exceptional operating costs ¹	6	—	(2,317)
Amortisation of acquisition intangibles	7	(6,484)	(3,664)
Tax on joint ventures		(2,049)	(1,941)
Profit before tax		102,236	80,788
Tax	11	(29,513)	(24,352)
Profit for the year		72,723	56,436
Discontinued operations			
Loss from discontinued operations	35	(42,025)	(91,742)
Profit/(loss) for the year, being attributable to equity holders of the parent		30,698	(35,306)
Dividends per share, paid and proposed	12	44.0p	35.5p
Earnings/(loss) per share			
From continuing operations			
Basic	13	114.7p	89.8p
Diluted	13	111.0p	87.0p
From continuing and discontinued operations			
Basic	13	48.4p	(56.2)p
Diluted	13	46.8p	(56.2)p

¹ In the current year, exceptional revenue of £10,195,000 relates to income arising from the successful recovery of previous years' Insurance Premium Tax. In the prior year, exceptional operating costs of £2,317,000 relate to the reorganisation of our UK business.

GROUP STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2009 £000
Profit/(loss) for the year		30,698	(35,306)
Exchange differences on translation of foreign operations	32	4,439	4,173
Actuarial losses on defined benefit pension scheme	39	(2,664)	(2,049)
Movement on cash flow hedge	32	1,947	(1,947)
Tax on items taken directly to equity	23	746	537
Total comprehensive income/(expense) for the year attributable to equity holders of the parent		35,166	(34,592)

GROUP BALANCE SHEET

31 MARCH 2010

	Notes	2010 £000	2009 £000
Non-current assets			
Goodwill	14	190,186	175,667
Other intangible assets	15	56,386	43,814
Property, plant and equipment	16	32,923	34,518
Interests in joint ventures	18	5,924	5,224
Deferred tax assets	23	2,937	4,189
		288,356	263,412
Current assets			
Inventories	19	950	9,495
Trade and other receivables	20	235,122	206,132
Cash and cash equivalents	20	25,409	21,345
		261,481	236,972
Total assets		549,837	500,384
Current liabilities			
Trade and other payables	24	(206,297)	(206,033)
Current tax liabilities		(9,500)	(11,790)
Derivative financial instruments	21	—	(1,947)
Bank and other loans	22	(28,300)	(55,300)
		(244,097)	(275,070)
Net current assets/(liabilities)		17,384	(38,098)
Non-current liabilities			
Bank and other loans	22	(50,000)	—
Other financial liabilities	25	(17,431)	(10,411)
Retirement benefit obligation	39	(4,248)	(1,919)
		(71,679)	(12,330)
Total liabilities		(315,776)	(287,400)
Net assets		234,061	212,984
Equity			
Share capital	26	8,218	8,167
Share premium account	27	36,102	33,486
Merger reserve	28	70,992	70,992
Own shares reserve	29	(24,958)	(27,523)
Share incentive reserve	30	6,538	8,381
Capital redemption reserve	31	1,200	1,200
Hedging and currency translation reserve	32	8,722	2,336
Retained earnings	33	127,247	115,945
Total equity		234,061	212,984

The financial statements were approved by the Board of Directors and authorised for issue on 25 May 2010. They were signed on its behalf by:

Martin Bennett
Chief Financial Officer
25 May 2010

GROUP STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2010

	Share capital £000	Share premium account £000	Merger reserve £000	Own shares reserve £000	Share incentive reserve £000	Capital redemption reserve £000	Hedging and translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2009	8,167	33,486	70,992	(27,523)	8,381	1,200	2,336	115,945	212,984
Total comprehensive income	—	—	—	—	—	—	6,386	28,780	35,166
Dividends paid	—	—	—	—	—	—	—	(23,180)	(23,180)
Issue of share capital	51	2,616	—	—	—	—	—	—	2,667
Issue of trust shares	—	—	—	2,565	—	—	—	(1,111)	1,454
Share-based payments	—	—	—	—	2,397	—	—	—	2,397
Share options exercised	—	—	—	—	(2,297)	—	—	2,297	—
Tax on exercised share options	—	—	—	—	—	—	—	1,798	1,798
Deferred tax on share options	—	—	—	—	—	—	—	775	775
Transfer from share incentive reserve	—	—	—	—	(1,943)	—	—	1,943	—
Balance at 31 March 2010	8,218	36,102	70,992	(24,958)	6,538	1,200	8,722	127,247	234,061

YEAR ENDED 31 MARCH 2009

	Share capital £000	Share premium account £000	Merger reserve £000	Own shares reserve £000	Share incentive reserve £000	Capital redemption reserve £000	Hedging and translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2008	8,147	32,507	70,992	(29,586)	6,550	1,200	110	175,493	265,413
Total comprehensive income	—	—	—	—	—	—	2,226	(36,818)	(34,592)
Dividends paid	—	—	—	—	—	—	—	(20,415)	(20,415)
Issue of share capital	20	979	—	—	—	—	—	—	999
Issue of trust shares	—	—	—	2,063	—	—	—	(53)	2,010
Share-based payments	—	—	—	—	3,217	—	—	—	3,217
Share options exercised	—	—	—	—	(1,386)	—	—	1,386	—
Tax on exercised share options	—	—	—	—	—	—	—	1,129	1,129
Deferred tax on share options	—	—	—	—	—	—	—	(4,777)	(4,777)
Balance at 31 March 2009	8,167	33,486	70,992	(27,523)	8,381	1,200	2,336	115,945	212,984

GROUP CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2009 £000
Net cash from operating activities	36	48,295	65,482
Investing activities			
Interest received		191	1,353
Dividend from joint venture		3,255	—
Proceeds on disposal of property, plant and equipment		1,329	1,104
Purchases of intangible assets	15	(21,624)	(13,210)
Purchases of property, plant and equipment	16	(5,022)	(4,065)
Net cash outflow on acquisitions	34	(25,541)	(23,380)
Disposal of subsidiary undertakings		(241)	—
Acquisition of investment in joint venture	18	(223)	(731)
Net cash used in investing activities		(47,876)	(38,929)
Financing activities			
Dividends paid	12	(23,180)	(20,415)
Issue of shares from the employee benefit trust		1,453	2,010
Proceeds on issue of share capital	26	2,667	999
Increase/(decrease) in bank loans	22	23,000	(35,000)
Net cash from/(used in) financing activities		3,940	(52,406)
Net increase/(decrease) in cash and cash equivalents		4,359	(25,853)
Cash and cash equivalents at beginning of year		21,345	47,198
Effect of foreign exchange rate changes		(295)	—
Cash and cash equivalents at end of year		25,409	21,345

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

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 Cable Drive, Walsall WS2 7BN.

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.

Adoption of new or revised standards and accounting policies

In the current year, the following new and revised Standards and Interpretations have been adopted in these financial statements.

Standards affecting presentation and disclosure

IAS1 (revised 2007) Presentation of Financial Statements: IAS1 (revised 2007) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

Standards not affecting the reported results nor the financial position

Amendment to IAS38 Intangible Assets: IAS38 has been amended to state that an entity is permitted to recognise a prepayment asset for advertising or promotional expenditure only up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of the services. In the past HomeServe has recognised inventories of brochures as an asset up to the date of dispatch to the customer. The adoption of this amendment has not resulted in any significant impact on these financial statements.

Standards in issue but not yet effective

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 IFRS2 (Jun 2009)	Group Cash-settled Share-based Payment Transactions
IFRS3 (revised Jan 2008)	Business Combinations
IFRS9	Financial Instruments
IAS24 (revised Nov 2009)	Related Party Disclosures
Amendments to IAS27 (Jan 2008)	Consolidated and Separate Financial Statements
Amendment to IAS32 (Oct 2009)	Classification of Rights Issues
Amendments to IFRIC14 (Nov 2009)	Prepayments of a Minimum Funding Requirement
IFRIC17	Distributions of Non-cash Assets to Owners
IFRIC18	Transfers of Assets from Customers
IFRIC19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs 2009 (Apr 2009)	Improvements to IFRSs 2009

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 2008), whereby acquisition costs and adjustments to contingent consideration will be charged or 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue recorded by the Group includes commissions receivable 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 receivable for the marketing and sale of the policy, stated net of Insurance Premium Tax.

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. Accordingly, 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 anticipated claims over the policy period. The deferral also includes a profit element to recognise the performance of these services in the future.

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 (net of tax) but before investment income and finance costs.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 comprehensive income.

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

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

Taxation

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Intangible assets

Intangible assets arising on the 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	3–10 years
Franchise assets	3–15 years

Trademarks and similar access rights, acquired on an exclusive use basis from third party commercial partners, are also treated as intangible assets. These assets are recorded at cost and amortised on a straight line basis over the length of the contractual agreement up to a maximum of 20 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the income statement 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 to the income statement in the periods when the hedged item is also recognised in the income statement 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 the income statement.

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.

3. JUDGEMENTS AND ESTIMATION UNCERTAINTY

Revenue recognition

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 £190,186,000 (2009: £175,667,000). The carrying value of acquisition intangibles is £27,931,000 (2009: £28,643,000). Following the annual impairment review, an impairment charge of £nil (2009: £59,179,000) has been recorded against goodwill and £nil (2009: £16,965,000) against acquisition intangibles. As set out in note 14, 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

Restatement

The Directors have concluded that commissions payable to third parties should be shown gross within revenue and operating costs. This change in accounting policy has resulted in an increase in both revenue and operating costs of £23,300,000 (2009: £20,400,000).

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

	2010 £000	Restated 2009 £000
Continuing operations		
Provision of services	379,190	304,281
Investment income (note 9)	191	1,237
	379,381	305,518
Discontinued operations		
Provision of services	81,983	233,601
	461,364	539,119

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

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 three operating divisions – UK Membership, Continental Europe, and United States of America.

2010	UK Membership £000	Continental Europe £000	United States of America £000	Total £000
Revenue				
Total revenue	286,650	86,511	25,676	398,837
Exceptional revenue	10,195	—	—	10,195
Joint venture revenues, not recognisable for statutory reporting	—	(29,842)	—	(29,842)
External sales	296,845	56,669	25,676	379,190

Inter-segment sales are charged at prevailing market prices.

Result

Segment operating profit pre amortisation of acquisition intangibles, exceptional items and tax on joint ventures	95,754	7,200	1,483	104,437
Amortisation of acquisition intangibles	(1,258)	(3,778)	(1,448)	(6,484)
Tax on joint ventures	—	(2,049)	—	(2,049)
Exceptional revenue	10,195	—	—	10,195
Operating profit	104,691	1,373	35	106,099
Investment income				191
Finance costs				(4,054)
Profit before tax from continuing operations				102,236
Tax				(29,513)
Profit after tax from continuing operations				72,723
Loss from discontinued operations				(42,025)
Profit for the year				30,698

2009	Restated (note 4) UK Membership £000	Continental Europe £000	Restated (note 4) United States of America £000	Restated (note 4) Total £000
Revenue				
Total revenue	246,609	63,404	17,919	327,932
Eliminations	(497)	—	—	(497)
Joint venture revenues, not recognisable for statutory reporting	—	(23,154)	—	(23,154)
External sales	246,112	40,250	17,919	304,281
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment operating profit/(loss) pre amortisation of acquisition intangibles, exceptional items and tax on joint ventures	87,228	5,347	(294)	92,281
Amortisation of acquisition intangibles	(984)	(1,244)	(1,436)	(3,664)
Tax on joint ventures	—	(1,941)	—	(1,941)
Exceptional operating costs	(2,317)	—	—	(2,317)
Operating profit/(loss)	83,927	2,162	(1,730)	84,359
Investment income				1,237
Finance costs				(4,808)
Profit after tax from continuing operations				80,788
Tax				(24,352)
Profit before tax from continuing operations				56,436
Loss from discontinued operations				(91,742)
Loss for the year				(35,306)

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 information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Continuing operations								
UK Membership	408,639	344,106	232,551	183,034	20,671	10,655	8,211	5,440
Continental Europe	104,897	46,996	60,224	15,888	702	522	4,463	2,881
United States of America	36,301	28,613	23,001	19,911	2,802	96	1,932	539
	549,837	419,715	315,776	218,833	24,175	11,273	14,606	8,860
Discontinued operations								
United Kingdom	—	80,669	—	68,567	968	6,002	1,845	111,352
	549,837	500,384	315,776	287,400	25,143	17,275	16,451	120,212

All assets and liabilities are allocated to reportable segments.

Revenues from major products and services

	Restated (note 4)	
	2010 £000	2009 £000
Continuing operations		
Sale of home assistance and emergency policies	291,492	236,712
Provision of repair services	87,698	68,066
Eliminations	—	(497)
	379,190	304,281
Discontinued operations		
Provision of repair services	81,983	233,601
Consolidated revenue (excluding investment revenue)	461,173	537,882

Geographical information

The Group operates in three principal geographical areas – United Kingdom, Continental Europe 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 Restated (note 4)		Non-current assets	
	2010 £000	2009 £000	2010 £000	2009 £000
Continuing operations				
United Kingdom	296,845	246,112	212,383	168,513
Continental Europe	56,669	40,250	53,270	28,245
United States of America	25,676	17,919	13,842	11,977
	379,190	304,281	279,495	208,735
Discontinued operations				
United Kingdom	81,983	233,601	—	45,264
	461,173	537,882	279,495	253,999

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

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 ITEMS

In the current year, exceptional revenue of £10,195,000 (2009: £nil) relates to income arising from the successful recovery of previous years' Insurance Premium Tax. This has been treated as revenue to reflect where this income would originally have been recorded.

In the prior year, exceptional operating costs of £2,317,000 relate to the reorganisation of our UK business.

7. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived at after charging:

	Continuing operations		Discontinued operations		Total 2010 £000	Total 2009 £000
	2010 £000	2009 £000	2010 £000	2009 £000		
Included in operating costs:						
Staff costs (note 8)	115,096	94,708	28,151	61,898	143,247	156,606
Cost of inventories recognised as expense	3,779	1,881	14,814	26,921	18,593	28,802
Depreciation of property, plant and equipment	3,971	2,906	609	3,800	4,580	6,706
Amortisation of acquisition intangible assets (note 15)	6,484	3,664	868	8,441	7,352	12,105
Amortisation of other intangibles	4,151	2,290	368	1,927	4,519	4,217
Impairment of UK Emergency Services assets (note 35)	—	—	—	97,184	—	97,184
Other impairment loss recognised on trade receivables	736	492	38	1,610	774	2,102
Auditors' remuneration for audit services	178	168	26	108	204	276
Write down of inventories	—	—	204	286	204	286

The analysis of auditors' remuneration is as follows:

	2010 £000	2009 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	31	50
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	173	226
Total audit fees	204	276
Other services pursuant to legislation	34	37
Tax services	250	188
Information technology services	19	—
Corporate finance services	25	—
Other services	9	—
Total non-audit fees	337	225

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 disposal of the UK Emergency Services business. Information technology services comprised a review of progress on in-house information technology projects.

Tax services during the year include the provision of advice in respect of a number of compliance matters.

8. STAFF COSTS

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

	2010 number	2009 number
Continuing operations		
UK Membership	2,726	2,454
Continental Europe (excluding joint ventures)	346	239
United States of America	182	174
	3,254	2,867
Discontinued operations		
UK Emergency Services	1,104	2,585
	4,358	5,452

	Continuing operations		Discontinued operations		Total	Total
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Their aggregate remuneration comprised:						
Wages and salaries	100,420	84,882	25,235	56,182	125,655	141,064
Social security costs	12,026	7,510	2,462	4,763	14,488	12,273
Other pension costs (note 39)	2,650	2,316	454	953	3,104	3,269
	115,096	94,708	28,151	61,898	143,247	156,606

9. INVESTMENT INCOME

	2010 £000	2009 £000
Interest on bank deposits	191	1,237

10. FINANCE COSTS

	2010 £000	2009 £000
Interest on revolving credit facilities	3,421	4,353
Unwinding of discount on deferred and contingent consideration	631	445
Loan note interest	2	10
	4,054	4,808

There were no amounts in the year (2009: £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 2010

11. TAX

	Continuing operations		Discontinued operations		Total 2010 £000	Total 2009 £000
	2010 £000	2009 £000	2010 £000	2009 £000		
Current tax						
– Current year	32,104	23,159	(8,597)	697	23,507	23,856
– Adjustments in respect of prior years	25	(732)	(2,536)	(125)	(2,511)	(857)
Total current tax charge/(credit)	32,129	22,427	(11,133)	572	20,996	22,999
Deferred tax (note 23)	(2,616)	1,925	1,472	(11,328)	(1,144)	(9,403)
Total tax charge/(credit)	29,513	24,352	(9,661)	(10,756)	19,852	13,596

UK corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit/(loss) 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 profit per the income statement as follows:

	2010 £000	2009 £000
Profit before tax on continuing operations	102,236	80,788
Tax at the UK corporation tax rate of 28% (2009: 28%)	28,626	22,621
Tax effect of expenses that are not deductible in determining taxable profit	704	2,142
Adjustments in respect of prior years – current tax	25	(732)
Adjustments in respect of prior years – deferred tax	671	383
Taxable unremitted overseas profits	—	623
Effect of overseas losses excluding joint ventures	522	281
Tax effect of share of results of joint venture	(1,035)	(966)
Tax expense for the year relating to continuing operations	29,513	24,352

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations amounting to £746,000 (2009: £537,000) has been recognised directly in other comprehensive income. In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2010 £000	2009 £000
Current tax		
Excess tax deductions related to Share-based payments on exercised options	1,798	1,129
Deferred tax		
Change in estimated excess tax deductions related to Share-based payments	775	(4,777)
Total income tax recognised directly in equity	2,573	(3,648)

12. DIVIDENDS

	2010 £000	2009 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2009 of 25.00p (2008: 21.85p) per share	15,867	13,772
Interim dividend for the year ended 31 March 2010 of 11.50p (2009: 10.50p) per share	7,313	6,643
	23,180	20,415

The second interim dividend of 24.00p per share amounting to £15,278,000 was paid on 1 April 2010 to shareholders on the register at the close of business on 5 March 2010. This dividend has not been included as a liability in these financial statements.

The proposed final dividend for the year ended 31 March 2010 is 8.50p per share amounting to £5,440,000 (2009: 25.00p per share amounting to £15,867,000).

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.

13. EARNINGS/(LOSS) PER SHARE

	Continuing operations		Discontinued operations		Continuing and discontinued operations	
	2010 pence	2009 pence	2010 pence	2009 pence	2010 pence	2009 pence
Basic	114.7	89.8	(66.3)	(145.9)	48.4	(56.2)
Diluted	111.0	87.0	(66.3)	(145.9)	46.8	(56.2)
Adjusted basic	110.9	96.9				
Adjusted diluted	107.3	93.9				

Where an overall loss has arisen in the above table, the effect of share options is anti-dilutive. Consequently, diluted earnings per share have been stated as consistent with basic earnings per share in such instances.

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

Number of shares

	Number 2010 '000	Number 2009 '000
Weighted average number of shares		
Basic	63,387	62,878
Dilutive impact of share options	2,144	2,003
Diluted	65,531	64,881

Continuing operations

	2010 £000	2009 £000
Profit for the year	72,723	56,436
Amortisation of acquisition intangibles	6,484	3,664
Exceptional operating costs (note 6)	—	2,317
Exceptional operating revenue (note 6)	(10,195)	—
Tax impact arising on amortisation of acquisition intangibles and exceptional operating items	1,308	(1,477)
Adjusted profit for the year	70,320	60,940

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles and exceptional operating items. This is considered to be a better indicator of the performance of the Group. As profit for the year and adjusted profit for the year are stated after tax, it is not considered necessary to include in the above reconciliation the impact of the adjustment for the tax on joint ventures of £2,049,000 (2009: £1,941,000).

Discontinued operations

	2010 £000	2009 £000
Loss for the year (note 35)	(42,025)	(91,742)

Continuing and discontinued operations

	2010 £000	2009 £000
Profit/(loss) for the year	30,698	(35,306)

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14. GOODWILL

	£000
Cost	
At 1 April 2008	218,070
Recognised on acquisitions	16,776
At 1 April 2009	234,846
Recognised on acquisitions (note 34)	25,355
Exchange differences	4,100
Disposals	(44,325)
At 31 March 2010	219,976
Accumulated impairment losses	
At 1 April 2008	—
Impairment (note 35)	59,179
At 1 April 2009	59,179
Disposals	(29,389)
At 31 March 2010	29,790
Carrying amount	
At 31 March 2010	190,186
At 31 March 2009	175,667

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:

	2010 £000	2009 £000
UK Membership	154,567	137,131
UK Emergency Services	—	22,296
Reparalia	14,092	10,634
SPT	6,191	5,606
SFG	15,336	—
Continental Europe	35,619	16,240
United States of America	—	—
	190,186	175,667

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 long-term growth rate of 2.5% (2009: 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 11.2% (2009: 11.3%).

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value, 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 verses the conservative growth estimates used in the impairment review.

15. OTHER INTANGIBLE ASSETS

Acquisition intangibles represent non-monetary assets, arising on business combinations, and include customer relationships, customer databases, franchise assets relating to purchased franchise licences and trademarks.

	Acquisition intangibles			Total acquisition intangibles £000	Trademarks & access rights £000	Software £000	Total intangibles £000
	Customer relationships £000	Customer databases £000	Franchise assets £000				
Cost							
At 1 April 2008	43,338	13,823	11,158	68,319	—	22,747	91,066
Additions	—	—	—	—	—	13,210	13,210
Disposals	—	—	—	—	—	(250)	(250)
Acquisitions	2,742	4,026	—	6,768	—	8	6,776
Exchange differences	109	3,256	—	3,365	—	393	3,758
At 1 April 2009	46,189	21,105	11,158	78,452	—	36,108	114,560
Additions	70	—	—	70	12,264	7,646	19,980
Disposals	(12,996)	—	(11,158)	(24,154)	—	(16,365)	(40,519)
Acquisitions	5,691	1,166	—	6,857	—	370	7,227
Exchange differences	2,867	(998)	—	1,869	195	(124)	1,940
At 31 March 2010	41,821	21,273	—	63,094	12,459	27,635	103,188
Accumulated amortisation and impairment							
At 1 April 2008	14,187	2,701	3,851	20,739	—	7,962	28,701
Charge for the year	8,850	1,854	1,401	12,105	—	4,217	16,322
Impairment (note 35)	11,059	—	5,906	16,965	—	8,739	25,704
Disposals	—	—	—	—	—	(250)	(250)
Exchange differences	—	—	—	—	—	269	269
At 1 April 2009	34,096	4,555	11,158	49,809	—	20,937	70,746
Charge for the year	5,043	2,309	—	7,352	464	4,055	11,871
Disposals	(11,067)	—	(11,158)	(22,225)	—	(13,744)	(35,969)
Exchange differences	338	(111)	—	227	10	(83)	154
At 31 March 2010	28,410	6,753	—	35,163	474	11,165	46,802
Carrying amount							
At 31 March 2010	13,411	14,520	—	27,931	11,985	16,470	56,386
At 31 March 2009	12,093	16,550	—	28,643	—	15,171	43,814

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16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Furniture, fixtures and equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 April 2008	32,904	12,039	17,216	2,051	64,210
Additions	847	1,945	988	285	4,065
Acquisitions	361	5	307	130	803
Exchange differences	50	78	300	—	428
Disposals	(259)	(1,470)	(1,202)	(1,118)	(4,049)
At 1 April 2009	33,903	12,597	17,609	1,348	65,457
Additions	1,045	1,409	2,732	47	5,233
Acquisitions	—	288	100	—	388
Exchange differences	(42)	(27)	(90)	(6)	(165)
Disposals	(6,237)	(7,284)	(5,778)	(494)	(19,793)
At 31 March 2010	28,669	6,983	14,573	895	51,120
Accumulated depreciation and impairment					
At 1 April 2008	4,304	5,264	10,996	842	21,406
Charge for the year	1,456	2,447	2,736	67	6,706
Impairment (note 35)	2,323	1,973	485	368	5,149
Exchange differences	7	37	50	2	96
Disposals	(219)	(571)	(899)	(729)	(2,418)
At 1 April 2009	7,871	9,150	13,368	550	30,939
Charge for the year	1,045	1,312	2,013	210	4,580
Exchange differences	—	6	(14)	—	(8)
Disposals	(5,037)	(6,692)	(5,504)	(81)	(17,314)
At 31 March 2010	3,879	3,776	9,863	679	18,197
Carrying amount					
At 31 March 2010	24,790	3,207	4,710	216	32,923
At 31 March 2009	26,032	3,447	4,241	798	34,518

The carrying amount of the Group's fixtures and equipment includes an amount of £nil (2009: £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 (2009: £nil).

17. 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.

18. INTERESTS IN JOINT VENTURES

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

	Doméo & Doméo Assistance 2010 £000	Doméo & Doméo Assistance 2009 £000
Summary balance sheet		
Non-current assets	2,421	2,036
Current assets	43,723	35,159
Total assets	46,144	37,195
Current liabilities	(37,763)	(29,847)
Net assets	8,381	7,348
Group share, 49%	4,106	3,600
Amount recognisable	4,106	3,629
Goodwill	1,595	1,595
Carrying amount	5,701	5,224
Summary income statement		
Total revenue	60,902	47,253
Total profit after tax	7,435	6,957
Amount recognisable	3,643	3,451

In addition to the joint venture above, the Group has made an investment of £223,000 in a new joint venture. This joint venture has not started trading at the balance sheet date and is therefore stated at the initial consideration. Overall interests in joint ventures, including the investment during the year, are £5,924,000 (2009: £5,224,000).

In respect of the interests in joint ventures, there are no capital commitments or contingent liabilities which require disclosure (2009: £nil).

19. INVENTORIES

	2010 £000	2009 £000
Raw materials	553	1,184
Work-in-progress	—	7,222
Finished goods	397	1,089
	950	9,495

20. OTHER FINANCIAL ASSETS

Trade and other receivables

	2010 £000	2009 £000
Amounts receivable for the provision of services	149,389	140,050
Other receivables	72,957	47,714
Loans to joint ventures	863	777
Prepayments and accrued income	11,913	17,591
	235,122	206,132

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 the prior year, an impairment of £7,152,000 was 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. No such amounts have been recognised in the current year.

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20. OTHER FINANCIAL ASSETS (CONTINUED)

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. There are no 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 £4,176,000 (2009: £21,187,000) 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 40 days (2009: 62 days).

Ageing of past due but not impaired receivables:

	2010 £000	2009 £000
1–30 days	2,484	8,450
31–60 days	521	2,930
61–90 days	378	1,503
91 days +	793	8,304
Balance at 31 March past due but not impaired	4,176	21,187
Current	145,213	118,863
Balance at 31 March	149,389	140,050

Movement in the allowance for doubtful debts:

	2010 £000	2009 £000
At 1 April	11,579	3,461
Impairment losses recognised	774	2,102
Recognised as part of UK Emergency Services impairment (note 35)	(7,152)	7,152
Amounts written off as uncollectible	(756)	(1,097)
Disposals	(1,661)	—
Amounts recovered during the year	(449)	(39)
Balance at 31 March	2,335	11,579

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:

	2010 £000	2009 £000
1–30 days	545	296
31–60 days	135	641
61–90 days	370	559
91 days +	1,285	10,083
	2,335	11,579

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 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 £25,409,000 (2009: £21,345,000) 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.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 £000	2009 £000
Derivatives that are designated and effective as hedging instruments carried at fair value		
Interest rate swap	—	1,947

The interest rate swap is to hedge loans subject to variable interest rates linked to LIBOR, with a fixed interest rate. The interest rate swap expired during the year ended 31 March 2010. Further details are set out in note 42.

22. BANK AND OTHER LOANS

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

	2010 £000	2009 £000
Revolving credit facilities	78,000	55,000
Loan notes	300	300
	78,300	55,300

The borrowings are repayable as follows:

On demand or within one year	28,300	55,300
After one year	50,000	—
	78,300	55,300

	2010 %	2009 %
The weighted average interest rates paid were as follows:		
Revolving credit facilities	3.5	5.4
Loan notes	0.5	3.6

All the Group's revolving credit facilities are unsecured. The carrying amount of the Group's borrowings approximates their fair value.

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

- i. The Group has revolving credit facilities with a number of banks totalling £150,000,000 (2009: £150,000,000). The revolving credit facility was taken out on 20 December 2007 and has a term of five years.
- ii. Loan notes are repayable on demand, subject to a minimum initial maturity of six months.
- iii. 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.

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22. BANK LOANS (CONTINUED)

iv. 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 year ended 31 March 2008, the Group entered into an interest rate swap arrangement with a notional value of £50,000,000. This interest rate swap expired during the year.

At 31 March 2010, the Group had available £72,000,000 (2009: £95,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

23. 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:

	Timing differences £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 2008	(1,049)	(1,844)	(67)	—	9,819	(8,614)	1,573	(512)	(694)
Credit/(charge) to income	3,800	(626)	(17)	537	(489)	6,206	519	10	9,940
Charge to equity	—	—	—	—	(4,777)	—	—	—	(4,777)
Exchange differences	—	—	—	—	—	—	426	—	426
Acquisitions	—	—	—	—	—	(706)	—	—	(706)
At 1 April 2009	2,751	(2,470)	(84)	537	4,553	(3,114)	2,518	(502)	4,189
Credit/(charge) to income	(2,318)	1,753	(17)	746	564	1,352	(200)	10	1,890
Credit to equity	—	—	—	—	775	—	—	—	775
Acquisitions	—	—	—	—	—	(2,080)	—	—	(2,080)
Disposals	(962)	—	—	—	(827)	(48)	—	—	(1,837)
At 31 March 2010	(529)	(717)	(101)	1,283	5,065	(3,890)	2,318	(492)	2,937

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	2010 £000	2009 £000
Deferred tax assets	6,348	1,318	1,000	8,666	7,071
Deferred tax liabilities	(5,729)	—	—	(5,729)	(2,882)
Net deferred tax asset	619	1,318	1,000	2,937	4,189

At the balance sheet date, the Group has unused tax losses of £26,800,000 (2009: £23,700,000) available for offset against future profits and which can be carried forward indefinitely. A deferred tax asset of £2,318,000 (2009: £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.

24. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2010 £000	2009 £000
Trade creditors and accruals	85,989	123,051
Contingent consideration	1,936	2,631
Deferred consideration	1,749	2,364
Payments in advance	—	1,315
Deferred income	6,099	894
Taxes and social security, excluding current tax	7,070	5,660
Other creditors	103,454	70,118
	206,297	206,033

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 49 days (2009: 68 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.

25. NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

	Claims handling £000	Deferred income £000	Contingent consideration £000	Deferred consideration £000	Total £000
At 1 April 2009	—	1,006	1,696	7,709	10,411
Movement in year	1,879	5,553	(64)	(348)	7,020
At 31 March 2010	1,879	6,559	1,632	7,361	17,431

Contingent consideration and deferred consideration relates to future amounts payable on prior acquisitions. 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 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.

26. SHARE CAPITAL

	2010 £000	2009 £000
Authorised:		
70,400,000 ordinary shares of 12½p each	8,800	8,800
Issued and fully paid:		
65,741,000 ordinary shares of 12½p each (2009: 65,333,000 ordinary shares of 12½p each)	8,218	8,167

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 408,000 shares for total consideration of £2,667,000 (2009: 161,000 shares for total consideration of £999,000).

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27. SHARE PREMIUM ACCOUNT

	£000
Balance at 1 April 2008	32,507
Premium arising on issue of equity shares	979
Balance at 1 April 2009	33,486
Premium arising on issue of equity shares	2,616
Balance at 31 March 2010	36,102

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

28. MERGER RESERVE

	£000
Balance at 1 April 2008, 1 April 2009 and 31 March 2010	70,992

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

29. OWN SHARES RESERVE

	Number ('000)	£000
Balance at 1 April 2008	2,417	29,586
Issued from the employee benefit trust	(307)	(2,063)
Balance at 1 April 2009	2,110	27,523
Issued from the employee benefit trust	(298)	(2,565)
Balance at 31 March 2010	1,812	24,958

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.

30. SHARE INCENTIVE RESERVE

	£000
Balance at 1 April 2008	6,550
Share-based payment charges in the year	3,217
Share options exercised in the year	(1,386)
Balance at 1 April 2009	8,381
Share-based payment charges in the year	2,397
Share options exercised in the year	(2,297)
Transfer to retained earnings	(1,943)
Balance at 31 March 2010	6,538

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.

31. CAPITAL REDEMPTION RESERVE

	£000
Balance at 1 April 2008, 1 April 2009 and 31 March 2010	1,200

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

32. HEDGING AND CURRENCY TRANSLATION RESERVE

	Hedging reserve £000	Currency translation reserve £000	Total £000
Balance at 1 April 2008	—	110	110
Movement in the year	(1,947)	4,173	2,226
Balance at 1 April 2009	(1,947)	4,283	2,336
Movement in the year	1,947	4,439	6,386
Balance at 31 March 2010	—	8,722	8,722

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 (2009: £nil) removed from equity and included in the income statement for the period in respect of cash flow hedges.

33. RETAINED EARNINGS

	£000
Balance at 1 April 2008	175,493
Dividends	(20,415)
Total comprehensive income	(36,818)
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
Deferred tax on share options	(4,777)
Balance at 1 April 2009	115,945
Dividends	(23,180)
Total comprehensive income	28,780
Share options exercised in the year	2,297
Issue of trust shares	(1,111)
Current tax on exercised share options taken directly to equity	1,798
Deferred tax on share options	775
Transfer from share incentive reserve	1,943
Balance at 31 March 2010	127,247

34. BUSINESS COMBINATIONS

On 22 May 2009, the Group acquired 100% of the share capital of Société Française de Garantie S.A. (SFG), a leading French extended warranty seller and service provider. There were also a number of other acquisitions in the year which individually were not significant.

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.

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

- SFG – Acquired book value of net assets of £3,146,000 increased by £241,000 to eliminate certain historic liabilities.
- Other acquisitions – Acquired book value of net liabilities of £65,000, reduced by £279,000 for provision of certain receivables and payables, to recognise impairment against redundant fixed assets and to recognise additional liabilities.

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.

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34. BUSINESS COMBINATIONS (CONTINUED)

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:

	SFG £000	Other £000	Total £000
Net assets acquired:			
Property, plant and equipment	257	131	388
Intangible assets	259	111	370
Inventories	—	22	22
Trade and other receivables	22,489	542	23,031
Cash and cash equivalents	7,191	792	7,983
Trade and other payables	(26,809)	(1,942)	(28,751)
Deferred tax liability	(1,893)	(153)	(2,046)
	1,494	(497)	997
Intangible assets identified on acquisition	6,311	546	6,857
Goodwill	14,981	9,792	24,773
Total consideration	22,786	9,841	32,627
Satisfied by:			
Cash	22,365	9,473	31,838
Directly attributable costs	421	368	789
	22,786	9,841	32,627
Net cash outflow arising on acquisition:			
Cash consideration	22,786	9,841	32,627
Cash and cash equivalents acquired	(7,191)	(792)	(7,983)
	15,595	9,049	24,644

Intangible assets identified on the acquisitions of SFG and Other acquisitions 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 profit before tax attributable to equity holders of the parent would have been £380,807,000 and £102,240,000 respectively, for continuing operations.

In addition to the net cash outflow arising on the acquisitions above of £24,644,000, contingent and deferred consideration of £897,000 was paid relating to prior period acquisitions; and additional goodwill of £582,000 was recognised in respect of adjustments to consideration relating to other prior acquisitions.

The post acquisition operating profit from these acquisitions in the year ended 31 March 2010 was as follows:

	SFG £000
Operating profit pre amortisation of acquisition intangibles	722
Operating loss post amortisation of acquisition intangibles	(550)

The other acquisitions have been subsumed within existing businesses and it has not been practicable to separately identify the post acquisition performance of these transactions.

35. DISCONTINUED OPERATIONS

On 24 September 2009, the Group announced the sale of its Emergency Services Division (excluding the HomeServe Property Repairs businesses) (the 'HES Disposal Division') to a newly incorporated company backed by Lloyds TSB Development Capital Limited and management. The total consideration will be up to £11,000,000 of which £7,652,000 was paid in cash on completion. Deferred consideration relates to successful future contract renewals and the resolution of indemnities as part of the sale. The sale of the HES Disposal Division is consistent with HomeServe plc's previously announced strategic objectives enabling it to focus on the Group's higher margin, higher growth membership businesses.

The HES Disposal Division consisted of the businesses operated by HomeServe Glazing & Locks, HomeServe Contents Services and ChemDry. These businesses provide repair and replacement services primarily to the end customer/policyholder of general insurers in the United Kingdom through a network of directly employed, franchised and sub-contract engineers.

Following the disposal of the HES Disposal Division the Board announced the proposed closure of HomeServe Property Repairs Limited, based in Nottingham, and Anglia (NW) Limited, based in Dyserth, North Wales (together the 'Property Repairs' business) on 20 October 2009. This closure process was completed during the year ended 31 March 2010. Accordingly, the results of HES Disposal Division and Property Repairs have been treated as discontinued in these financial statements.

The results of the discontinued operations (consisting of HES Disposal Division and Property Repairs), which have been included in the consolidated income statement, were as follows:

	31 March 2010 £000	31 March 2009 £000
Revenue	81,983	233,601
Expenses	(109,538)	(238,268)
Impairment of UK Emergency Services assets	—	(97,184)
Operating loss	(27,555)	(101,851)
Interest	(187)	(647)
Loss before tax	(27,742)	(102,498)
Attributable tax credit	9,661	10,756
Loss on disposal of discontinued operations	(23,944)	—
Net loss attributable to discontinued operations	(42,025)	(91,742)

During the year, the discontinued operations had a net cash outflow of £17,705,000 (2009: cash inflow of £28,387,000) in respect of operating cash flows, paid £962,000 (2009: £5,641,000) in respect of investing activities and paid £nil (2009: £nil) in respect of financing activities. The net assets of HES Disposal Division at 24 September 2009 (the date of disposal) and at 31 March 2009 were as follows:

	24 September 2009 £000	31 March 2009 £000
Goodwill	14,936	15,854
Other intangible assets	4,550	5,593
Property, plant and equipment	704	2,622
Inventories	4,952	5,885
Trade and other receivables	20,178	15,946
Cash and cash equivalents	9,788	2,384
Trade and other payables	(28,828)	(33,762)
Current and deferred tax assets	1,792	1,877
Net assets disposed	28,072	16,399
Total consideration recognised	(9,547)	
Loss on disposal before disposal costs and sale indemnities	18,525	
Disposal costs and sale indemnities	5,419	
Loss on disposal	23,944	

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35. DISCONTINUED OPERATIONS (CONTINUED)

Disposal costs and indemnities consist of professional fees associated with the disposal, together with indemnities for anticipated liabilities arising from the disposal. These costs are expected to be incurred by 31 March 2011.

Total consideration can be analysed as follows:

	£000
Cash on completion	7,652
Deferred consideration received post completion	1,895
Total consideration recognised	9,547

The deferred consideration is expected to be settled in cash by the purchaser, in stages, by 31 March 2011.

In the prior year, as fully detailed in the 2009 financial statements, an impairment charge of £97,184,000 was recorded in respect of discontinued operations, as follows:

	2010 £000	2009 £000
Impairment charge:		
Goodwill (note 14)	—	59,179
Acquisition intangible assets (note 15)	—	16,965
Software assets (note 15)	—	8,739
Property, plant and equipment (note 16)	—	5,149
Other net assets – trade receivables (note 20)	—	7,152
	—	97,184

36. NOTES TO THE CASH FLOW STATEMENT

	2010 £000	2009 £000
Operating profit from continuing operations	106,099	84,359
Operating loss from discontinued operations	(27,555)	(101,851)
Operating profit/(loss) from continuing and discontinued operations	78,544	(17,492)
Adjustments for:		
Depreciation of property, plant and equipment	4,580	6,706
Amortisation of intangible assets	11,871	16,322
Impairment of UK Emergency Services assets	—	97,184
Share-based payments expense	2,397	3,217
Share of results in joint ventures	(3,643)	(3,451)
Profit on disposal of property, plant and equipment and software	446	527
Operating cash flows before movements in working capital	94,195	103,013
Decrease/(increase) in inventories	3,615	(1,547)
Increase in receivables	(27,039)	(14,435)
Increase in payables	2,624	5,199
Cash generated by operations	73,395	92,230
Income taxes paid	(21,490)	(21,009)
Interest paid	(3,610)	(5,739)
Net cash from operating activities	48,295	65,482

Cash and cash equivalents (which are presented as a single class of asset 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

	2010 £000	2009 £000
Minimum lease payments under operating leases recognised in income for the year	5,142	7,756

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:

	2010 £000	2009 £000
Within one year	3,396	9,571
In the second to fifth years inclusive	9,640	16,424
After five years	3,116	12,472
	16,152	38,467

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

38. SHARE-BASED PAYMENTS

During the year ended 31 March 2010, the Group had six (2009: six) 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 2008 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) Long Term Incentive Plan ('LTIP')

The LTIP provides for the grant of nil cost options. The vesting period is three 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.

NOTES TO THE FINANCIAL STATEMENTS

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38. SHARE-BASED PAYMENTS (CONTINUED)

	ESOP	KEIP	LTIP	DBP ¹	SAYE	CSS
2009						
Number						
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
Weighted average exercise price (£)						
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	—
Range of exercise price of options outstanding at 31 March 2009						
£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	—
2010						
Number						
Outstanding at 1 April 2009	1,856,928	360,039	924,638	255,488	775,927	36,906
Granted	—	—	470,689	—	77,291	—
Lapsed	(566,630)	(130,518)	(500,312)	(108,051)	(251,225)	—
Exercised	(425,040)	(81,019)	(10,706)	—	(149,347)	(36,906)
Outstanding at 31 March 2010	865,258	148,502	884,309	147,437	452,646	—
Exercisable at 31 March 2010	584,454	102,474	—	51,399	7,522	—
Weighted average exercise price (£)						
Outstanding at 1 April 2009	10.87	12.49	—	—	8.85	—
Granted	—	—	—	—	12.99	—
Lapsed	14.76	9.34	—	—	9.46	—
Exercised	6.34	9.61	—	—	8.76	—
Outstanding at 31 March 2010	10.54	13.12	—	—	9.25	—
Exercisable at 31 March 2010	7.35	10.95	—	—	11.70	—
Range of exercise price of options outstanding at 31 March 2010						
£0.00 to £4.99	60,000	—	—	—	—	—
£5.00 to £9.99	524,454	74,245	—	—	332,097	—
£10.00 to £14.99	—	11,934	—	—	120,549	—
£15.00 to £19.99	280,804	62,323	—	—	—	—
Weighted average remaining contractual life	5	6	2	—	3	1
Weighted average fair value of options awarded in 2010	—	—	£8.57	—	£5.88	—

¹ 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 £16.24 (2009: £14.87).

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% – 45%
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 £2,397,000 (2009: £3,217,000) 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 £2,484,000 (2009: £2,890,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2010, contributions of £nil (2009: £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 and the current service cost have been measured using the projected unit credit method.

Key assumptions used:	Valuation at	
	2010 £000	2009 £000
Discount rate at 31 March	5.6%	6.9%
Retail price inflation	3.9%	3.4%
Expected rate of salary increases	5.4%	4.9%
Future pension increases	3.9%	3.4%
Expected rate of return on scheme assets at 31 March	8.0%	8.0%
Life expectancy of male aged 60 at balance sheet date	26.4 years	26.3 years

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39. RETIREMENT BENEFIT SCHEMES (CONTINUED)

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

	2010 £000	2009 £000
Current service cost	263	430
Interest cost	861	874
Expected return on scheme assets	(820)	(1,033)
Past service cost	316	108
Recognised in operating costs	620	379

Actuarial gains and losses have been reported in the statement of comprehensive income.

The actual return on scheme assets was a gain of £4,807,000 (2009: loss of £3,410,000).

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

	2010 £000	2009 £000
Present value of defined benefit obligations	(20,422)	(12,363)
Fair value of scheme assets	16,174	10,444
Deficit in scheme recognised in the balance sheet in non-current liabilities	(4,248)	(1,919)

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

	2010 £000	2009 £000
At 1 April	12,363	13,283
Employer's part of the current service cost	263	430
Interest cost	861	874
Contributions from scheme members	57	73
Actuarial losses/(gains)	6,651	(2,219)
Benefits paid	(89)	(186)
Past service cost	316	108
At 31 March	20,422	12,363

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

	2010 £000	2009 £000
At 1 April	10,444	13,458
Expected return on scheme assets	820	1,033
Actuarial gains/(losses)	3,987	(4,443)
Contributions from the sponsoring companies	955	509
Contributions from scheme members	57	73
Benefits paid	(89)	(186)
At 31 March	16,174	10,444

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

The amount recognised outside the income statement in the statement of comprehensive income for 2010 is a loss of £2,664,000 (2009: loss of £2,049,000). The cumulative amount recognised outside profit and loss at 31 March 2010 is a loss of £4,314,000.

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	
	2010 %	2009 %	2010 £000	2009 £000
Equity instruments	8.0	8.0	15,326	10,439
Other assets	4.5	4.2	848	5
			16,174	10,444

The overall expected rate of return on assets for the financial year ending 31 March 2010 was 8.0% per annum (2009: 8.0% per annum). 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 2009.

The history of experience adjustments is as follows:

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of defined benefit obligations	(20,422)	(12,363)	(13,283)	(14,535)	(13,200)
Fair value of scheme assets	16,174	10,444	13,458	13,888	12,044
(Deficit)/surplus in scheme	(4,248)	(1,919)	175	(647)	(1,156)
Experience adjustments on scheme liabilities					
Amount of (gain)/loss (£000)	(238)	807	(164)	144	95
Percentage of scheme liabilities (%)	(1)	7	(1)	1	1
Experience adjustments on scheme assets					
Amount of (gain)/loss (£000)	(3,987)	4,443	1,961	(420)	(1,628)
Percentage of scheme assets (%)	(25)	43	15	(3)	(14)

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £500,000 (2009: £800,000) plus any Pension Protection Fund levy payable.

40. EVENTS AFTER THE BALANCE SHEET DATE

On 14 April 2010 the Group announced the further development of its US business with the acquisition of National Grid Energy Services' ('NGES') service contract business from National Grid Energy Services LLC. HomeService USA has also entered into a marketing agreement to use the National Grid Energy Services name. National Grid Energy Services is a subsidiary of National Grid USA, one of the largest utilities in the US serving 6.7 million customers including over 5 million residential households. Completion is expected to take place within 120 days of 14 April 2010.

On 29 April 2010 the Group announced another development in its US business, HomeService USA, with the signing of a five-year agreement with Southern California Gas Company (SoCalGas). SoCalGas is an energy and services company primarily engaged in the distribution of natural gas throughout Southern California with approximately 5.3 million residential customers.

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

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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 services		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Harpin Limited	—	—	326	232	—	—	92	35
Pilot Services (GB) Limited	—	—	18	39	—	—	—	5
Joint ventures	2,331	2,026	1,000	—	887	1,581	387	—

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

In addition to the transactions above, Home Service USA Corp purchased advisory services of £65,000 (2009: £nil) from Lexicon Partners (US) LLC, which is a New York based US subsidiary of the Lexicon Partnership LLP, a UK based limited liability partnership of which Andrew Sibbald, Non-Executive Director, is the Senior Partner. The balance outstanding at the end of the year was £65,000 (2009: £nil).

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.

	2010 £000	2009 £000
Short-term employee benefits	5,983	5,258
Post-employment benefits	482	488
Share-based payment	1,598	1,767
	8,063	7,513

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 £344,000 (2009: £271,000) and the balance due to Harpin Limited and Pilot Services (GB) Limited at the year end amounted to £92,000 (2009: £40,000).

Except as noted above there were no other transactions with Directors requiring disclosure.

42. 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	Company
– cash and cash equivalents	– cash and cash equivalents
– bank overdrafts and revolving credit facilities	– bank overdrafts and revolving credit facilities
– trade receivables	– trade receivables
– loans to joint ventures	– inter-company receivables and payables
– trade payables	– trade payables
– loan notes	

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 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 26 to 33.

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

	2010 £000	2009 £000
Shareholders' funds	234,061	212,984
Revolving credit facilities	78,000	55,000
Unsecured loan notes	300	300

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 20, 22 and 24, the Group has derivative instruments in designated hedge accounting relationships with a notional value of £nil (2009: £50,000,000) and a carrying value and fair value of £nil (2009: £1,947,000 liability). 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.

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42. FINANCIAL INSTRUMENTS (CONTINUED)

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 for certain periods, 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.

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
2010					
Under 2 months	28,000	85,989	300	1,854	116,143
Between 2 and 6 months	—	—	—	391	391
Between 6 and 12 months	—	—	—	1,914	1,914
Between 1 and 2 years	50,000	—	—	3,044	53,044
Between 2 and 3 years	—	—	—	1,688	1,688
Between 3 and 4 years	—	—	—	1,950	1,950
Between 4 and 5 years	—	—	—	954	954
After 5 years	—	—	—	3,451	3,451
Total	78,000	85,989	300	15,246	179,535

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2009					
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
Total	55,000	123,051	300	16,898	195,249

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

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).

	2010	2009
Increase in interest rate	10%	10%
Reduction in profit before tax (£000)	322	422

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	
	2010 £000	2009 £000	2010 £000	2009 £000
Euro	45,752	31,762	(32,648)	(25,584)
US dollar	20,374	39,968	(14,193)	(44,733)

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.

	2010	2009
Increase in £:\$ exchange rate:	10%	10%
Effect on profit before tax (£000)	86	51
Effect on equity (£000)	120	1,255
Increase in £:€ exchange rate:	10%	10%
Effect on profit before tax (£000)	(1,024)	501
Effect on equity (£000)	(1,535)	194

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. 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 22 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 two years, based on contractual payment terms.

COMPANY INDEPENDENT AUDITORS' REPORT

We have audited the parent Company financial statements of HomeServe plc for the year ended 31 March 2010 which comprise the Company balance sheet, the Company statement of comprehensive income, the Company statement of changes in equity, the Company cash flow statement and the related notes 43 to 59. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the parent Company's affairs as at 31 March 2010 and as applied in accordance with the provisions of the Companies Act 2006;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of HomeServe plc for the year ended 31 March 2010.

Christopher Robertson

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors
Birmingham
25 May 2010

COMPANY STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2009 £000
Loss for the year		(10,968)	(6,121)
Actuarial losses on defined benefit pension scheme	39	(2,664)	(2,049)
Movement on cash flow hedge	32	1,947	(1,947)
Tax on items taken directly to equity	51	746	537
Total comprehensive expense for the year attributable to equity holders of the parent		(10,939)	(9,580)

COMPANY BALANCE SHEET

31 MARCH 2010

	Notes	2010 £000	2009 £000
Non-current assets			
Other intangible assets	46	1,713	—
Investment in subsidiaries	47	108,468	108,468
Deferred tax assets	51	4,288	2,456
		114,469	110,924
Current assets			
Trade and other receivables	48	177,418	153,568
Current tax assets		2,792	—
Cash and cash equivalents	48	50,663	65,515
		230,873	219,083
Total assets		345,342	330,007
Current liabilities			
Trade and other payables	49	(91,589)	(67,403)
Current tax liabilities		—	(2,718)
Derivative financial instruments	21	—	(1,947)
Bank loans	50	(28,000)	(55,000)
		(119,589)	(127,068)
Net current assets		111,284	92,015
Non-current liabilities			
Retirement benefit obligation	39	(4,248)	(1,919)
Bank loans	50	(50,000)	—
		(54,248)	(1,919)
Total liabilities		(173,837)	(128,987)
Net assets		171,505	201,020
Equity			
Share capital	26	8,218	8,167
Share premium account	27	36,102	33,486
Merger reserve	28	70,992	70,992
Share incentive reserve	57	2,243	2,623
Capital redemption reserve	31	1,200	1,200
Hedging reserve	32	—	(1,947)
Retained earnings	58	52,750	86,499
Total equity		171,505	201,020

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 25 May 2010. They were signed on its behalf by:

Martin Bennett
Chief Financial Officer
25 May 2010

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2010

	Share capital £000	Share premium account £000	Merger reserve £000	Share incentive reserve £000	Capital redemption reserve £000	Hedging and translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2009	8,167	33,486	70,992	2,623	1,200	(1,947)	86,499	201,020
Total comprehensive income	—	—	—	—	—	1,947	(12,886)	(10,939)
Dividends paid	—	—	—	—	—	—	(23,180)	(23,180)
Issue of share capital	51	2,616	—	—	—	—	—	2,667
Issue of trust shares	—	—	—	—	—	—	(1,111)	(1,111)
Share-based payments	—	—	—	796	—	—	—	796
Share options exercised	—	—	—	(1,176)	—	—	1,176	—
Tax on exercised share options	—	—	—	—	—	—	1,319	1,319
Deferred tax on share options	—	—	—	—	—	—	933	933
Balance at 31 March 2010	8,218	36,102	70,992	2,243	1,200	—	52,750	171,505

YEAR ENDED 31 MARCH 2009

	Share capital £000	Share premium account £000	Merger reserve £000	Share incentive reserve £000	Capital redemption reserve £000	Hedging and translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2008	8,147	32,507	70,992	1,551	1,200	—	119,663	234,060
Total comprehensive income	—	—	—	—	—	(1,947)	(7,633)	(9,580)
Dividends paid	—	—	—	—	—	—	(20,415)	(20,415)
Adjustment to prior year dividends	—	—	—	—	—	—	(3,500)	(3,500)
Issue of share capital	20	979	—	—	—	—	—	999
Issue of trust shares	—	—	—	—	—	—	(53)	(53)
Share-based payments	—	—	—	1,405	—	—	—	1,405
Share options exercised	—	—	—	(333)	—	—	333	—
Tax on exercised share options	—	—	—	—	—	—	117	117
Deferred tax on share options	—	—	—	—	—	—	(2,013)	(2,013)
Balance at 31 March 2009	8,167	33,486	70,992	2,623	1,200	(1,947)	86,499	201,020

COMPANY CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2009 £000
Net cash (outflow)/inflow from operating activities	44	(23,845)	35,317
Investing activities			
Interest received		6,766	5,765
Purchases of intangible assets		(1,713)	—
Issue of shares from the employee benefit trust		1,453	2,010
Net cash from investing activities		6,506	7,775
Financing activities			
Dividends paid		(23,180)	(20,415)
Share capital issued		2,667	999
Increase/(decrease) in bank loans		23,000	(35,000)
Net cash from/(used in) financing activities		2,487	(54,416)
Net movement in cash and cash equivalents		(14,852)	(11,324)
Cash and cash equivalents at beginning of year		65,515	76,839
Cash and cash equivalents at end of year		50,663	65,515

COMPANY ONLY

The following notes 43 to 59 relate to the Company only position for the year ended 31 March 2010.

43. SIGNIFICANT ACCOUNTING POLICIES

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's loss for the year was £10,968,000 (2009: £6,121,000 loss).

The separate financial statements of the Company are presented as required by the Companies Act 2006. 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.

44. NOTES TO THE CASH FLOW STATEMENT

	2010 £000	2009 £000
Operating loss	(19,466)	(10,651)
Adjustments for:		
Share-based payment expense	796	1,405
Operating cash flows before movements in working capital	(18,670)	(9,246)
Increase in receivables	(26,412)	(5,003)
Increase in payables	23,956	50,320
Cash (used in)/generated from operations	(21,126)	36,071
Income taxes received	(93)	1,911
Interest paid	(2,626)	(2,665)
Net cash (outflow)/inflow from operating activities	(23,845)	35,317

45. OTHER INFORMATION

	2010 £000	2009 £000
Fees payable to the Company's auditors for the audit of the Company's financial statements	31	50
Total audit fees	31	50

	2010 £000	2009 £000
Tax services	45	63
Information technology services	19	—
Corporate finance services	25	—
Total non-audit fees	89	63

46. OTHER INTANGIBLE ASSETS

In March 2010 the Company acquired trademark and access rights for £1,713,000. No amortisation has been charged in the current year due to the timing of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

47. SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 March 2010 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 %
Intermediate Holding Companies			
HomeServe Assistance Limited ¹	England	100	100
HomeServe Enterprises Limited ¹	England	100	100
HomeServe International Limited	England	100	100
UK Membership			
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
001 Reactfast Solutions Limited	England	100	100
Affinity Partners Limited	Guernsey	100	100
UK Emergency Services			
HomeServe Property Repairs Limited	England	100	100
Anglia (NW) Limited	England	100	100
Continental Europe			
HomeServe Ibérica SL	Spain	100	100
Reparalia S.A.	Spain	100	100
SPT Consult GCV	Belgium	100	100
Société Française de Garantie S.A.	France	100	100
United States of America			
Home Service USA Corp	USA	100	100
Home Service Repair Management Corp	USA	100	100

¹ Directly held investments. All other subsidiary investments are held indirectly through these intermediary holding companies.

The movement in investments is as follows:

	£000
1 April 2008, 1 April 2009 and 31 March 2010	108,468

48. FINANCIAL ASSETS

Trade and other receivables

	2010 £000	2009 £000
Accounts receivable from Group companies	157,880	151,329
Other receivables	19,479	1,177
Prepayments and accrued income	59	1,062
	177,418	153,568

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 (2009: £nil) 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 30 days (2009: 15 days).

Ageing of past due but not impaired receivables:

	2010 £000	2009 £000
1–30 days	—	—
31–60 days	—	—
61–90 days	—	—
91 days +	—	—
Balance at 31 March past due but not impaired	—	—
Current	157,880	151,329
Balance at 31 March	157,880	151,329

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 £50,663,000 (2009: £65,515,000) 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.

49. FINANCIAL LIABILITIES

Trade and other payables

	2010 £000	2009 £000
Trade creditors and accruals	6,392	4,686
Amounts payable to Group companies	77,243	61,254
Taxes and social security, excluding corporation tax	4,071	612
Other creditors	3,883	851
	91,589	67,403

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 (2009: 45 days).

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

50. BANK LOANS

Details of the borrowing facilities are given in note 22 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

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 2008	—	4,138	4,138
Credit to income	537	(206)	331
Credit/(charge) to equity	—	(2,013)	(2,013)
At 1 April 2009	537	1,919	2,456
Credit to income	746	153	899
Credit to equity	—	933	933
At 31 March 2010	1,283	3,005	4,288

There is no unprovided deferred tax.

52. EVENTS AFTER THE BALANCE SHEET DATE

Apart from as disclosed in note 40, there were no other 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	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Harpin Limited	—	—	319	177	—	—	92	35
Pilot Services (GB) Limited	—	—	16	33	—	—	—	5
Joint Ventures	2,331	2,026	1,000	—	887	804	387	—
Subsidiary Companies	3,846	8,394	—	—	157,880	151,329	77,243	61,254

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 26, 27, 28, 31 and 32 to the financial statements.

55. SHARE-BASED PAYMENTS

During the year ended 31 March 2010, the Company had five (2009: 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 three 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 2010

55. SHARE-BASED PAYMENTS (CONTINUED)

	ESOP	KEIP	LTIP	DBP ¹	SAYE
2009					
Number					
Outstanding at 1 April 2008	992,091	299,352	198,232	147,665	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
Weighted average exercise price (£)					
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
Range of exercise price of options outstanding at 31 March 2009					
£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
2010					
Number					
Outstanding at 1 April 2009	920,556	96,669	396,910	147,665	88,495
Transfer	172,421	34,426	104,376	113,848	—
Granted	—	—	159,420	—	5,276
Lapsed	(160,337)	(57,193)	—	(64,954)	(20,819)
Exercised	(217,500)	(16,870)	(308,041)	(104,384)	(14,132)
Outstanding at 31 March 2010	715,140	57,032	352,665	92,175	58,820
Exercisable at 31 March 2010	544,454	50,376	—	—	—
Weighted average exercise price (£)					
Outstanding at 1 April 2009	8.97	14.63	—	—	8.74
Transfer	12.45	10.25	—	—	—
Granted	—	—	—	—	12.99
Lapsed	14.98	16.08	—	—	10.38
Exercised	5.32	9.61	—	—	7.99
Outstanding at 31 March 2010	9.57	12.02	—	—	8.73
Exercisable at 31 March 2010	7.19	13.04	—	—	—
Range of exercise price of options outstanding at 31 March 2010					
£0.00 to £4.99	60,000	—	—	—	—
£5.00 to £9.99	484,454	28,803	—	—	49,532
£10.00 to £14.99	—	11,934	—	—	9,288
£15.00 to £19.99	170,686	16,295	—	—	—
Weighted average remaining contractual life	5	6	2	—	3
Weighted average fair value of options awarded in 2010	—	—	—	—	£5.81

¹ 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 £17.34 (2009: £14.68).

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%–45%
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 £796,000 (2009: £1,405,000) related to equity-settled share-based payment transactions.

56. RETIREMENT BENEFIT SCHEMES

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

57. SHARE INCENTIVE RESERVE

	£000
Balance at 1 April 2008	1,551
Share-based payment charges in the year	1,405
Share options exercised in year	(333)
Balance at 1 April 2009	2,623
Share-based payment charges in the year	796
Share options exercised in year	(1,176)
Balance at 31 March 2010	2,243

58. RETAINED EARNINGS

	£000
Balance at 1 April 2008	119,663
Total statement of comprehensive income	(7,633)
Dividends	(20,415)
Adjustment to prior year dividends	(3,500)
Current tax on exercised share option gains taken directly to equity	117
Deferred tax on share options	(2,013)
Issue of trust shares	(53)
Share options exercised in the year	333
Balance at 1 April 2009	86,499
Total statement of comprehensive income	(12,886)
Dividends	(23,180)
Current tax on exercised share options taken directly to equity	1,319
Deferred tax on share options	933
Issue of trust shares	(1,111)
Share options exercised in the year	1,176
Balance at 31 March 2010	52,750

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

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:

	2010 £000	2009 £000
Shareholders' funds	171,505	201,020
Revolving credit facilities	(27,337)	(10,515)

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 for certain periods, 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
2010			
Under 2 months	28,000	91,589	119,589
Between 1 and 2 years	50,000	—	50,000
Total	78,000	91,589	169,589

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Total £000
2009			
Under 2 months	55,000	67,403	122,403
Total	55,000	67,403	122,403

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

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).

	2010	2009
Increase in interest rate	10%	10%
Increase in profit before tax (£000)	161	207

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 22 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 two years, based on contractual payment terms.

FIVE YEAR SUMMARY

2006–2010

Continuing operations

Unaudited	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Revenue					
UK Membership	286,650	246,609	236,452	188,157	159,386
Continental Europe (excluding joint ventures)	56,669	40,250	18,961	9	151
United States of America	25,676	17,919	8,097	3,841	1,857
Eliminations	—	(497)	(295)	(11,854)	(12,499)
External Sales	368,995	304,281	263,215	180,153	148,895
Profit/(loss)					
UK Membership	95,754	87,228	76,302	56,720	43,960
Continental Europe	5,151	3,406	765	(221)	(1,595)
United States of America	1,483	(294)	(2,248)	(2,381)	(1,032)
	102,388	90,340	74,819	54,118	41,333
Amortisation of acquisition intangibles	(6,484)	(3,664)	(2,251)	(884)	(422)
Exceptional items	10,195	(2,317)	(2,154)	—	—
Operating profit	106,099	84,359	70,414	53,234	40,911
Net interest	(3,863)	(3,571)	(5,250)	(2,175)	(456)
Profit before tax	102,236	80,788	65,164	51,059	40,455

Revenue in respect of 2010 and 2009 has been shown gross of commissions payable to third parties. It is not practicable to re-present this information for 2006, 2007 and 2008. Exceptional revenue in respect of 2010 has been included in exceptional items.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

2010

30 July	Annual General Meeting
30 July	Record date for share split
2 August	Share split
4 August	Final dividend for the year ended 31 March 2010 to be paid
23 November	Interim results for the six months ending 30 September 2010 to be announced

2011

January	Interim dividend for the year ending 31 March 2011 to be paid
May	Preliminary announcement of results for the year ending 31 March 2011
June	2011 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

WEBSITE

The HomeServe website at www.homeserveplc.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 plc

Cable Drive, Walsall WS2 7BN



Tel: 01922 426262

www.homeserveplc.com