

Annual Report & Accounts 2011



HomeServe



HomeServe at a glance

HomeServe provides home emergency and repair services to over 4.9 million customers across the UK, the USA, France and Spain. Services are provided through our membership businesses which are responsible for the marketing and administration of over 11 million home repair and appliance warranty policies.

UK

- > Achieved our 4% customer growth target
- > Maintained a high retention rate of 82.7%
- > Successfully renewed all of our water utility partner agreements
- > A significant increase in the number of jobs completed via One Contact
- > Robust underlying operating margin.

USA

- > A step change in our business with an 83% increase in policy numbers
- > Increasing momentum in signing new partners and acquiring existing programmes
- > Strong organic growth with gross new policy sales (excluding National Grid) up 55% to 0.45m
- > Operating profit of £6.1m, up from £1.5m in 2010.

Doméo

- > Continued strong growth in customer and policy numbers
- > Maintained a high retention rate of 88.4%
- > Adjusted operating profit² up £2.5m to £8.2m, driven by strong renewal income.

Spain

- > More than doubled the number of customers and policies
- > New outbound telesales operation delivering good results
- > Commenced management of Indesit's manufacturer warranty programme.

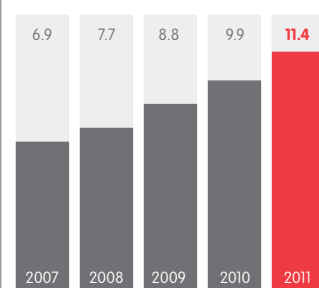
New markets

- > Good results from initial manufacturer warranty marketing in France
- > Test marketing in Italy with Enel delivering good take-up rates
- > Initial results give us confidence to increase investment in 2012.



Worldwide summary

Total policies (m)



68m

Affinity partner households

4.9m

Customers

83.6%

Retention rate

2.9m

Gross new policy sales

£119.2m

Adjusted operating profit²

11.4m

Policies

¹ Revenue includes £41.7m of income related to repairs undertaken by UK sub-contract engineers in 2011 (2010: nil) and excludes exceptional revenue of £10.2m in 2010. Underlying revenue is used to refer to revenue excluding the income related to repairs undertaken by UK sub-contract engineers and is also used together with adjusted operating profit² to calculate the underlying operating margin. ² Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional revenue, see Financial review and notes 5 and 6.

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www.homeserveplc.com

Highlights

Underlying revenue¹ (£m)

^15%

2011	425.4
2010	369.0

Adjusted operating profit² (£m)

^14%

2011	119.2
2010	104.4

Adjusted profit before tax² (£m)

^16%

2011	117.1
2010	100.6

Adjusted earnings per share³ (p)

^17%

2011	25.9
2010	22.2

Revenue¹ (£m)

^27%

2011	467.1
2010	369.0

Statutory profit before tax (£m)

^3%

2011	104.8
2010	102.2

Basic earnings per share (p)

^5%

2011	24.0
2010	22.9

Dividend per share (p)

^17%

2011	10.3
2010	8.8

A loyal and growing customer base worldwide

- > Access to 68m households
- > 4.9m customers, up 14%
- > 11.4m policies, up 15%
- > Global retention rate remains high at 83.6% (2010: 83.6%)

Good growth in the UK

- > Customer numbers up 4% to 3m, policy numbers up 6% to 7.5m
- > Retention rate remains high at 82.7%, exceeding our target of 82%
- > Robust underlying operating margin¹

Increasing momentum in our International operations

- > Growing USA footprint with organic and acquisitive partner growth
- > Strong organic growth with USA gross new policies up 55% to 0.45m
- > USA adjusted operating profit² of £6.1m, up from £1.5m in 2010
- > Doméo adjusted operating profit² up £2.5m to £8.2m, with strong customer and policy growth
- > Increased investment in our New Markets with positive results from test marketing in Italy with Enel, and manufacturer warranties with Indesit and Mistergooddeal in Europe.

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² Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional revenue, see Financial review and notes 5 and 6.

³ Excluding amortisation of acquisition intangibles and exceptional revenue, see Financial review and note 13.

⁴ See Cash flow statement in the Financial review.

Chairman's statement



JM Barry Gibson

Chairman

I am pleased to report that HomeServe has delivered against all of the targets we set at the start of the year, including a 4% increase in customer numbers and a retention rate of 82.7% in the UK and £6.1m adjusted operating profit² in the USA.

We now have over 68m affinity partner households worldwide and have grown our worldwide customer numbers by 14% to 4.9m. The continued development of our customer portfolio, together with increasing policies per customer and high and stable retention rates, has delivered another year of strong earnings growth in all of our established markets.

Results

In the year, underlying revenue¹ was up 15% and adjusted operating profit² up by 14% to £119.2m (2010: £104.4m). Adjusted profit before tax² was up 16% to £117.1m (2010: £100.6m) and adjusted earnings per share³ up 17% to 25.9p (2010: 22.2p) reflecting the growth in customer numbers, increased income per customer and the strong retention performance in all regions.

Free cash flow⁴ was £86.1m, up from £26.3m in the prior year with net debt at the end of the year of £11.8m (2010: £52.9m). Our balance sheet remains strong and the business continues to be highly cash generative.

On a statutory basis, revenue increased by 27% to £467.1m, profit before tax has increased by 3% to £104.8m and earnings per share has increased by 5% to 24.0p.

Business developments

In the UK, our core utility marketing campaigns, together with our customer growth initiatives, have delivered a 4% increase in customer numbers (2010: 2.4%) with both water and heating policies higher than a year ago. In addition, our customers remain loyal with our UK retention rate stable at 82.7% (2010: 83.0%), providing continued high visibility of our future earnings.

In the USA we have achieved strong organic growth during the year with gross new policy sales of 0.45m, 55% higher than a year ago, and we continue to make good progress in signing new affinity partners and acquiring existing home emergency policy books. In addition to the agreements announced in April 2011 with National Grid Energy Services and Southern California Gas, we signed new affinity agreements with two utilities representing 1m households. Since the year end we have also signed two further agreements representing 0.15m households together with 10k existing policies. Our USA business now serves 0.9m customers holding 1.4m policies, up 57% and 83% respectively on a year ago.

Doméo, our French joint venture, has delivered an 11% increase in customer numbers and our share of adjusted operating profit² has increased by 44% to £8.2m. Gross new policy sales in the second half of the year were over 10% higher than in the same period last year, with the new marketing initiatives introduced during the year delivering good results.

In Spain we now have 0.17m customers holding 0.22m policies, more than double the number a year ago. We have developed our sales channels during the year, introducing an outbound telesales operation and we are expanding our product range with the management of Indesit's manufacturer warranty programme.

We continue to invest in our New Markets operations. In SFG (our French warranty business), we are developing a post point of sale and manufacturer warranty business and have signed agreements with Indesit and Mistergooddeal during the year. We were also pleased to commence a 15 month test marketing agreement with Enel Energia in Italy.

Across the world our membership businesses managed over 1.3m repairs, an increase of over 13% over the past 12 months, with increasing customer satisfaction levels.

Shares and Dividend

On 2 August 2010 a 5 for 1 sub division of the Company's share capital was implemented to improve the liquidity and marketability of the ordinary shares of the Company.

The Board is proposing a final dividend of 7p per share bringing the total dividend for the year to 10.3p (2010: 8.8p). The dividend increase of 17% is consistent with our objective of increasing our dividend in line with adjusted earnings per share³.

People

On behalf of the Board I would like to thank all of our people for their contribution to another excellent set of results. In particular, thank you to our engineers and call centre agents who worked so hard to maintain customer service levels during the difficult winter weather conditions experienced in a number of our operations.

In the UK our people have worked closely with the charity, Marie Curie Cancer Care, on a number of initiatives and we are making good progress towards achieving our target of raising £1m over 3 years.

Board

During the year we have continued to review the structure of the Board and took the decision to strengthen it with two new appointments. On 5 July we appointed Jonathan King, Chief Executive of HomeServe USA, as an Executive Director and on 23 November we appointed Stella David, Chief Executive Officer at William Grant & Sons, as a Non-Executive Director. I would like to formally welcome them both to the Board.

Summary

We have delivered another excellent set of financial results whilst continuing to invest in growing the business. Whilst recognising that a number of global economic uncertainties remain, we are continuing to implement our clear and focused strategy, delivering growth in both our UK and International operations.

Our 'business to consumer' membership business model is delivering excellent results. HomeServe remains well positioned for the future and we look forward to another year of strong growth.

JM Barry Gibson

Chairman

24 May 2011

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⁴ See Cash flow statement in the Financial review.

Products people want

- > Our products are designed to free our customers from the worry and inconvenience of home emergencies and repairs.
- > Our core product range provides cover to ensure that homeowners' utility services (water, heating, electric) and domestic appliances are fixed by reliable tradesmen without the worry of any additional cost when an emergency occurs.
- > We are continually developing our product range to meet the needs of our customers. For example in the UK we launched KeyCare which assists members if they lose the keys to their home or car, whilst in Spain we launched our Club product which gives customers priority access to our network of repair engineers and includes 2 hours free labour.
- > Our UK combined policy which provides cover for multiple emergencies is held by over 21% of the UK customer base and we are looking to replicate this product in our International businesses in the future.

Our measurement

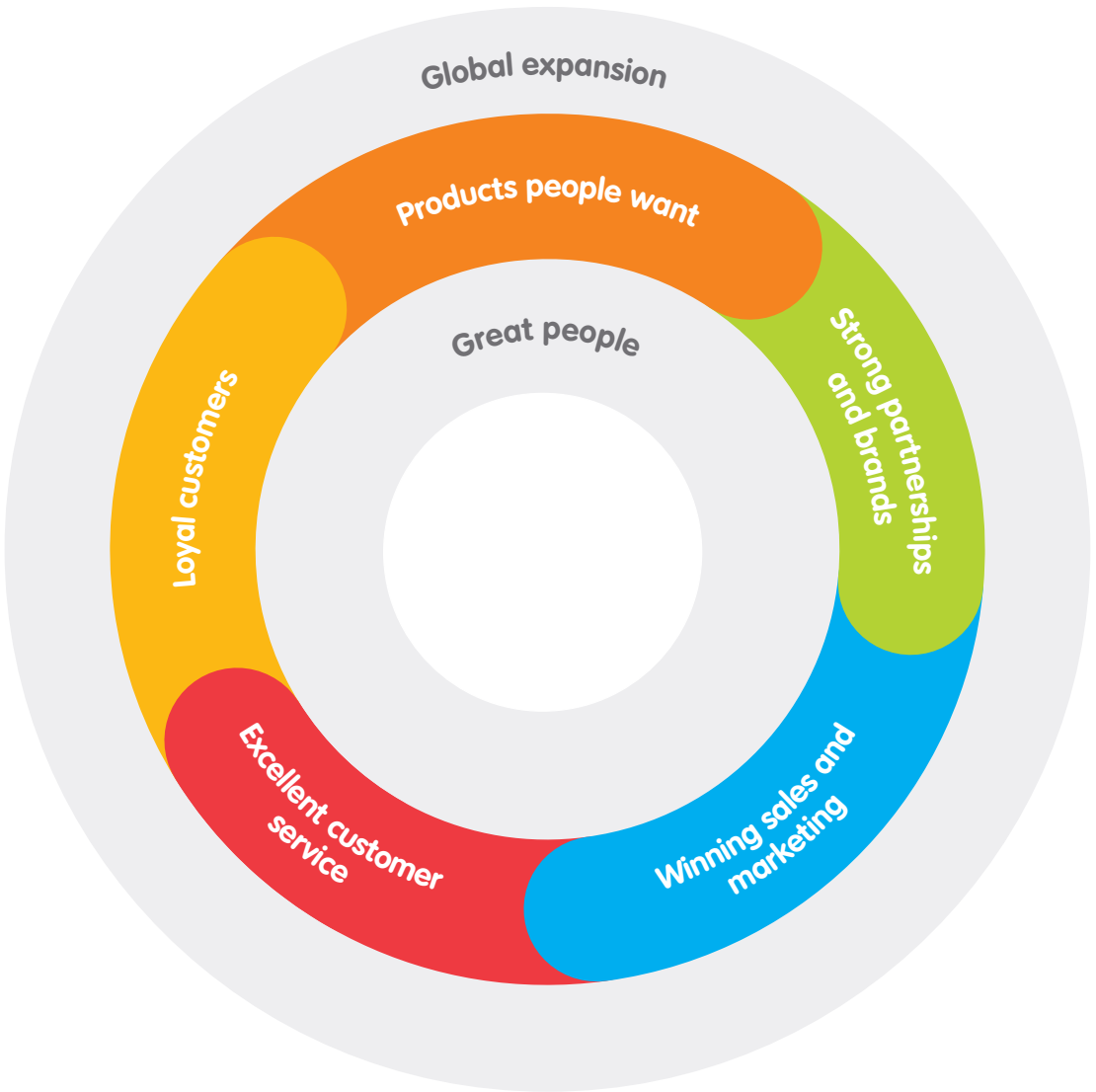
Global policy numbers (m)





Our business model

We have a successful, membership-focused business model that provides us with a sustainable competitive advantage and high levels of recurring income.



Our strategy

We have a clear and simple growth strategy, which is built around seven key principles.

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 (covering multiple emergencies) 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 (affinity partner households). 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 incentives.

Great people

We recognise the importance of our people and are investing in training and development 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.

Key performance indicators

UK

Customers (m)



Policies (m)



Retention rate (%)



Net income per customer (£)



Doméo

Customers (m)



Policies (m)

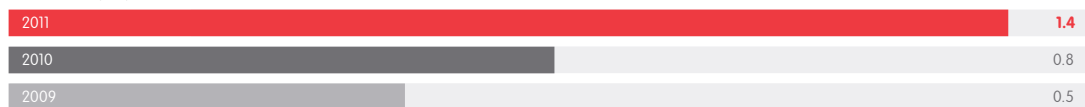


Retention rate (%)



Net income per customer (€)



USA**Customers (m)****Policies (m)****Retention rate (%)****Net income per customer (\$)****Spain****Customers (m)****Policies (m)**

Chief Executive's review



Richard Harpin

Chief Executive Officer

HomeServe's vision is to be the first place people turn to for home emergencies and repairs. We are achieving this by providing a membership service which frees our customers from the worry and inconvenience of home emergencies and repairs. Our business model of building long-term relationships with business partners, leveraging our product development expertise, producing leading sales and marketing materials and delivering excellent customer service with high renewal rates continues to deliver strong returns for shareholders with growth in adjusted profit before tax² and adjusted earnings per share³.

We continue to grow our UK business, with an increased customer base and income per customer whilst replicating this proven model internationally in the USA, Spain and, through our joint venture Doméo, in France.

Each of these international businesses trades profitably and delivered excellent growth in operating margins and adjusted operating profits² in 2011.

We are also investing in our New Markets where we are building our French manufacturer warranty business, Société Française de Garantie (SFG), consistent with our UK warranty business, as well as utility based membership businesses in Belgium and Italy.

Worldwide gross new policy sales increased by 18% to 2.9m (2010: 2.5m) which, combined with high stable retention rates, has driven total policy numbers up 15% to 11.4m (2010: 9.9m). Total customer numbers across all our businesses have increased by 14% to 4.9m (2010: 4.3m) driven by particularly strong performances in both the UK and USA.

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Global membership business metrics	UK		International		Total		Change
	FY11	FY10	FY11	FY10	FY11	FY10	
Affinity partner households (m)	23	23	45	45	68	68	—
Customers (m)	3.0	2.9	1.9	1.4	4.9	4.3	^14%
Penetration of affinity households (%)	12.8	12.3	4.3	3.2	7.2	6.3	^0.9ppts
Income per customer (£)	89	82	64	62	79	75	^5%
Policies (m)	7.5	7.1	3.9	2.8	11.4	9.9	^15%
Policies per customer	2.5	2.5	2.0	1.9	2.3	2.3	—
Policy retention rate (%)	82.7	83.0	85.5	86.5	83.6	83.6	—
Adjusted operating profit ² (£m)	104.3	95.7	14.9	8.7	119.2	104.4	^14%

Our International operations currently deliver a relatively small, but fast growing, proportion of the Group's profit. In 2011, adjusted operating profit² from our established International operations in the USA, Doméo and Spain more than doubled to £16.0m. Our International adjusted operating profit², including the investment we have made in our New Markets operations of £1.1m was £14.9m, a 71% increase over the past twelve months.

The penetration of our International households has increased from 3.2% to 4.3% over the past year and we believe this can grow further in the future enabling us to significantly increase the contribution from our International businesses in the medium term.

Across the world our membership businesses managed over 1.3m repairs, an increase of over 13% over the past 12 months. We have a high quality network of engineers all of whom are vetted and managed by experienced contractor managers. We manage the performance of our engineers using a series of performance indicators and customer surveys. During 2011 over 94% of all customers who had a claim were satisfied with the service they received, higher than a year ago.

The following sections report on the performance of each of our business segments. Since last year we have reviewed our segmental presentation and now provide separate disclosure relating to each of our established businesses (UK, USA, Spain and Doméo, our joint venture in France), with those businesses that we are currently developing now classified together as "New Markets".

UK

- > Achieved our 4% customer growth target
- > Maintained a high retention rate of 82.7%
- > Successfully renewed all of our water utility partner agreements
- > A significant increase in the number of jobs completed via One Contact
- > Robust underlying operating margin

We are pleased to report that we have achieved our customer growth target in the UK with customer numbers of 3.0m, 4% higher than a year ago (2010: 2.9m). We achieved gross new policy sales of 1.8m (2010: 1.6m), with total policy numbers increasing by 6% to 7.5m (2010: 7.1m). The growth in customer and policy numbers reflects the continued success of our core utility marketing campaigns, the growth in our manufacturer warranty business, as well as the contribution from our customer growth initiatives, including 'One Contact', landlord products and financial services partners.

We have had an excellent year in terms of retention with the rate remaining high at 82.7%, as a result of a number of ongoing initiatives. Our retention call centre agents' productivity and effectiveness have improved, further reflecting increased staff tenure, better training and coaching as well as the development of new retention products and propositions.

Our growth in the number of customers and our strong retention performance is particularly pleasing given the continuing uncertain economic climate and the perceived increase in competition following a number of high profile media campaigns from both new and existing home emergency providers.

Our customer service proposition of directly employed, franchised and sub-contract engineers is delivering improved customer service with 93% of customers satisfied. Our network of around 300 directly employed plumbers completed over 80% of our water related repairs over the past 12 months with 92% of jobs completed at the first visit. The coldest winter in 100 years presented a number of challenges for our engineers and we were satisfied with the level of service we delivered during this period despite record levels of emergency calls.

We are pleased to report that we have continued to grow the number of our core water related policies. Water utilities continue to be key partners to our UK business and we are delighted that we completed the re-signing of all our partners that were due to renew during the year. We have now renewed all of our water utility partners, most for the third time, with the majority now being on long-term contracts.

Manufacturer warranties remain a key part of our business with core renewable policies (where we have a direct ongoing relationship with the customer) increasing by 30% to 503k. Over the past twelve months we have commenced marketing and administering Dyson's manufacturer warranty scheme in the UK, and subsequent to the year end, in April 2011, we signed a deal with Ferroli, an Italian boiler manufacturer, to take over management of their warranty programme.

'Other' policies which includes pest and home appliance cover are particularly popular with Combined policy holders. Combined policies, which enable customers to consolidate multiple elements of cover into a single policy, continue to grow, and now represent 21% (2010: 19%) of UK customers. On average a combined policy customer holds six policy elements.

The success of One Contact, our 'pay on use' service, in delivering new membership customers is now becoming evident with the number of emergencies repaired during the year more than doubling. The proportion of customers converted into full policy members has also increased, finishing the year at over 80%. In 2012, we will focus on increasing the number of One Contact emergencies repaired whilst maintaining the high job to member conversion rate.

Subsequent to the year end, we aired a new TV and radio advertising campaign in the Granada TV region, promoting the HomeServe brand and our '0800 247 999' telephone number. Whilst the campaign is targeted at developing our One Contact service, our utility partners in the region are very supportive of the campaign as it increases awareness of HomeServe and therefore the likelihood of customers buying policies in the future. Initial analysis of call volumes and policy sales is showing a positive impact from the campaign.

Over the past year we have made good progress in developing and rolling out our customer growth initiatives in the UK:

- > We have seen a good take-up of our landlord and flat policies which have been sold through a mix of marketing activity including outbound telephony and direct advertising under the HomeServe brand.

UK performance metrics	2011	2010	Change
Total number of households (m)	26	26	—
Affinity partner households (m)	23	23	—
Customers (m)	3.0	2.9	^ 4%
Penetration of affinity households (%)	12.8	12.3	^ 0.5ppts
Income per customer (£)	89	82	^ 9%
Total policies (m)	7.5	7.1	^ 6%
Policies per customer	2.52	2.47	^ 0.05
Policy retention rate (%)	82.7	83.0	v 0.3ppts
UK policies split by type	2011	2010	
Water ('000)	4,227	4,183	
Electrical ('000)	777	780	
Heating, ventilation, air conditioning (HVAC) ('000)	928	849	
Manufacturer warranties ('000)	503	387	
Other ('000)	1,095	898	
Total policies ('000)	7,530	7,097	

- > We have also had a successful year with the sales of our home assistance membership policies through our partnerships with financial services companies. Marketing is primarily via telesales activity and this represents a cost effective form of customer acquisition. During the past year we have worked with Santander, Northern Rock and a UK credit card company and are planning to further increase our financial services partnerships in the future.
- > We have also signed affinity relationships with GB Oils, NWF Fuels and Total Butler who are the major distributors of oil to UK households who use this as their main source of fuel. We are continuing to develop and test our oil boiler breakdown marketing to identify the best creative and channel in order to maximise sales with customers of these partners.

Income per customer in the UK increased by 9% to £89 over the past 12 months. This reflects the strengthening of our customer relationships, with the number of policies per customer increasing to 2.52 (2010: 2.47), as well as an increase in policy prices together with enhanced cover.

Underlying revenue¹ in the UK increased by 10% reflecting the growth in customer and policy numbers as well as an increase in income per customer. The underlying operating margin¹ in the UK was stable and adjusted operating profit² increased by 9% to £104.3m (2010: £95.7m).

The legislation for the proposed transfer of private sewers and lateral drains from homeowners into the ownership of the utility companies is currently passing through Parliament. This bill will help provide clarification to homeowners as to who is responsible for the drainage in and around their property. We estimate that the majority of our drainage related emergencies occur either within the property or in the external drain both of which will remain the homeowners responsibility and therefore we believe the proposed change will not impact our products and services. In fact we believe the legislation and clarification of responsibilities between the homeowner and the utility may provide us with an opportunity for additional sales of water related services.

We have decided to cease operating through the low margin, point of sale furniture warranties channel as we focus on growing relationships with our core utility and manufacturer partner customer base.

United States of America

- > A step change in our business with an 83% increase in policy numbers
- > Increasing momentum in signing new partners and acquiring existing programmes
- > Strong organic growth with gross new policy sales (excluding National Grid) up 55% to 0.45m
- > Operating profit of £6.1m, up from £1.5m in 2010

During the year we have gained significant momentum in signing new partners and acquiring existing home emergency programmes. We announced new affinity relationships with Southern California Gas and Millennium Energy, neither of whom have previously operated a programme. Southern California Gas serves over 5m residential customers whilst Millennium Energy serves 0.6m households through its Tuscon Power subsidiary (0.4m) and Unisource Energy (0.2m) subsidiaries in Arizona.

In addition, we completed the acquisition and successful integration of National Grid Energy Services (NGES) in August, which included 0.18m customers, and we also agreed the terms in March on which we would renew the existing 0.06m home assistance customers of South Jersey Energy Services Plus as they become due for renewal from mid 2011.

We are also pleased to have reached two further agreements since the year end with Contra Costa and Middlesex Water, both water utilities. These two utilities service around 0.15m households across California, New Jersey and Delaware and the agreements will allow us to bill customers via their utility bill. We have also agreed to purchase Middlesex's existing 10k home emergency policies.

We now have 21m affinity partner households in the USA with an average penetration rate of 4%. Whilst the overall penetration in the USA is lower than in the UK, there is significant variation by individual partner, with rates ranging from less than 1% with our newer partners up to around 30% with one of our oldest water utility partners.

The penetration rate also varies by the type of utility. Of our 21m USA affinity partner households, 2m are water and 19m are energy (gas and electric) households. We have achieved an average penetration rate of 15% across our water partners so far and we continue to see significant potential to increase the average penetration rate in our energy partners, where the highest penetration rate is around 20% with South Jersey Energy Services Plus.

We also see good growth opportunities through the increased penetration of our existing affinity partners as well as deepening our relationships with these customers through increased cross-sell activity.

At the same time, we are actively talking to new potential partners whose customers have not previously been offered home emergency cover as well as actively discussing opportunities to acquire existing programmes run, for example, by utilities. We estimate that there are around 35 programmes currently operated by utilities and we believe that we can grow them at a significantly faster rate than the existing utilities, as we have evidenced with those previously run by California Water, United Water and First Energy.

2011 has seen a significant change in the size of our USA business with customer numbers up 57% to 0.91m (2010: 0.58m), reflecting a strong increase in new customers as well as the 0.18m customers acquired from NGES. Gross policy sales (excluding policies acquired with NGES) were 0.45m an increase of 55% (2010: 0.29m).

USA performance metrics	2011	2010	Change
Total number of households (m)	128	128	—
Affinity partner households (m)	21	20	^1%
Customers (m)	0.91	0.58	^57%
Penetration of affinity households (%)	4.4	2.9	^1.5ppts
Income per customer (\$)	85	70	^22%
Total policies (m)	1.39	0.76	^83%
Policies per customer	1.52	1.30	^0.22
Policy retention rate (%)	81.8	82.6	∇0.8ppts

USA policies split by type	2011	2010
Water ('000)	689	518
Electrical ('000)	93	82
Heating, ventilation, air conditioning (HVAC) ('000)	212	33
Other, including water heater ('000)	391	123
Total policies ('000)	1,385	756

Our marketing programmes in the USA are focused on direct mail with outbound telesales representing a smaller part of our overall marketing activity compared to the UK. We ran a number of campaigns across the autumn and winter months to NGES customers promoting policies including HVAC (Heating, Ventilation, Air Conditioning & Cooling), water heater and electrics and we launched our first marketing campaign promoting 'interior gas' cover to Southern California Gas customers at the end of the financial year.

As well as growing our affinity partner customers and policies, we are also seeing strong growth in the sale of our own 'HomeServe USA' branded policies in areas where we do not currently have an affinity partner. Our primary focus remains on expanding our affinity partner footprint, although sales through the HomeServe branded channel, which have slightly lower take-ups and lower first year retention rates, do represent a profitable channel for customer acquisition and a source of credentials to prospective new partners.

Our USA retention rate remains high at 81.8% (2010: 82.6%) with 70% of policies paid on their utility bill or by other continuous payment methods such as credit card or E-Z pay (a form of direct debit).

Income per customer was up 22% to \$85 in 2011 reflecting an increase in the number of products per customer from 1.30 to 1.52 and the increasing proportion of higher net income NGES policies. The increased average number of policies held per customer reflects the success of our cross-selling campaigns as well as the higher policies per customer within the acquired NGES business.

Revenue in the USA was £52.6m, 105% higher than a year ago (2010: £25.7m) reflecting the strong growth in customer and policy numbers and the USA reported an adjusted operating profit² of £6.1m (2010: £1.5m).

We continue to invest in both the infrastructure and people in our USA operations, with a particular focus on growing our business development, corporate development and marketing teams over the past year. We are also investing in our customer service capability and opened our second USA call centre, in Chattanooga, Tennessee, in November giving us initial capacity for a further 140 claims agents to manage our growing customer base as well as providing us with a back up for our existing call centre in Miami, Florida.

Doméo

- > Continued strong growth in customer and policy numbers
- > Maintained a high retention rate of 88.4%
- > Adjusted operating profit² up £2.5m to £8.2m, driven by strong renewal income

Doméo, our joint venture in France with Veolia, has reported strong growth in both customer and policy numbers over the past year. The number of customers has increased by 11% to 0.86m (2010: 0.77m) with policies increasing by 15% to 2.2m (2010: 1.9m) over the same period. Our French customers are very insurance minded and this, combined with a high proportion of payments made by direct debit and a high standard of customer service, has ensured that our retention rate remains high at 88.4% (FY10: 88.3%).

Gross new policy sales were 0.5m (2010: 0.5m). Sales in the second half of the year of 0.34m were up over 10% on the same period in 2010 reflecting the successful implementation of a number of new initiatives last summer. The initiatives, which were developed by a joint UK and French team, included new marketing creatives, improved data selection and new pricing strategies and have all delivered good results demonstrating the benefit of sharing best practice across our operations.

A key focus for Doméo in 2012 is to continue to test initiatives to increase the activity between its call centre and that of its affinity partners. In addition, while we achieve good take-up rates both in and outside Veolia regions, we are continuing to discuss opportunities with new potential partners.

Income per customer increased by 5% to €93 with the benefit from an increase in the number of policies per customer offset by initial pricing dilution from the successful new customer acquisition programme.

Doméo has increased its adjusted operating profit² by 44%, with our 49% share contributing £8.2m (2010: £5.7m) to our Group result. The strong growth principally reflects the high retention rate and increased renewal revenue.

Doméo performance metrics

	2011	2010	Change
Total number of households (excluding apartments) (m)	19	19	—
Affinity partner households (m)	14	14	—
Customers (m)	0.86	0.77	^11%
Penetration of affinity households (%)	6.0	5.4	^0.6ppts
Income per customer (€)	93	88	^5%
Total policies (m)	2.2	1.9	^15%
Policies per customer	2.60	2.51	^0.09
Policy retention rate (%)	88.4	88.3	^0.1ppts

Doméo policies split by type

	2011	2010
Water ('000)	1,831	1,593
Electrical ('000)	257	228
Other ('000)	136	107
Total policies ('000)	2,224	1,928

Spain

- > More than doubled the number of customers and policies
- > New outbound telesales operation delivering good results
- > Commenced management of Indesit's manufacturer warranty programme

In Spain, despite the country's difficult economic conditions, we have more than doubled the number of customers and policies to 0.17m and 0.22m respectively, whilst gross new policy sales were 0.16m (2010: 0.05m).

The majority of our marketing activity over the past 12 months has been targeted at the Endesa customer base, with good take-up rates on both acquisition and cross-sell campaigns. During the latter part of the year we commenced mailings to Agbar customers and will be rolling out a full programme of campaigns over the coming year.

We have introduced a number of new marketing initiatives in Spain over the past 12 months. Our new outbound telesales operation has had particular success, selling Electrical wiring cover to Endesa's gas customers and we have also trialled the use of utility bill marketing inserts with good take-up results.

We are making good progress in developing our product portfolio in Spain. In addition to our traditional electric and water policies, we are seeing good growth in our 'Club' product which gives members priority access to our repair network including two hours of free handy man labour. During the year we have also taken on the operation of Indesit's manufacturer warranty programme in Spain, following the signing of a similar deal with SFG in France. We have seen good take-up rates from our initial 'inbox' registration card marketing activity and will be expanding the number of channels used over the coming year.

Our claims handling and repair network operation continues to support our growing membership business, as well as its existing insurance partners, and celebrated its tenth anniversary during the year. Revenue from the membership business has more than doubled as a result of increasing renewal income and this has contributed to Spain reporting an adjusted operating profit² of £1.7m, significantly higher than the £0.4m reported last year.

Spain performance metrics	2011	2010	Change
Total number of households (m)	21	21	—
Affinity partner households (m)	10	10	—
Customers (m)	0.17	0.08	^ 110%
Penetration of affinity households (%)	1.7	0.8	^ 0.9ppts
Total policies (m)	0.22	0.09	^ 127%
Policies per customer	1.29	1.19	^ 0.1
Spain policies split by type	2011	2010	
Water ('000)	30	10	
Electrical ('000)	107	57	
Other ('000)	78	27	
Total policies ('000)	215	94	

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

New markets

- > Good results from initial manufacturer warranty marketing in France
- > Test marketing in Italy with Enel is delivering good take-up rates
- > Initial results give us confidence to increase investment in 2012

The success of our established international operations in the USA, Spain and Doméo in France demonstrates that the HomeServe business model is transferable to countries outside the UK and that such investment can create significant shareholder value. We are therefore investing in infrastructure, people and test marketing programmes in new businesses in Belgium, France (via our warranty business Société Française de Garantie (SFG)) and Italy.

In SFG, our wholly owned warranty business based in France, we are investing in the development of a post-point of sale and manufacturer warranty operation, which in the medium term will reduce the concentration of the existing retail warranty customer base. During the year we announced two new partnerships to start selling warranties to the customers of Indesit and Mistergooddeal, a leading French online retailer. Initial marketing campaigns have delivered results in line with our expectations and we are planning additional investment in the coming year.

In Belgium, while we have not yet found a suitable affinity partner, we are continuing discussions with a number of potential partners.

In the first half of the year we opened our Milan office and agreed a 15 month test marketing agreement with Enel Energia, part of the Enel group, Italy's largest energy company. We also signed an affinity partnership with Unicasa, an Italian property management company.

We have undertaken a number of test mailings with these two partners promoting plumbing and drainage cover, gas supply pipe cover as well as electrical wiring cover, with take-ups in line with our expectations. We are planning to invest in additional marketing in the current financial year before reviewing the success of these agreements.

Our New Markets operations reported revenue of £9.9m (2010: £9.7m) and an adjusted operating loss² of £1.1m (2010: adjusted operating profit² £1.1m). The adjusted operating loss² reflects the additional investment in infrastructure, people and test marketing programmes. We expect to further increase our investment in these countries in 2012, reflecting our confidence in their prospects as evidenced by the good take-up rates achieved in our test marketing activity in 2011.

Outlook and Summary

Our UK business has grown its customer numbers and delivered good growth in adjusted operating profit² in 2011. In 2012 we are confident that we can continue to grow UK customer numbers by around 3% and maintain a robust operating margin.

Our International businesses already have around double the number of affinity partner households than the UK, although customer penetration and income per customer are currently lower. We are focused on improving our performance in our International businesses through the continued development of our product range and increased customer acquisition and cross-sell marketing programmes. We will also continue to target new affinity partners in each of our markets and expect the number of affinity partner households in the USA to exceed the UK over the coming years. We are planning for our established International businesses to continue to increase operating margins and achieve significant growth in adjusted operating profit².

Finally, we will build on the success of our initial test marketing activities in our New Markets businesses by increasing the amount of investment in 2012 by around £3m as well as continuing to research opportunities in other new countries.

We are pleased to report an excellent set of financial results with strong adjusted earnings growth³ and a robust operational performance. Our UK business continues to deliver good growth with our established international businesses gaining momentum. Our business is highly cash generative and this has enabled us to reduce our net debt to £11.8m.

We have made a good start to the new financial year and expect to deliver another year of strong growth.

Richard Harpin

Chief Executive Officer

24 May 2011

Strong partnerships and brands

- > HomeServe has affinity partnerships with more than 60 utilities and manufacturers across the UK, France, Spain and the USA.
- > Our partnerships enable us to reach more than 68 million households.
- > Over the last 12 months we have signed a number of new agreements:
 - In the USA we have signed new agreements with Millennium Energy enabling us to market our policies to their Tuscon Electric Power and Unisource Energy customers, South Jersey Energy Services Plus, Contra Costa and Middlesex Water.
 - In the UK we have signed new agreements with NWF Fuels, Total Butler and Ferroli as well as renewing all our water utility partnerships.
 - In Spain and France we have started new relationships with the electrical appliance manufacturer Indesit.

Our measurement

Affinity partner households worldwide (m)

UK	23
USA	21
Doméo	14
Spain	10





Financial review



Martin Bennett

Chief Financial Officer

These financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting policies used are consistent with those at 31 March 2010, except for the implementation of IFRS3 "Business Combinations" (Revised 2008) and IAS27 revised, as set out in note 2.

Segmental Results

During the year the Group has reviewed the way in which it presents its segmental information. We now report five operating segments, providing separate disclosures around our established businesses, being the UK, USA, Spain and Doméo (our joint venture in France), while aggregating those business that we are currently developing, now referred to as 'New Markets'.

The New Markets division therefore includes the results of our businesses in Belgium, SFG in France and Italy. The revenue and adjusted operating profit² for each of these segments are set out in the table shown opposite.

Group revenue¹ has increased by 27% to £467.1m, which includes £41.7m relating to repairs undertaken by UK sub-contract engineers (2010: nil) following a change in our commercial relationship with our underwriter, but excludes exceptional revenue which in 2010 amounted to £10.2m. Excluding the income from UK sub-contract repairs, Group underlying revenue¹ in 2011 increased by 15%.

Group adjusted operating profit² increased by 14% to £119.2m (2010: £104.4m).

¹ Revenue includes £41.7m of income related to repairs undertaken by UK sub-contract engineers in 2011 (2010: nil) and excludes exceptional revenue of £10.2m in 2010. Underlying revenue is used to refer to revenue excluding the income related to repairs undertaken by UK sub-contract engineers and is also used together with adjusted operating profit² to calculate the underlying operating margin.

² Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional revenue, see Financial review and notes 5 and 6.

³ Excluding amortisation of acquisition intangibles and exceptional revenue, see Financial review and note 13.

⁴ See Cash flow statement in the Financial review.

Continuing operations		Revenue ¹		Adjusted operating profit/(loss) ²		Operating margin	
		£m	2010	£m	2010	%	2010
UK – Underlying		317.2	288.1	104.3	95.7	32.9	33.2
– Sub-contract		41.7	—	—	—	—	—
– Total		358.9	288.1	104.3	95.7	29.1	33.2
USA		52.6	25.7	6.1	1.5	11.6	5.8
Doméo		32.3	29.8	8.2	5.7	25.4	19.0
Spain		48.8	46.9	1.7	0.4	3.5	0.8
New Markets		9.9	9.7	(1.1)	1.1	(12.0)	11.7
JV/inter-division		(35.4)	(31.2)	—	—	—	—
Group		467.1	369.0	119.2	104.4	25.5	28.3

The Group operating margin (adjusted operating profit/(loss)² divided by revenue¹) has reduced from 28.3% to 25.5%, as a result of the change in sub-contract revenue in the UK and the increased investment in our New Markets businesses. If the change in UK sub-contract revenue and the investment in our New Markets businesses were excluded, the underlying Group margin in our UK and established international businesses increased from 28.8% to 29.0%.

In 2012 we plan to maintain our UK operating margin while the margins in our established International businesses are expected to increase as their renewal income grows and we achieve economies of scale. We will continue to invest in our UK and established International businesses as well as significantly increasing the investment in our New Markets businesses.

UK

Our UK business reported revenue of £358.9m, an increase of 25% (underlying 10%), driven by a strong performance in renewal income, the continued high level of gross policy sales and the change in our contractual relationship with our principal underwriting partner in the UK.

From 1 April 2010 our UK financial results include the revenue and costs of repair jobs undertaken by sub-contract engineers, reflecting a change in HomeServe's commercial relationship with its underwriter where we now provide a full repair service for our underwriter instead of the previous administration only service. This change, which has increased both revenue and costs by £41.7m in the current reporting period, only affects the UK and there is no impact on profits. Excluding the impact of this change underlying UK revenue increased by 10%.

Revenue in the UK business can be analysed as 'net income' (income per customer* no. of customers) of £267m, with the remaining income of £92m representing £66m of repair network revenue (including One Contact revenue), furniture warranty revenues of £8m, and other income of £18m including third party claims handling revenue.

The underlying UK operating margin¹, which excludes £41.7m of revenue and operating costs relating to the jobs undertaken by our UK sub-contract workforce (2010: nil) has reduced from 33.2% to 32.9%. The reported UK operating margin reduced from 33.2% to 29.1%.

The UK business continues to deliver good growth with adjusted operating profit² increasing by 9% to £104.3m (2010: £95.7m).

United States of America

In the USA, the strong growth in the number of customers and policies combined with the high retention rate has resulted in revenue increasing by 105% (local currency 104%) to £52.6m. We continue to invest in the development of our USA business. In November 2010 we opened our second USA call centre, in Chattanooga, Tennessee, and currently have 73 agents servicing both sales and emergency repair calls.

We have also strengthened our business development and corporate development teams as we continue to target new affinity partners and the acquisition of existing home emergency programmes. Our marketing activity in the USA continues to expand as we rollout programmes with new partners as well as introducing cross-sell campaigns to existing customers.

The strong revenue growth driven by increasing renewal income and the integration of NGES customers has resulted in the USA operating margin doubling from 5.8% to 11.6% and an adjusted operating profit² of £6.1m (2010: £1.5m).

Doméo

Our share in the French joint venture Doméo, has generated revenue of £32.3m, an increase of 8% (local currency 13%). The growth in revenue has been driven by an 11% increase in customer numbers partially offset by the introduction of discounted acquisition pricing.

Doméo's adjusted operating margin has increased from 19.0% to 25.4% principally driven by the growth in renewal income. Our share in the joint venture contributed an adjusted operating profit² of £8.2m (2010: £5.7m).

Spain

In Spain, revenue was £48.8m, £1.8m higher than last year (4% increase, 8% in local currency). Membership revenue more than doubled to £5.6m, although this was largely offset by a slight reduction in claims handling revenue. Claims handling revenue fell as a result of the average value of claims decreasing through improved network management in the first half of the year. The margin benefits from this initiative have been gaining momentum during the second half of the year.

Spain's operating margin has increased from 0.8% to 3.5% driven by the growing membership renewal income and the improving operating margin in the claims handling business.

The growth in the membership renewal revenue has resulted in Spain reporting an adjusted operating profit² of £1.7m, up £1.3m compared to the same period last year.

New Markets

Our New Markets reported revenue of £9.9m (2010: £9.7m) and an adjusted operating loss² of £1.1m (2010: adjusted operating profit² £1.1m). This result reflects the investment in people, infrastructure and test marketing activity in our businesses in Belgium, SFG in France and Italy. During 2011 we opened our Italian office in Milan and started our test marketing programme with Enel Energia. We have also made good progress in developing our European manufacturer warranty business through SFG, with test marketing activity with Indesit.

Cash flow and financing

Our business model continues to be highly cash generative with cash generated by operations in 2011 amounting to £119.0m, representing a cash conversion ratio of 111% (2010: 93%). Free cash flow during the period was £86.1m (2010: £26.3m).

In the year we had a working capital outflow of £5.0m reflecting the growth in policy numbers and an increase in the number of customers who have converted from an annual policy payment, to monthly instalments.

The working capital outflow is lower than in previous years reflecting one-off benefits from a number of working capital management initiatives implemented during the year.

During the year, we incurred net capital expenditure of £11.5m (2010: £25.5m) primarily in respect of information systems to support our growing membership businesses. Capital expenditure in the prior year included one-off payments to purchase the HomeServe USA trademark as well as additional access rights to an affinity partner's customer database.

Net debt at 31 March 2011 was £11.8m (2010: £52.9m), a reduction of £41.1m over the 12 month period. In addition to reducing the Group's net debt, free cash flow was used to finance acquisition expenditure of £16.2m (2010: £25.8m) and equity dividend payments of £31.3m (2010: £23.2m).

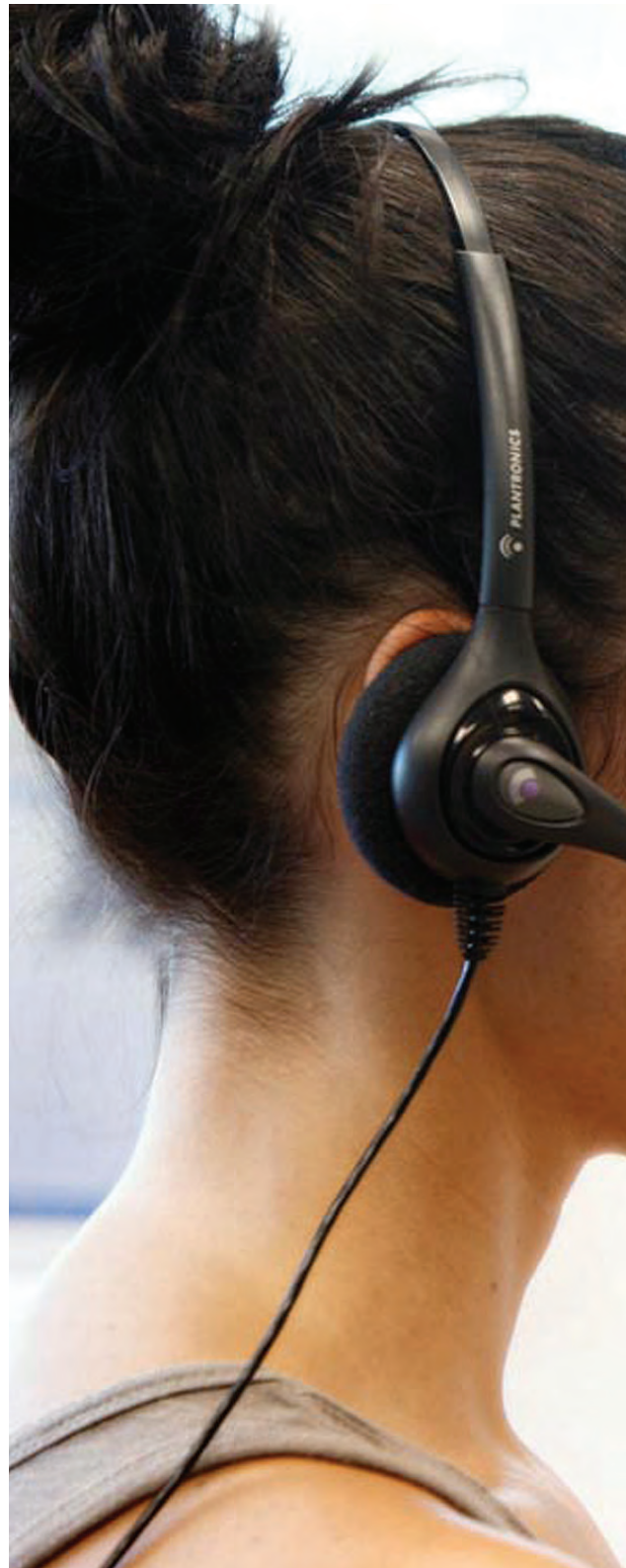
£million	2011	2010
Adjusted operating profit ² from continuing operations	119.2	104.4
Exceptional items, tax on joint venture and amortisation of acquisition intangibles	(12.3)	1.7
Operating loss from discontinued operations	—	(27.6)
Operating profit from continuing and discontinued operations	106.9	78.5
Depreciation, amortisation and other non-cash items	17.1	15.7
Increase in working capital	(5.0)	(20.8)
Cash generated by continuing and discontinued operations	119.0	73.4
Net interest	(1.3)	(3.4)
Taxation	(23.8)	(21.5)
Capital expenditure	(11.5)	(25.5)
Doméo dividend received	3.7	3.3
Free cash flow	86.1	26.3
Acquisitions/disposals	(16.2)	(25.8)
Equity dividends paid	(31.3)	(23.2)
Issue of shares	2.4	4.1
Net movement in cash and bank borrowings	41.0	(18.6)
Impact of foreign exchange	0.1	(0.3)
Net debt	(11.8)	(52.9)

Winning sales and marketing

- > We sold a record 2.9m gross new policies in 2011, demonstrating the effectiveness of our sales and marketing activities. Our marketing campaigns are driving higher customer numbers, as well as increasing the number of policies held by existing members.
- > During the year we have developed the mix of sales and marketing channels that we use. Reparalia, our Spanish business, has successfully implemented an outbound telephone sales operation with good results in acquiring new customers as well as selling additional services to existing customers.
- > We are making good progress in rolling out our UK manufacturer warranty business model in SFG in France and Reparalia in Spain. Both these businesses have started marketing with Indesit during the past 12 months with good initial take-up rates.

Our measurement

Global gross new policy sales (m)





Group statutory results

The headline statutory financial results for the Group are presented below:

Continuing operations

£million	2011	2010
Revenue ¹	467.1	369.0
Exceptional revenue	—	10.2
Total revenue	467.1	379.2
Operating profit	106.9	106.1
Net interest	(2.1)	(3.9)
Adjusted profit before tax²	117.1	100.6
Amortisation of acquisition intangibles	(9.3)	(6.5)
Exceptional revenue	—	10.2
Tax on JV	(3.0)	(2.0)
Statutory profit before tax	104.8	102.2
Tax	(27.9)	(29.5)
Profit for the year	76.9	72.7
Discontinued operations		
Loss for the year from discontinued operations	—	(42.0)
Profit for the year, being attributable to equity holders of the parent	76.9	30.7

Statutory profit before tax, after the amortisation of acquisition intangibles, tax on joint ventures and exceptional items was £104.8m (2010: £102.2m). Statutory profit before tax includes the amortisation of acquisition intangibles of £9.3m (2010: £6.5m) which principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The increase compared to the comparative period reflects principally the impact of the National Grid Energy Services acquisition completed in August 2010.

For Doméo, our joint venture in France, the operating result is defined under IFRS as profit after tax and therefore a charge of £3.0m (2010: £2.0m) of joint venture tax is reported within statutory operating profit and statutory profit before tax.

Earnings per share

Adjusted earnings per share³ for the period increased by 17% from 22.2p to 25.9p. The increase in earnings per share is slightly higher than the 16% increase in adjusted profit before tax² with the reduction in the corporation tax charge more than offsetting increases in the average number of shares in issue from 317m to 321m and the tax rate applied to the amortisation of acquisition intangibles due to the increasing proportion relating to our USA business.

On a statutory basis, earnings per share increased by 5% to 24.0p. The statutory result also includes £10.2m of exceptional revenue in the prior year.

Finance costs

The Group's finance cost for the financial year was £2.1m (2010: £3.9m), £1.8m lower than in the same period last year. The reduction reflects both a lower level of debt throughout the period and a lower average interest rate.

Taxation

The tax charge in the financial year, prior to adjusting for tax on joint ventures, was £27.9m (2010: £29.5m), resulting in an effective rate of 26.6% (2010: 28.9%).

In order to calculate an effective tax rate, that reflects the tax burden of the Group, it is necessary to take account of the effect of joint venture results on the Group's profits and tax for the year. The earnings of our Doméo joint venture are shown net of tax within statutory profit before tax (in the table opposite). Adjusting the tax charge to include the tax relating to joint ventures (an adjusted tax charge of £30.9m) and similarly grossing up for the joint venture tax on the statutory profit before tax, the joint venture adjusted tax rate is 28.6% (2010: 30.3%).

The reduction in the rate is primarily due to the availability of brought forward tax losses in international businesses which can be utilised as those businesses reach profitability.

We anticipate that the planned reduction in the headline rate of UK Corporation tax will offset the impact of higher effective tax rates on our increasing International profits resulting in a stable joint venture adjusted tax rate over the medium term.

Statutory and pro-forma reconciliations

The Group continues to believe that adjusted profit² measures, which exclude the amortisation of acquisition intangibles, tax on joint ventures and exceptional items, are important performance indicators for monitoring the business.

This report therefore uses a number of pro-forma measures to highlight the Group's results excluding the above amounts. The table below provides a reconciliation between the statutory and pro-forma items.

Continuing operations

£million	2011	2010
Operating profit (statutory)	106.9	106.1
Amortisation of acquisition intangibles	9.3	6.5
Exceptional items	—	(10.2)
Tax on joint ventures	3.0	2.0
Adjusted operating profit²	119.2	104.4
Profit before tax (statutory)	104.8	102.2
Amortisation of acquisition intangibles	9.3	6.5
Exceptional items	—	(10.2)
Tax on joint ventures	3.0	2.0
Adjusted profit before tax²	117.1	100.6
Pence per share		
Earnings per share (statutory)	24.0	22.9
Amortisation of acquisition intangibles	1.9	1.6
Exceptional items	—	(2.3)
Adjusted earnings per share³	25.9	22.2

Dividend

The proposed final dividend of 7p per share together with the payment of the interim dividend of 3.3p per share brings the total dividend for the year to 10.3p (2010: 8.8p). The dividend increase of 17% is consistent with our objective of increasing our dividend in line with adjusted earnings per share³. The final dividend, subject to shareholder approval, will be paid on 3 August 2011 to shareholders on the register on 1 July 2011.

Foreign exchange impact

The financial performance of our international businesses and comparisons with the prior year are impacted by foreign exchange movements on translation. The total reported International adjusted operating profit² of £14.9m was reduced by £0.5m as a result of foreign currency movements.

The impact of foreign exchange rate movements on the individual business is summarised in the table below.

Acquisitions

These financial results reflect a combination of organic growth and acquisitions. Acquisition spend during the period totalled £16.2m (2010: £25.5m), which reflects the purchase of National Grid Energy Services (£9.7m), the acquisition of South Jersey Energy Services Plus home emergency policies as they renew over the coming year (£1.8m) and £4.7m of deferred consideration in relation to acquisitions completed in prior periods.

Acquisitions of policy books enable HomeServe to accelerate its growth and penetration rate in a particular region. The price of policy books will vary depending on a number of factors including product economics, the current retention rate and the existing penetration rate together with the length and nature of the associated marketing agreement.

	Average exchange rate			Effect on (£m)	
	2011	2010	Change	Revenue 2011	Adjusted operating profit ² 2011
USA (\$)	1.56	1.59	V 0.03	0.4	—
Doméo (€)	1.18	1.13	^ 0.05	(1.4)	(0.4)
Spain (€)	1.18	1.13	^ 0.05	(1.9)	(0.1)
New Markets (€)	1.18	1.13	^ 0.05	(0.4)	—
Total International				(3.3)	(0.5)

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 Chief Executive's Review. This financial review also includes the headline financial results, cash flow and financing information as well as details on the principal risks and uncertainties.

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 financial statements.

Summary

I am pleased to report an excellent financial performance for HomeServe for the year driven by strong growth in the number of customers and policies.

The UK has delivered another good year with customer numbers up 4% and a robust underlying operating margin. Our established International businesses have more than doubled adjusted operating profit² to £16.0m with increased customer and policy numbers and higher operating margins. We are also continuing to invest in our New Markets businesses and are seeing good results from our test marketing.

The business continues to generate strong levels of cash conversion and this combined with our strong balance sheet gives us significant flexibility to continue to implement both organic and acquisitive growth strategies.

We believe HomeServe is well placed to continue to deliver further profitable growth this financial year and into the future.

Martin Bennett

Chief Financial Officer

24 May 2011

Excellent customer service

- > Our engineer networks managed over 1.3 million repair jobs across our businesses last year, with over 94% of customers satisfied with the standard of the service provided.
- > During the winter period, our engineers were busy as a result of the extreme weather conditions in certain countries in which we operate. In the UK we saw a 30% increase in the number of emergencies in December with over 5,600 jobs deployed on our busiest day.
- > To ensure we maintain our high standards of customer service, HomeServe USA opened its second US call centre in Chattanooga, Tennessee. This centre gives us capacity for an initial 140 telephone agents to manage our growing US customer base as well as providing us with a back up for our existing call centre in Miami.

1.3m Repair jobs completed around the world

5,600 UK jobs deployed on our busiest day in December





Principal risks and uncertainties

HomeServe has a risk management process which provides a structured and consistent framework for identifying, assessing and responding to risks. These risks are assessed in relation to the Group's business performance, financial condition, prospects, liquidity and results. Risk management operates at all levels throughout the Group, across geographies and business lines.

Risks to HomeServe's business are either specific to HomeServe's business model, such as affinity partner relationships and underwriting, or more general, such as the impact of competition and regulatory compliance.

HomeServe has identified the following principal risks and uncertainties. These should be read in conjunction with the Chief Executive's and Financial Reviews. Additional risks and uncertainties of which we are not currently aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations in the future.

Risk	Description	Mitigation
Commercial relationships	Underpinning the success in HomeServe's chosen markets are close commercial relationships (affinity partner relationships) with utility companies and household appliance manufacturers. The loss of one of these relationships could impact the Group's future customer and policy growth plans.	<p>HomeServe has regular contact and reviews with the senior management of its affinity partners to ensure that it responds to their needs and delivers the service that they expect.</p> <p>These partnerships are secured under long term contracts which increase the security of these relationships over the medium term.</p> <p>In addition, there are a number of partnerships across the markets, mitigating, in part, the impact of losing any one of these relationships.</p>
Customer loyalty/retention	A key element of the Group's business model is customer loyalty. Any reduction in the proportion of customers renewing their policies could significantly impact Group revenue.	<p>The policy retention rate is a Key Performance Indicator in HomeServe's businesses. Any variance to budget is carefully investigated to identify why customer behaviour is changing and to implement corrective action.</p> <p>The Group has a full range of tools available to manage retention rates including specific retention products and propositions. There are also dedicated retention call centre agents who are trained and experienced in talking to customers who are considering not renewing their policy.</p>

Risk	Description	Mitigation
Competition	<p>There are a number of businesses that provide services that are similar to those of the Group and could therefore compete in one or more of its chosen markets. Increased competition could affect HomeServe's ability to meet its expectations and objectives for the business in terms of the number of customers, policies or the financial returns achieved.</p>	<p>The market and the activities of other participants are regularly reviewed to ensure that the strategies and offerings of current and potential competitors are fully understood.</p> <p>Both qualitative and quantitative research is undertaken to ensure that the Group's products and services continue to meet the needs of its customers whilst retaining a competitive position in the market.</p> <p>HomeServe believes that it has a compelling proposition for its customers providing them with real value. This helps reduce the effect of increased competition.</p>
Marketing effectiveness	<p>A significant reduction in the response rates on direct marketing or telesales campaigns could have a significant impact on the Group's customer and policy numbers.</p>	<p>The performance of each marketing campaign is regularly reviewed, with any significant deviation to the expected response rate quickly identified and remedial action taken for subsequent campaigns.</p>
Exposure to legislation or regulatory reforms	<p>The Group is subject to a broad spectrum of regulatory requirements in each of the markets in which it operates, particularly relating to product design, marketing materials, sales processes and data protection.</p> <p>Failure to comply with the regulatory requirements in any of its countries could result in HomeServe having to suspend either temporarily or permanently certain activities.</p> <p>Any changes in the legislative, regulatory or judicial environment in the countries in which it operates, or failure to comply with regulations may adversely affect its ability to deliver its growth expectations.</p>	<p>The Group has regulatory specialists and compliance teams within each of its businesses to help ensure that all aspects of the legislative regime in each territory are fully understood and adopted as required.</p> <p>The Group keeps up to date on current government policies through a range of external advisers and ensures products are designed, marketed and sold in accordance with relevant legal and regulatory requirements.</p>

Risk	Description	Mitigation
<p>Availability of underwriters</p>	<p>The Group uses underwriters to minimise the impact of significant short term deviations in claims frequencies and costs.</p> <p>The Group needs to ensure that policy pricing and claims frequency represent an acceptable risk that the underwriters are prepared to price.</p>	<p>The Group uses a number of underwriters, with the main partner in the UK being separate to those in Europe and the US.</p> <p>The Group's principal underwriters are party to medium term agreements, with the rates subject to regular review. In addition to this, the Group maintains relationships with a number of other underwriters and regularly reviews the market to ensure it understands current market rates and how these apply to its policies.</p>
<p>Quality of customer service</p>	<p>HomeServe's reputation is heavily dependent on the quality of its customer service. Any failure to meet its service standards or negative media coverage of poor service could have a detrimental impact on customer and policy numbers.</p>	<p>Processes have been established to ensure that any directly employed engineers or sub contractors meet minimum standards. These include criminal record checks and minimum qualification requirements.</p> <p>Service levels provided by both our directly employed and sub-contract engineers are monitored through the use of customer telephone call backs after a repair has been completed. Any failure by the engineer to adhere to processes or deliver the appropriate standard of service is addressed by the engineers' line manager.</p>
<p>Dependence on recruitment and retention of skilled personnel</p>	<p>The ability of the Group to meet its growth expectations and compete effectively is in part dependent on the skills, experience and performance of its personnel. The inability to attract, motivate or retain key talent could affect the Group's ability to service its customers and improve the performance of the business.</p>	<p>HomeServe's employment policies, remuneration and benefits packages and long term incentive programmes are regularly reviewed and are designed to be competitive with other companies.</p> <p>Employee surveys, performance reviews and regular communication of business activities are just some of the methods used to understand and respond to employees' views and needs.</p> <p>Processes are also in place to identify high performing individuals to ensure that they not only have fulfilling careers, but that as a Group we are able to actively manage succession planning.</p>

Risk	Description	Mitigation
<p>Exposure to country and regional risk</p>	<p>As a result of its growing international footprint HomeServe is subject to increased economic, political and other risks associated with operating in overseas territories.</p> <p>A variety of factors, including changes in a specific country's political, economic or regulatory requirements, as well as the potential for geographical turmoil including terrorism and war, could result in the loss of service.</p>	<p>The criteria for entering a new country includes a full assessment of the stability of its economy and political situation, together with a review of the manner and way in which business is conducted.</p> <p>When entering a new country the Group generally does so on a small scale test basis. This low risk entry strategy minimises the likelihood of any loss.</p>
<p>Financial strategy and treasury risk</p>	<p>The main financial risks are the availability of short and long-term funding to meet business needs, the risk of suppliers not paying monies owed and fluctuations in interest and foreign currency rates.</p>	<p>Interest rate risk</p> <p>HomeServe's policy is to manage its interest cost using a mix of fixed and variable rate debts. This is achieved by entering into interest rate swaps for certain periods, in which it 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.</p> <p>Credit risk</p> <p>HomeServe trades only with creditworthy third parties and subsidiary undertakings. All customers who wish to trade on credit terms are reviewed for financial stability.</p> <p>With respect to credit risk arising from the other financial assets, which comprise cash and cash equivalents, HomeServe's exposure to credit risk arises from default of the counterparty.</p> <p>The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions.</p> <p>Liquidity risk</p> <p>HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.</p>

Loyal customers

- > In the UK over 21% of our customers now hold a combined policy with an average of six elements typically covering the customer for plumbing and drainage, water supply pipe, heating, insect infestations, home appliance and locks and glazing emergencies.
- > Whilst each country has its own culture the type of home emergencies that customers need repairing remain very similar – burst pipes, blocked drains, broken boilers and faulty air conditioning units.
- > Our typical customer is over 50, owns their own home and likes to have the ‘peace of mind’ that they are protected against the inconvenience and cost of a home emergency.
- > Our customer base is very loyal with 83.6% of policies retained on an annual basis, reflecting the benefits and value customers receive from HomeServe’s policies.

Our measurement

Global retention rate (%)

2011	83.6
2010	83.6
2009	83.9





Corporate responsibility

HomeServe is committed to developing and implementing a successful Corporate Responsibility programme that benefits key stakeholders and utilises HomeServe's core skills to make a sustainable difference to its communities. We believe that a successful business must also be a responsible business.

We aim to:

- > Achieve sustainable profits for our shareholders.
- > Build enduring 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 four areas:

1 Customers

- > Implement ethical, sustainable and responsible principles throughout the supply chain.
- > Identify future risks and opportunities and ensure the customer is at the centre of our business decisions.
- > Treat customers fairly throughout the customer experience; protecting the business' reputation and ensuring customers trust the business to resolve their home emergency.

2 Employees

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

3 Community

- > Use our core skills to give something back to the community, specifically in people's homes.
- > Support more vulnerable members of the community by helping them in their homes.
- > 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.

4 Environment

- > Reduce our carbon emissions per employee.
- > Use resources efficiently.
- > Support and educate customers and employees to reduce emissions, specifically in their homes.

These Corporate Responsibility principles are part of the way we operate on a daily basis and reflect in the way we deal with customers, employees, partners and the community. A Corporate Responsibility Committee, chaired by Jon Florsheim, was established in the UK in 2010 to govern and ensure successful implementation of our policy. A similar committee has also now been established in the USA, chaired by Jonathan King.

Supply chain

HomeServe has in place Ethical & Sustainable Procurement Policies which are used in the general procurement process and in respect of all tenders. 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

HomeServe's business values support our vision, mission and strategy. In addition, the Company's Leadership Characteristics, agreed in 2009, ensure that individuals hired or promoted into leadership positions display appropriate behaviours, as well as the necessary commercial and technical skills. These characteristics are now built into our Leadership Recruitment, Appraisal and Development programmes for leaders in all HomeServe's businesses.

HomeServe has operated a Group wide Leadership Succession Planning process for two years, with the aim of retaining talent and increasing the level of internal appointments compared to external hires. This complements the Performance Management process and is overseen by the Executive Committee. From April 2011 HomeServe is implementing a Group Leadership Development Programme, designed in partnership with Cranfield University, which is closely aligned to business strategy and our Leadership Characteristics. Key elements of the Programme will be sponsored by Executive Committee members.

We continue to operate a successful Graduate Recruitment Programme in the UK, and will launch similar programmes in our French and Spanish businesses in 2011. HomeServe actively continues to support trade apprenticeships in the UK, and following the success of last year's programme will recruit a number of apprentices to its UK Plumbing and Drainage business this year. In 2011, around 10% of our employed Plumbing and Drainage Engineer workforce will be apprentices.

We continue to recognise the importance of effective communication with both managers and employees. In the UK, the Company has recently launched a new Internal Communications brand "Our House" as a focal point for all employee related communications. Employee surveys have been run in the UK and parts of Continental Europe, with results published and action plans agreed and communicated to employees. We continue to make effective use of the intranet, staff magazines and employee representative forums/works councils in all businesses, both to disseminate information and to receive feedback and ideas from employees regarding business strategy and performance.

Health and safety

HomeServe continues to strive to manage health and safety successfully and where possible, deliver improvements in its performance. HomeServe's strategy continues to be to ensure compliance with legal standards as a minimum, but where practicable, adopt good industry practice and share that practice across the businesses.

Risks

HomeServe has a variety of health and safety risks to manage. Transport and road risk, slips, trips and falls, manual handling and lone working represent some of the most common risks arising from our activities. HomeServe is committed to managing these risks in a balanced and proportionate way. All the businesses are required to have a suitable health and safety policy in place with a supporting management system underpinned by a robust risk assessment process, reflecting the risks within each particular business.

Our services are often delivered via partnerships with contractors, franchisees and other suppliers. We work with these partners to ensure that our health and safety expectations are understood and met, and that the work they undertake on our behalf is managed as safely as is reasonably practicable.

Performance

During the year, HomeServe has proactively worked on improving the arrangements in place to manage health and safety. We have reviewed and standardised our UK policy ensuring that arrangements are consistent across all sites. In the UK we have also continued to deliver training to our network management employees through the use of proprietary training packages – 'IOSH Managing Safely' and 'IOSH Working Safely'. In 2011 we will be rolling out an internally developed computer based training package for our office based managers and other employees which will focus on providing an awareness of health and safety responsibilities and an overview of our health and safety policy arrangements.

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 businesses to ensure compliance with relevant health and safety legislation regardless of the country in which it is operating. The recently appointed global Head of Health & Safety works with the businesses to ensure that they meet local legal requirements as a minimum whilst at the same time meeting our own internal health and safety standards. 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.

During the year the network management business in the UK has been awarded the RoSPA Gold award for its health and safety performance. This is the second year the network management business has entered the awards, building on last year's Silver award. HomeServe at Home entered the award for the first time in the year, obtaining a Silver award. The scheme looks not only at accident records, but also entrants' overarching health and safety management systems, including important practices such as strong leadership and workforce involvement.

HomeServe has had limited contact with national health and safety enforcing authorities during the reporting period, with no prosecutions or other enforcement action being taken against the Company for breaches of health and safety regulations.

Accidents/incidents

In the UK HomeServe had no fatalities, no defined major injuries and no dangerous occurrences during the year. However it did have a total of 21 defined over '3 day' RIDDOR reportable lost time accidents, which is an increase of 7 over the previous year.

In total during this period there were 135 accidents recorded compared to 122 in 2009/10. Overall a total of 259 working days were lost as a result of work related accidents, an increase of 7.9% over the 2009/10 figure of 240.

As in previous years, the main causes of the accidents or incidents were in respect of slips, trips and falls, cuts and bruises, manual handling or muscular strains. The overall lost time accident frequency rate per million hours worked is calculated as 12.1 compared with 8.56 for the previous year. The accident incident rate for lost time reportable incidents per 1,000 employees was 7.15, compared with a rate of 4.85 the previous year and our severity rate (lost time due to accidents per 1,000 hours worked) was 0.15 which was the same as the previous year.

Despite our continued efforts to improve our Health and Safety performance, the frequency of incidents is up on the previous year. Although process improvements may have led to better reporting of accidents there is clearly a need to ensure that successful health and safety management remains a continued priority for HomeServe, with particular emphasis being placed on the reduction in the overall accident rate.

Plans for 2011/12

We will continue to review our health and safety arrangements, with particular focus on our international businesses, ensuring that the arrangements we have in place are suitable and sufficient to safely manage the activities being performed.

Work is planned to improve the range of data and other information used for health and safety performance measurement so that a clearer overview, in a simple standard format, is available. This will provide greater visibility of the overall Health and Safety performance, enabling Directors to see where risks are well managed and where more work is needed.

We continue to focus on the three key risks identified as being significant and affecting most of HomeServe's activities: driving and road risks, contractor and franchisee management and work station ergonomics.

Community

At HomeServe, we pride ourselves on being a caring and responsible company and in November 2009 we formed our first national charity partnership with Marie Curie Cancer Care.

Employing more than 2,700 nurses, doctors and other healthcare professionals, Marie Curie provides free care to those with terminal cancer and other illnesses in their own homes. In the last year alone, Marie Curie provided care to more than 31,000 patients in the community and in their nine hospices.

Marie Curie nurses enable patients to spend their final weeks at home, in familiar surroundings with family close by. Alternatively, patients can stay at one of their warm and friendly hospices – instead of in the clinical and often daunting surroundings of a hospital.

In addition to helping the charity by raising funds, we are in a unique position to enhance Marie Curie's home-based services by providing practical support to patients in their own homes through our network of tradesmen and engineers.

HomeServe has pledged to donate £1 million to Marie Curie over the three years to March 2013. This target comprises employee fundraising and volunteering, customer donations, sponsorship and gift-in-kind contributions. By the end of the first year £333,333 has been donated, exactly one third of our pledge (£138,000 cash, which will pay for 6,900 hours of Marie Curie nursing care and £195,000 gift-in-kind).

Key Achievements in 2010/2011:

> The launch of a Marie Curie Complete Cover Patient Policy

In July 2010 we launched a unique free policy exclusively for Marie Curie patients. The policy covers practically every home emergency and repair, with call-out, labour, parts and VAT all included in the cover. To support the policy, HomeServe call centre employees and engineers have been specially trained on the sensitive needs of Marie Curie patients. To date, 311 policies have been activated which equates to £195,000 worth of free home emergency cover and HomeServe has carried out 170 jobs in patient's homes. The policy will continue to be offered in 2011/12.

> Marie Curie's Walk Ten, Supported by HomeServe

HomeServe was delighted to be the headline sponsor of the first ever Walk Ten in 2010 and we have renewed our sponsorship deal for 2011. Our sponsorship money (which contributes towards our £1 million target) helped Marie Curie turn their plans into reality and contributed to their advertising budget. In 2010 there were 12 walks, and in 2011, there will be 20 walks held between July and September. Marie Curie supporters raised over £250,000 in sponsorship money from participating in the walks in 2010. HomeServe employees, family and friends also got involved in the walks either by putting their best foot forward or by volunteering on the event days.

> Employee Fundraising Activities

HomeServe employees have been busy raising funds with sponsored marathons, fun runs, sky dives, cycling trips, cake bakes and dress-down days. Many HomeServe employees have also signed up to the Pennies for Patients Scheme, which enables staff to donate the odd pennies from their monthly pay, (up to 99p a month) directly to Marie Curie.

> Volunteering

Volunteering is promoted and encouraged by HomeServe and this year's activities have included work to improve the grounds at Solihull Hospice, working in charity shops, marshalling at Walk Ten and collecting for the Great Daffodil Appeal.

> Cause Related Marketing

In addition to our employee fundraising and business donations, we recognise that our customers may also be interested in supporting Marie Curie. Therefore, we have now started to integrate 'cause related marketing' into our acquisition, cross sales and renewal marketing activity and we ran a number of tests and campaigns last year, generating awareness and funds for the charity.

We also keep our customers regularly updated with our fundraising progress and activities via our customer magazine, mailing inserts, social media and website.

Our first full year with Marie Curie has proved very successful and we were honoured to be nominated by them for the prestigious Institute of Fundraising, Charity Partnership of the Year award.

Other activities

In addition to our partnership with Marie Curie, HomeServe supports the Comic Relief appeal each year by opening donation lines in our call centre. More than 200 volunteers answered 3,050 donation calls on Red Nose Day in March, raising over £100,000 to help vulnerable people in both the UK and Africa.

We continue to run an annual Youth Team Sponsorship Scheme and during the year awarded 24 grants to local youth teams linked to HomeServe employees. We also provide ad-hoc support to other charities throughout the year (in 2010/11 this included the Pakistani Flood Appeal and the Royal British Legion Poppy Appeal).

Environment

As part of HomeServe's commitment to reduce its impact on the environment, a full environmental review of the business has commenced, facilitated by the Group Environmental Manager, and will continue over the next 12 months.

The Environmental Policy has been reviewed during the year and in the UK, the Senior Management Team has signed up to an Environmental Commitment to ensure environmental improvements are achieved across the business.

As part of the environmental review, the Group Environmental Manager has been working with key stakeholders to set the roadmap for HomeServe's environmental journey. This roadmap comprises short, medium and long-term environmental objectives, each supported by a full set of Key Performance Indicators.

Environmental Management System

As part of HomeServe's commitment to continuous improvement, the HomeServe Environmental Management System (EMS) will be reviewed and re-launched over the coming year. HomeServe believes that an EMS is essential and will help to:

- > Improve the management of environmental impacts.
- > Set targets to reduce energy use, water use & waste to landfill.
- > Initiate and maintain procedures to improve efficiencies including:
 - Environmentally friendly purchasing procedures;
 - Preferred business travel option.
- > Define key responsibilities for achieving targets.
- > Monitor and measure environmental performance against key indicators.
- > Regularly assess progress towards achieving set objectives.
- > Ensure due diligence and ongoing consideration of legal and other environmental requirements.
- > Contribute to preferred employer status
- > Achieve cost savings.

The EMS will be externally audited in future, ultimately enabling HomeServe to achieve ISO14001 and demonstrate that we work to an accredited standard.

Environmental training

Staff training and environmental awareness are essential to improving environmental performance. During the year a comprehensive training programme was launched in the UK for all key members of staff. The first phase of the programme targeted the HomeServe engineers and technicians and included topics such as; the importance of being an environmentally friendly company, pollution prevention, legal compliance, waste management and efficient driving. The next phase will involve job specific training for those whose roles have greatest environmental impact.

Fleet initiatives and company cars

Due to the nature of the business, one of the largest elements of HomeServe's carbon footprint results from fuel consumed by the commercial fleet. As a result, this is an area of particular focus and a number of initiatives have been implemented or will be implemented over the coming year including:

- > Monthly fleet review meetings with all the key stakeholders to ensure that data such as MPG and fuel purchased are reviewed on a regular basis and action taken to reduce the environmental and financial cost to the business.
- > Use of the telematics system fitted in every van to monitor, amongst other measures, the speed and the distance travelled in any given period.
- > Publishing a league table of the commercial fleet drivers to show their individual fuel efficiency levels thereby encouraging employees to drive more efficiently. An award is presented to the employee with the highest miles per gallon in each area.
- > Replacement of 60 of the Vauxhall Movano vans used in the network with Mercedes Sprinters with the latest Euro 5 compliant engines which incorporate Start/Stop technology. The new vans reduced our CO₂ by 13g per kilometre, and overall, this programme resulted in a total saving of 36,050 tonnes of CO₂.

The company car list is reviewed on a regular basis. As new technology improves the fuel efficiency of new cars on the market, HomeServe will continue to improve the fuel efficiency of its company car fleet. The car with the highest carbon dioxide emission levels per kilometre vehicle is now 180g CO₂ per km, as opposed to 225g CO₂ per km formerly. Employees can now select vehicles with emission levels as low as 109g CO₂ per km.

Recycling

HomeServe has worked hard with its waste sub-contractors and waste brokers to ensure that as little waste as possible ends up in landfill. In most cases, when general waste leaves a HomeServe site, it is sent to a mixed recycling facility where any recyclable material is removed. Currently, of the 49% of waste that leaves UK sites as general waste, only 17% actually ends up in landfill. Over the next year, HomeServe will be working on its internal waste systems to ensure it further implements the waste hierarchy that is, eliminate, reduce, reuse and recycle. This will ensure as much waste as possible is segregated on site and will improve the Company's overall recycling rates.

Reducing our paper consumption

Customer communication is a vital component of the HomeServe model but we recognise the need to reduce the environmental impact of our mailings. HomeServe uses a number of external suppliers to produce and distribute our mailings and we work closely with them to ensure they meet our minimum requirements and strive for continual improvement. Some key areas include ensuring:

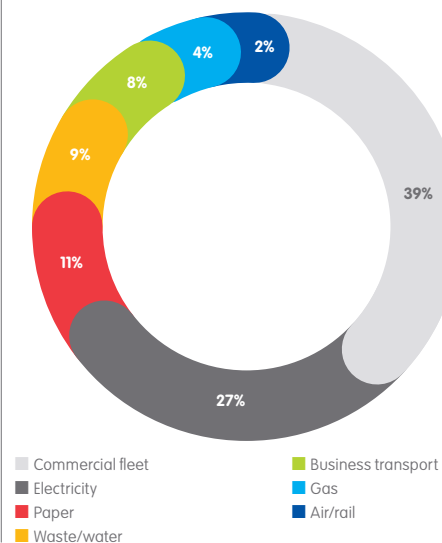
- > All stock is FSC, FSC mixed or Recycled accredited.
- > All inks are alcohol free and/or vegetable or water based.
- > All printer waste is either recycled or disposed of in line with European management standards.
- > Compliance with PAS2020 and ISO14001 across our entire supplier base (some suppliers are also carbon neutral).
- > Compliance with Royal Mail Responsible Mail and TNT Post's Green Post entry level criteria.

HomeServe's carbon footprint

As the HomeServe business grows outside the UK it is essential that we share best practice. Whilst the carbon footprint for 2010/11 below is for the UK operation, the Group Environmental Manager is working with other businesses to enable them to start analysing and reducing their carbon footprint. This will allow HomeServe to monitor, manage and reduce its overall carbon footprint and environmental impact. In the UK, HomeServe will be subject to the CRC (Carbon Reduction Commitment) Energy Efficiency Scheme.

The carbon footprint for HomeServe's UK operation in 2010/11 was 11,488 tco2e.

Carbon footprint



Great people

- > In July 2010, we launched a unique policy exclusively for Marie Curie patients. The policy covers practically every home emergency and repair, with call-out, labour, parts and VAT all included.
- > To support the policy, HomeServe call centre employees and engineers have been specially trained on the sensitive needs of Marie Curie patients.
- > To date, 311 policies have been activated which equates to £195,000 worth of free home emergency cover and HomeServe has carried out 170 jobs in patients' homes.
- > The policy will continue to be offered in 2011/12.

Susan Munroe, Director of Nursing and Patient Services at Marie Curie Cancer Care, said:

"We are extremely grateful to HomeServe for offering our patients this cover. For patients and their families dealing with a terminal illness, one of the last things on their mind is household jobs and maintenance. HomeServe is offering a practical solution for patients and families, which provides peace of mind at a difficult time."





Directors



JM Barry Gibson (59) ^{1 3 4}

Appointed to the Board in April 2004 and appointed as Chairman on 1 April 2010 following a year as Senior Non-Executive Director. Also a 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 (46)

Founder and Chief Executive of HomeServe which was originally a joint venture with South Staffordshire Group set up in 1993. Appointed to the Board in May 2001. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

Martin Bennett (42)

Appointed to the Board as Chief Financial Officer in June 2009. Previously finance director of UK Membership having been finance director of the Warranties business and commercial director. Prior to joining HomeServe in 2003 he spent three years as group finance director of Clarity Group and ten years at Arthur Andersen where he qualified as a chartered accountant.

Stella David (48) ¹

Appointed to the Board in November 2010. Currently chief executive officer of William Grant & Sons having joined them in 2009 following more than fifteen years with Bacardi where she undertook a number of roles culminating in four years as global chief marketing officer. She also spent seven years as a non-executive director at Nationwide Building Society.

Mark Morris (51) ^{1 2 3 4}

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 (44) ^{1 2}

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 of the financial institutions group, Donaldson, Lufkin & Jenrette and a partner of the Phoenix Partnership.



Jon Florsheim (51)

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.



Jonathan King (50)

Appointed to the Board in July 2010. Chief Executive of HomeServe USA since 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.



Ian Chippendale (62)^{1 2 3 4}

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 Aoi 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.



Anna Maughan (41)⁵

Appointed Company Secretary in July 2008 following twelve years as assistant company secretary. Also a trustee of and secretary to the industry wide Water Companies Pension Scheme.



Rachael Hughes (40)⁶

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:

¹ Non-Executive.

² Audit Committee (Chairman: Mark Morris). Andrew Sibbald replaced Barry Gibson on the Committee on 20 May 2011.

³ Nomination Committee (Chairman: Barry Gibson).

⁴ Remuneration Committee (Chairman: Ian Chippendale).

⁵ Company Secretary.

⁶ Member of Executive Committee only.

Directors and advisers

Directors

John Michael Barry Gibson
Richard David Harpin
Martin John Bennett
Jonathan Florsheim
Jonathan Charles King
Ian Hugh Chippendale
Stella Julie David
Mark Christopher Morris
Andrew Sibbald

Secretary

Anna Maughan

Registered office

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Registered in England No 2648297

Stockbrokers

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10 Aldermanbury, London EC2V 7RF

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 LLP
85 Fleet Street, London EC4Y 1AE

Auditors

Deloitte LLP
Four Brindleyplace, Birmingham B1 2HZ

Legal advisers

Slaughter and May
One Bunhill Row, London EC1Y 8YY

Bankers

HSBC Bank plc
120 Edmund Street, Birmingham B3 2QZ

Royal Bank of Scotland plc
2 St Philips Place, Birmingham B3 2RB

Lloyds TSB Bank plc
125 Colmore Row, Birmingham B3 2DS

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 2011.

Principal activities

During the year the Group was engaged in the provision of home emergency repairs. 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 33.

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 pages 10 and 11.

A description of the principal risks and uncertainties facing the Group is shown on pages 36 to 39. 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 88. The Directors are recommending the payment on 3 August 2011 of a final dividend of 7.0p per ordinary share to shareholders on the register at the close of business on 1 July 2011 which, together with the net interim dividend of 3.3p per ordinary share paid on 4 January 2011, results in a total net dividend for the year of 10.3p per share (2010: 44.0p which equates to 8.8p taking into account the share split). 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. As agreed at the 2010 AGM, the Company's shares were split on a 5 for 1 basis on 2 August 2010. There is 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 2010 authorised the Directors to allot shares in the capital of the Company up to a maximum nominal amount of £2,712,036 (being approximately 35% of the then issued share capital) with a further authority to allot shares up to a maximum nominal value of £410,915 (being approximately 5% of the then issued share capital) as if statutory pre-emption rights did not apply.

Directors' report

The authorities given to the Directors to allot shares at the 2010 AGM were granted for a period expiring at the 2011 AGM of the Company or 30 October 2011, if earlier. Similar resolutions will be put to the forthcoming AGM to renew this authority.

The 2010 AGM authorised the purchase by the Company of up to 32,873,165 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:

JM Barry Gibson

Richard Harpin

Martin Bennett

Jon Florsheim

Jonathan King (appointed 5 July 2010)

Ian Chippendale

Stella David (appointed 23 November 2010)

Mark Morris

Andrew Sibbald

In accordance with the new UK Corporate Governance Code, all the Directors will be offering themselves for election or re-election at the AGM. All of the Executive Directors serve under contracts of employment terminable on 12 months' notice by either party. The Non-Executive Directors all serve under three year renewable letters 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 UK Corporate Governance 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 2011 and 24 May 2011 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.

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were in place during the year and remain in force at the date of this report.

Annual General Meeting

The 2011 Annual General Meeting of the Company is to be held on 29 July 2011 at 10.00am. The notice of the meeting accompanies this report.

Auditors

Each of the Directors confirms that:

- > so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- > the Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.
- > This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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 £10.1m (2010: £5.2m) during the year.

Donations

Charitable donations of £79,000 (2010: £23,000) were made during the year. No political contributions were made in either year. Further details of the Company's charity activities are available in the Corporate responsibility report.

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 2011 represented 52 days of purchases during the year (2010: 49 days) for the Group and 21 days for the Company (2010: 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 13 May 2011, except for the following:

Name	Ordinary shares	%
Invesco Ltd	55,950,104	17.01%
Richard Harpin ¹	39,230,969	11.92%
Schroders plc	28,179,813	8.57%
Standard Life Investments Ltd	16,537,884	5.03%
Baillie Gifford & Co	14,228,878	4.32%
Legal & General Group plc	11,861,820	3.61%
Jeremy Middleton	11,200,000	3.40%

¹ Includes an indirect interest of 28,500 shares

Taxation status

The Company is not a close company within the meaning of the Corporation Tax Act 2010.

Directors' report

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 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
24 May 2011

Corporate governance

HomeServe complied throughout the year with the provisions set out in the Combined Code published in July 2003 by the UK Financial Reporting Council as updated in June 2008 ('the Code') save as where mentioned in this report.

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 66 to 82 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 33.

The Board

The Board of Directors leads and controls the Company by holding up to ten 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 the new UK Corporate Governance 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 every year 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 receives regular updates from the chairmen of its committees.

During the year the Board was led by Barry Gibson, the Chairman, who also served as a member of the Board's Nomination, Remuneration and Audit Committees.

The Chairman's responsibilities are clearly defined in a written specification agreed by the Board and which made clear the division of responsibilities between the Chairman and the Chief Executive. They include the smooth running of the Board, effective communication between Executive and Non-Executive Directors and the general progress and long-term development of the Group.

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.

Corporate governance

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, Jonathan King and the Chief Executive of HomeServe Europe, Rachael Hughes.

During the year, in addition to the Chairman, four independent Non-Executive Directors (Messrs Chippendale, Morris and Sibbald and Mrs David) with extensive business, finance and marketing backgrounds, provided the Board with a breadth of experience and with independent judgement. Ian Chippendale served as the Company's independent Senior Non-Executive Director.

The Board actively encourages all Directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates; and has adopted a formal policy on the induction and training of Directors. Newly appointed Board members are required to undergo an induction programme, which includes obtaining a thorough understanding of the Group's various operations, and 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 Board evaluation process, which was conducted by the Chairman and Company Secretary, was concluded in March 2011. 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 2011. The Board concluded that it was operating effectively, although a number of recommendations for further improvement were approved.

The Board has noted the requirement in the new UK Corporate Governance Code that the evaluation of the Board should be externally facilitated at least every three years. The Board intends to conduct an externally facilitated review during 2011/12.

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 and are on the Company's website. The terms of reference were reviewed during the year following the publication of updated guidance by the ICSA.

A Risk Committee, comprising the Executive Directors and other representatives of each business, 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 Board, which retains responsibility for the overall evaluation of the Group's risk management processes.

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of Directors, is chaired by Barry Gibson with the other members being the independent Non-Executive Directors. This Committee met informally to consider the appointment of Jonathan King to the Board and also to consider the appointment of a further Non-Executive Director (a position that Stella David was appointed to in November 2010). Following these informal meetings, recommendations were made to the Board and decisions taken by the Board as a whole.

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 Executive and Non-Executive appointments made. An external search consultancy was used in respect of the latter.

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 did not comply with the Code during the year as the Chairman, Barry Gibson, was a member along with Ian Chippendale. Since the year end, Andrew Sibbald has been appointed to the Audit Committee, replacing Barry Gibson.

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 the total fees payable to the auditor for non-audit related work in any financial year should not normally be more than 100% of the total fees payable in respect of audit and other services pursuant to legislation (principally fees in respect of the half year review). In addition any proposed spend over a predetermined limit must be approved by the Committee. Fees for non-audit related work in the year did not exceed the fees for audit and other services pursuant to legislation (principally the half year review).

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.

Corporate governance

Key activities of the Audit Committee during the year

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

- > Review of the preliminary results for 2009/10
- > Review of the interim results for 2010/11
- > Review of the auditors' management letter
- > Approval of the internal audit plan and review of the work undertaken
- > Review of the effectiveness of the internal audit function
- > Review of the effectiveness of the external audit process
- > Review of the policy on the use of the external auditors for non-audit services
- > Approval of the fees paid to the external auditor
- > Review of the development and implementation of the HomeServe Toolkit for internal controls
- > Review of cash control processes
- > Review of the UK Senior Accounting Officer process
- > Review of the whistle blowing policy
- > Review of the whistle blowing and fraud registers.

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 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 Board. No Director is involved in determining his or her own remuneration.

Short biographies of each of the Directors, including their membership of the Board's committees outlined above, may be found on pages 52 and 53.

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	9	4	2
Meetings attended			
R D Harpin	9		
M J Bennett	9		
J Florsheim	9		
J King ¹	7		
J M B Gibson	9	4	2
I Chippendale	9	4	2
S David ²	3		
A Sibbald	9		
M Morris	9	4	2

¹ Jonathan King was appointed on 5 July 2010

² Stella David was appointed on 23 November 2010

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. Copies of all analysts' research relating to the Company are circulated to Directors upon publication. The Board receive a monthly Investor Relations report which includes an analysis of the Company's shareholder register as well as any feedback received from shareholders and analysts.

During the year the Board undertook a shareholder perception study to improve its understanding of the view of shareholders. Shareholder Perceptions, an independent third party company specialising in these studies, contacted a mix of existing and potential shareholders and asked a range of questions on strategy, financial performance and management strength. The results of the study were reviewed by the Board and incorporated into the Group's strategic thinking.

Corporate governance

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 Directors 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.
- > Consolidated financial results, including a comparison with budgets and forecasts, are reported to the Board on a monthly basis, with variances being identified and understood so that mitigating actions can be implemented, where appropriate.

- > The consolidated accounts are reviewed by the Executive Directors and verified by the finance team. The accounts are then considered by the Audit Committee who make a recommendation in respect of their approval to the Board. The Board then review and approve the accounts prior to the announcement of the half year and annual results.
- > Appropriate treasury policies are in place.
- > The Company has adopted a formal 'whistle blowing' 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. This is informed by the risk reviews completed as part of due diligence. 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 Audit Committee 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 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. The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.
- > At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- > The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Remuneration report

This report has been prepared in accordance with 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 this 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 strategies that drive performance and reward it appropriately. The Committee also has oversight of the long-term incentive schemes operated by the Company. 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 determined that the 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 63.

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. HNBS is a trading name of Aon Hewitt Ltd, the ultimate parent company of which is Aon Corporation. Aon Benfield (another Aon company) provides underwriting advice and services to HomeServe. The Remuneration Committee is comfortable that this does not present a conflict of interest. The terms of engagement for HNBS are available on request from the Company Secretary.

The Committee has also received assistance from Richard Harpin, the Chief Executive and Anna Maughan, the Company Secretary, both of whom attended meetings of the Committee as required. Mr Harpin did not take part in discussions in respect of matters relating directly to his own remuneration.

Remuneration policy

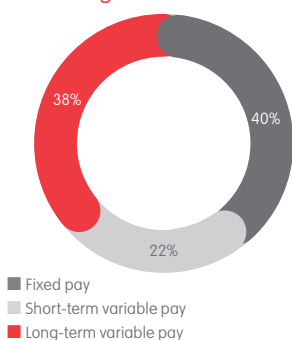
The Committee's remuneration policy for the remuneration of Executive Directors and other senior executives is based on the following principles:

- > 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.

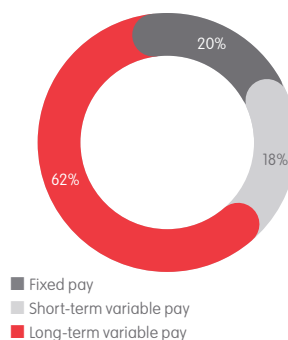
To that end, the Committee structures executive remuneration in two distinct parts: fixed remuneration of basic salary, pension and benefits and variable performance-related remuneration in the form of a cash bonus and long-term incentive arrangements. Remuneration for Executive Directors is structured 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.

On-target remuneration



Maximum remuneration



Remuneration report

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 2011/12 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.

The Committee is satisfied that neither the structure of the remuneration packages, with the high weighting on variable pay, nor the performance measures targeted under the annual bonus and long-term incentives encourage inappropriate risk taking. The remuneration arrangements are designed so as to provide a strong alignment of interest between the executives and shareholders and to support the growth and performance aspirations of the Company and the Committee is satisfied that the current arrangements meet these objectives. Noting the best practice recommendations set out in the new UK Corporate Governance Code (effective for the 2011/12 financial year), the Committee has approved the introduction of a claw-back provision to future annual and long-term incentive awards.

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 2009/10 financial year;
- > Determination of the targets for the 2010/11 annual bonus plan;
- > Approval of the 2010 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 2007 executive share option and deferred share bonus plan awards and approve vesting levels of other awards for 'good leavers' from the Company as appropriate;
- > Review of, and agreement to, all Director joining and leaving arrangements, covering all elements of their reward package;
- > Review of the remuneration arrangements for the Executive Directors and other members of the Executive Committee for 2011; and
- > Consideration of institutional investor guidelines on executive compensation.

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 skills and responsibilities of the individual. Consideration is also given to pay and employment conditions elsewhere in the Company when determining base salary increases and to market data on comparable roles (looking at pay practices in other companies in the top half of the FTSE-250 and other similar roles).
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 set so as to incentivise stretch performance and provide a competitive level of reward if all the targets are achieved. Actual bonus payments are determined according to the Group's financial and individual performance.
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	Pension benefits are aligned with the market. 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. On 5 July 2010, Jonathan King, Chief Executive of HomeServe USA, was appointed to the Board. This appointment reflected the growth and development of the US business within the overall Group. Stella David was appointed as a Non-Executive Director on 23 November 2010.

Remuneration report

Remuneration for Executive Directors

The main components of the remuneration package for Executive Directors are:

Basic salary

Basic salary for each Executive Director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual. This is normally reviewed annually with any increase usually being effective from 1 April (unless responsibilities change). Salary levels are determined taking into account market data on salary levels for similar positions at comparable companies 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. HNBS updated their review in February 2011 using the top-half of the FTSE-250 as a comparator group (at the time of the review the Company was ranked 154th in the FTSE). Consideration was also given to the pay and conditions across the Group. It was agreed that the basic salaries of the Board and Executive Committee were positioned appropriately in respect of the benchmark but that an inflationary increase of 2½% be applied with effect from 1 April 2011. This was also the budgeted increase for the general workforce in the UK.

Current salaries are set out below:

Name of Director	2010/11 Salary	2011/12 Salary
R D Harpin	£510,000	£522,750
M Bennett	£306,000	£313,650
J Florsheim	£510,000	£522,750
J King	\$575,252	\$589,633

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 2011/12 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 and Jonathan King who were able to earn a higher proportion of bonus potential based on targets specifically related to the performance of their respective divisions (the UK and the USA).

For 2011/12 the maximum limits will remain the same as will the weighting between business and personal objectives. 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 Earnings per Share ('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 is 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 previously, the Committee intends to limit the size of performance share awards in 2011 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.

In 2010 the Committee conducted a review of the performance targets to be attached to awards under the LTIP. Following the review the Committee concluded that TSR remained 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 decided that it would be appropriate to incorporate a stretching 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.

Accordingly, as last year, 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 on a straight line basis to 100% vesting where TSR performance exceeds the Index by an average of 15% 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 years.

The estimated fair value of LTIP awards granted in 2010 was 77% 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.

Remuneration report

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 78.

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
J King	28 September 2010

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 and Jonathan King). Notice periods and payments are not extendable in takeover situations.

Pensions

Executive Directors currently participate in one of two pension schemes, the Water Companies Pension Scheme (WCPS) or the HomeServe Money Plan (HMP). The normal date of retirement for Executive Directors is at age 60.

The WCPS is a funded, Inland Revenue approved occupational defined benefit scheme. Richard Harpin and Jonathan King 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 basic salary;
- > pension payable in the event of ill health; and spouse's pension on death.

Mr Harpin is a non-contributory member.

A notional earnings cap restricts the benefits provided to members of the WCPS. 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. For 2010/11 the notional cap was £122,792.

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.

No changes were made to the pension arrangements following recent changes in the tax regime.

Remuneration report

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 was removed in 2009/10. The Non-Executive Directors therefore 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
S David	23 November 2010
A Sibbald	1 June 2010
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. During the year the base Board fee was £44,000 with a premium for Chairmanship of the Audit and Remuneration Committees of £8,500. Ian Chippendale received an additional fee of £5,000 for his role as Senior Independent Director and Barry Gibson received £200,000 for his role as Chairman. No increase is proposed for 2011/12.

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 2011.

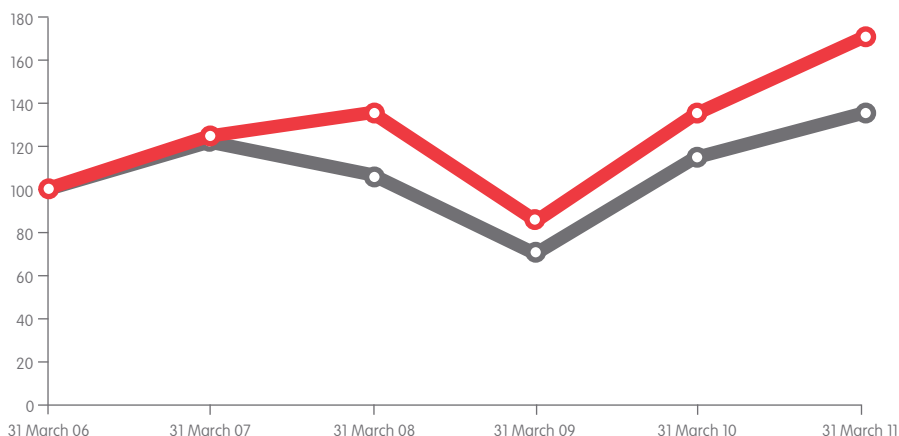
Base salary range	Number of employees
£250,001 – £300,000	1

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-250 Index (also measured by TSR) for the five years ended 31 March 2011. 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 2011, of £100 invested in HomeServe plc on 31 March 2006 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

Remuneration report

Audited Information Directors' emoluments

	Basic salary £000	Benefits £000	Bonus £000	Compensation for loss of office £000	Total emoluments and compensation	
					2011 £000	2010 £000
Executive						
R D Harpin	510	35	408	—	953	1,030
M Bennett ¹	306	18	245	—	569	540
J Florsheim	510	59	150	—	719	1,054
J King ²	262	11	310	—	583	—
B H Whitty ³	—	—	255	—	255	1,391
J Simpson-Dent ⁴	—	—	—	—	—	594
Non Executive						
J M B Gibson	200	—	—	—	200	85
I H Chippendale	58	—	—	—	58	50
S David ⁵	16	—	—	—	16	—
M C Morris	53	—	—	—	53	50
A Sibbald	44	—	—	—	44	40
Total 2011	1,959	123	1,368		3,450	
Total 2010	1,962	128	1,707	1,037	—	4,834

¹ Martin Bennett was appointed on 26 June 2009.

² Jonathan King was appointed on 5 July 2010. He is paid locally in the US in US dollars but for consistency, his emoluments have been converted to pounds using the average exchange rate for the period from appointment to 31 March 2011.

³ Brian Whitty left the Company on 31 March 2010. As disclosed in last year's Remuneration report, under the terms of his contract, he was entitled to participate in the bonus plan for 2010/11. A payment equivalent to 20% of his bonus entitlement was paid on termination (this being the portion which would have been assessed on personal targets). The remainder of the 2010/11 bonus was subject to the same profit related target as was applied to the other Executive Directors.

⁴ Jonathan Simpson-Dent left on 26 June 2009.

⁵ Stella David was appointed on 23 November 2010.

The annual bonus payable to each Director in respect of 2010/11 reflects the partial 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 77.

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2011 £000	2010 £000
Emoluments	3,450	3,797
Compensation for loss of office	—	1,037
Gains on exercise of share options	1,085	4,296
Money purchase pension contributions	215	183
	4,750	9,313

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 2011 £000	Increase in accrued pension in the year in the year £000	Increase in accrued pension in the year in excess of inflation £000	Accrued pension 31 March 2010 £000	Transfer value of increase £000
R D Harpin	43	2	1	41	11
J King	50	2	1	48	11

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 2011 £000	Decrease in transfer value in the year less director's contributions £000	Decrease in transfer value in the year £000	Transfer value 31 March 2010 £000
R D Harpin	632	29	29	661
J King	872	35	24	896

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. The decrease in the transfer value in the year is a one-off reduction arising from the use of the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation of pensions.

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

	2011 £000	2010 £000
R D Harpin	77	76
M Bennett	61	49
J Florsheim	41	40
J King ¹	36	—

¹ Jonathan King was appointed on 5 July 2010

Remuneration report

Directors' shareholdings

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

	31 March 2011	31 March 2010 ¹
R D Harpin ²	39,230,969	55,108,570
M J Bennett	62,745	35,070
J Florsheim	388,245	316,080
J King ³	225,630	216,905
J M B Gibson	57,500	57,500
I H Chippendale	15,000	15,000
S David ⁴	—	—
M C Morris	17,500	17,500
A Sibbald	10,000	10,000

¹ Restated to take account of the 5 for 1 share split on 2 August 2010.

² Includes an indirect interest of 28,500.

³ Jonathan King was appointed on 5 July 2010.

⁴ Stella David was appointed on 23 November 2010.

There were no changes in the Directors' interests in shares between 31 March and 24 May 2011.

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 2011	Granted during year	Exercised during year	31 March 2010 ¹	Option price ¹	Date granted	Date exercisable from
R D Harpin	—	—	8,765	8,765	£1.836	23.12.05	1.3.11
M Bennett	4,451	4,451	—	—	£3.42	21.12.10	1.3.16
J Florsheim	6,315	—	—	6,315	£1.52	22.12.08	1.3.12

¹ Restated to take account of the 5 for 1 share split on 2 August 2010

The price of an ordinary share on 21 March 2011 when Mr Harpin exercised his option was £4.44.

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

There were no changes in the options held under the SAYE between 31 March and 24 May 2011.

ESOP

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

	31 March 2011	Granted during year	Lapsed during year	Exercised during year	31 March 2010 ¹	Option price ¹	Date granted
R D Harpin	245,000	—	—	—	245,000	£1.10	17.7.01
	220,000	—	—	—	220,000	£1.178	8.7.02
	300,000	—	—	—	300,000	£0.94	1.7.03
	415,000	—	—	—	415,000	£1.322	27.5.04
	255,000	—	—	—	255,000	£1.922	28.6.05
	—	—	161,875	—	161,875	£3.436	4.9.07
M Bennett	—	—	51,935	—	51,935	£3.436	4.9.07
J Florsheim	—	—	196,450	—	196,450	£3.436	4.9.07
J King ²	—	—	105,220	—	105,220	£3.436	4.9.07

¹ Restated to take account of the 5 for 1 share split on 2 August 2010

² Jonathan King was appointed on 5 July 2010

The ESOP was approved by shareholders in 2001. Options were granted on an annual basis and became exercisable between three and ten years from the date of grant subject to the achievement of stretching performance criteria based on EPS growth and from 2006, absolute share price. The option price was the market price on the last dealing day prior to the date of grant. All outstanding options shown are fully vested.

Options granted in 2007 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 24 May 2011.

Key executive incentive plan awards

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

	31 March 2011	Granted during year	Lapsed during year	Exercised during year	31 March 2010 ¹	Option price ¹	Date granted
M Bennett	97,540	—	—	—	97,540	£1.922	28.6.05
J Florsheim	—	—	501,390	—	501,390	£3.59	30.3.07

¹ Restated to take account of the 5 for 1 share split on 2 August 2010

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 now fully vested and can be exercised at any time up until the tenth anniversary of grant.

On 30 March 2007, a grant of share options was made to Jon Florsheim under a Key Executive Incentive Plan. The award was subject to performance conditions in respect of profit before tax and growth in the Company's share price. The share price target was not achieved and accordingly, the option lapsed.

Remuneration report

DBP

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

	31 March 2011	Granted during year	Lapsed during year	Vested during year	31 March 2010 ¹	Date granted
R D Harpin	256,995	—	—	—	256,995	2.8.05
	—	—	44,160	210,610	254,770	6.9.07
J King ²	—	—	3,695	17,625	21,320	6.9.07

¹ Restated to take account of the 5 for 1 share split on 2 August 2010

² Jonathan King was appointed on 5 July 2010

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 exceeded the median of the FTSE-350 index of companies (excluding investment trusts). Mr Harpin elected to convert his vested award granted on 2 August 2005 into a nil cost option at the end of the performance period. The option can be exercised at any time up until tenth anniversary of grant.

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 end of the performance period.

At the end of the performance period for the 2007 awards, HomeServe's TSR performance was ranked between median and upper decile against the constituents of the FTSE 350 Index. Accordingly 2.48 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 21 September 2010, the date on which the 2007 invested shares vested was £4.657.

2008 LTIP

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

	31 March 2011	Awarded during year	Lapsed during year	Vested during year	31 March 2010 ¹	Date granted	Type of Award
R D Harpin	189,825	—	—	—	189,825	6.8.08	Performance
	143,015	—	—	—	143,015	6.8.08	Matching
	258,440	—	—	—	258,440	23.6.09	Performance
	84,250	—	—	—	84,250	26.6.09	Matching
	187,685	187,685	—	—	—	25.6.10	Performance
	183,475	183,475	—	—	—	25.6.10	Matching
M Bennett	24,360	—	—	—	24,360	6.8.08	Performance
	41,845	—	—	—	41,845	4.12.08	Performance
	155,065	—	—	—	155,065	23.6.09	Performance
	112,610	112,610	—	—	—	25.6.10	Performance
	110,085	110,085	—	—	—	25.6.10	Matching
J Florsheim	230,370	—	—	—	230,370	6.8.08	Performance
	155,665	—	—	—	155,665	6.8.08	Matching
	142,290	—	—	—	142,290	4.12.08	Performance
	258,440	—	—	—	258,440	23.6.09	Performance
	160,080	—	—	—	160,080	26.6.09	Matching
	187,685	187,685	—	—	—	25.6.10	Performance
	244,625	244,625	—	—	—	25.6.10	Matching
J King ²	139,165	—	—	—	139,165	6.8.08	Performance
	49,915	—	—	—	49,915	6.8.08	Matching
	110,960	—	—	—	110,960	23.6.09	Performance
	94,360	—	—	—	94,360	26.6.09	Matching
	121,445	121,445	—	—	—	25.6.10	Performance
	77,050	77,050	—	—	—	25.6.10	Matching

¹ Restated to take account of the 5 for 1 share split on 2 August 2010

² Jonathan King was appointed on 5 July 2010

The market price of the Company's shares on 25 June 2010, the date the awards were granted was £4.078.

The performance conditions in respect of the 2008 LTIP awards granted in 2008 and 2009 are based exclusively on a TSR performance condition, an EPS target was added in 2010. These conditions are described in the unaudited section of this report.

For awards granted in 2008 and 2009, as at 31 March 2011 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, the awards would vest as follows: 2008 performance and matching awards, 39% and 40% respectively and for the 2009 performance and matching awards, 71% and 67% respectively.

For awards granted in 2010, as at 31 March 2011 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, then this part of the performance or matching awards (50%) would not vest. The other 50% of the 2010 awards is subject to an EPS performance condition (RPI + 4% to 10% p.a.). Adjusted EPS grew by 11.6% above RPI in 2010/11, if this performance was maintained until the end of the performance period, then 50% of this part of the award would vest (maximum 50%).

General

The market price of the Company's shares at 31 March 2011 was £4.443 (2010: £17.92 which is equivalent to £3.584 following the share split). During the year the price, adjusted to take into account the share split, ranged from £3.588 to £4.875.

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 2011 amounted to 7,740,165 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

24 May 2011

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. Under that law, the Directors are required to prepare the Group financial statements under International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRS as adopted by the European Union. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are 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 and make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and 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 review of the business set out in the Chairman's statement, Chief Executive's review and Financial 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

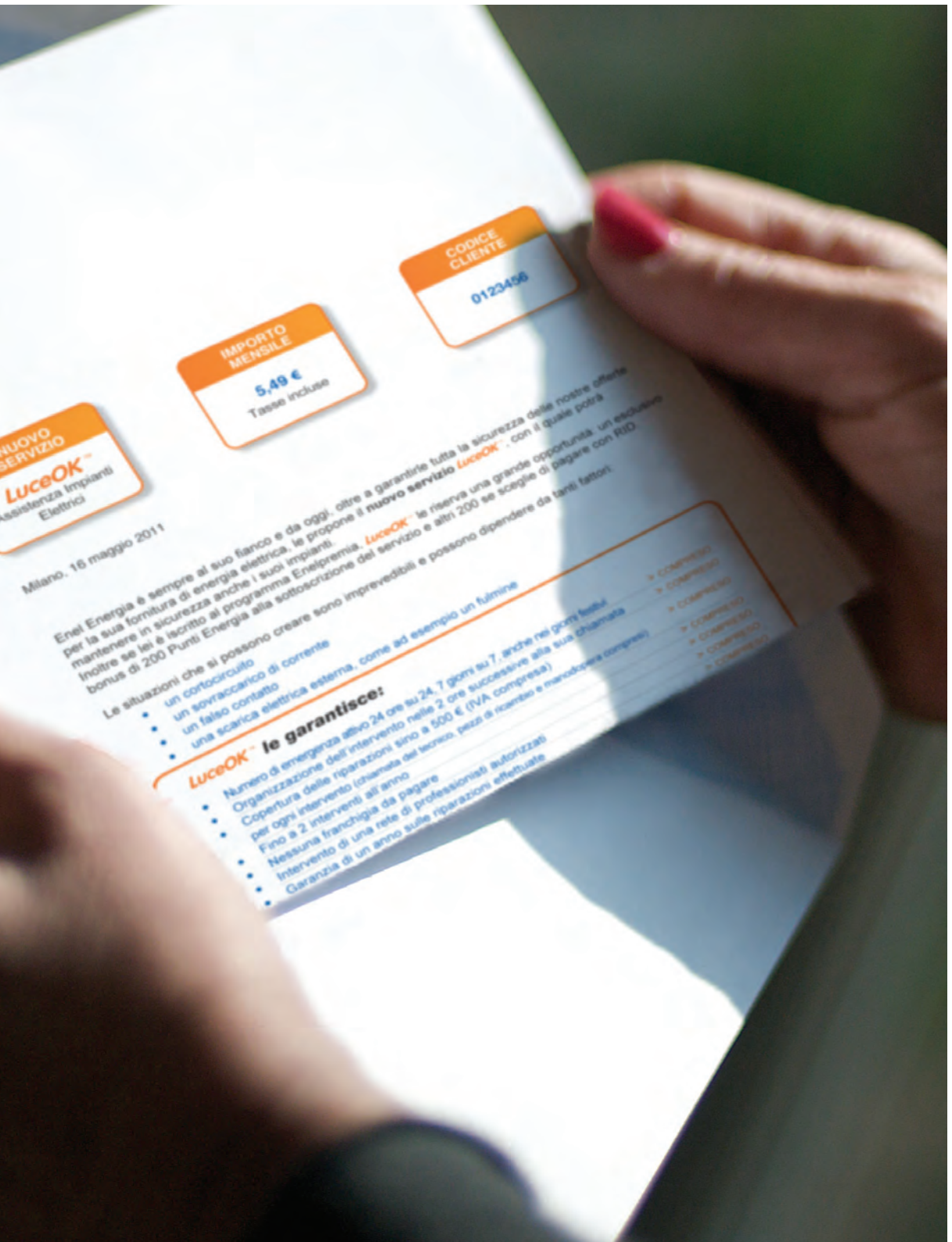
Richard Harpin
Chief Executive Officer
24 May 2011

Martin Bennett
Chief Financial Officer
24 May 2011

Global expansion

- > We have successfully proved that our business model is transferable globally with successful businesses operating in the UK, France, Spain and the US.
- > In November 2010 we announced plans to pilot the HomeServe business model in Italy with a 15 month test marketing programme with Enel, Italy's largest gas and electric utility. We also signed a second affinity partnership with Unicasa, an Italian property management company.
- > We have implemented several marketing campaigns in Italy promoting plumbing, drainage, gas supply pipe and electrical wiring products to customers in the Lombardia region with initial take-ups in line with our expectations.
- > During the next financial year we will carry out further marketing activity before evaluating the success of the programme.





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Milano, 16 maggio 2011

Enel Energia è sempre al suo fianco e da oggi, oltre a garantirle tutta la sicurezza delle nostre offerte per la sua fornitura di energia elettrica, le propone il nuovo servizio **LuceOK™**, con il quale potrà mantenere in sicurezza anche i suoi impianti. Inoltre se lei è iscritto al programma Eneipremia, **LuceOK™** le riserva una grande opportunità: un esclusivo bonus di 200 Punti Energia alla sottoscrizione del servizio e altri 200 se sceglie di pagare con RID.

Le situazioni che si possono creare sono imprevedibili e possono dipendere da tanti fattori:

- un cortocircuito
- un sovraccarico di corrente
- un falso contatto
- una scarica elettrica esterna, come ad esempio un fulmine

LuceOK™ le garantisce:

- Numero di emergenza attivo 24 ore su 24, 7 giorni su 7, anche nei giorni festivi
- Organizzazione dell'intervento nelle 2 ore successive alla sua chiamata
- Copertura delle riparazioni sino a 500 € (IVA compresa)
- Fino a 2 interventi all'anno (chiamata del tecnico, pezzi di ricambio e manodopera compresi)
- Nessuna franchigia da pagare
- Intervento di una rete di professionisti autorizzati
- Garanzia di un anno sulle riparazioni effettuate

- Consegna
- Consegna
- Consegna
- Consegna
- Consegna
- Consegna

Group independent auditor's report

We have audited the Group financial statements of HomeServe plc for the year ended 31 March 2011 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 41. 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 auditor's 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 auditor

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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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;
- > the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- > certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent Company financial statements of HomeServe plc for the year ended 31 March 2011 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 Auditor

Birmingham

24 May 2011

Group income statement

Year ended 31 March 2011

	Notes	2011 £000	2010 £000
Continuing operations			
Revenue		467,117	368,995
Exceptional revenue ¹	6	—	10,195
Total revenue	4	467,117	379,190
Operating costs	7	(365,696)	(276,734)
Share of profit of joint ventures	18	5,531	3,643
Operating profit		106,952	106,099
Investment income	9	80	191
Finance costs	10	(2,198)	(4,054)
Profit before tax, amortisation of acquisition intangibles, exceptional revenue¹ and tax on joint ventures			
		117,051	100,574
Exceptional revenue ¹	6	—	10,195
Amortisation of acquisition intangibles	7	(9,234)	(6,484)
Tax on joint ventures		(2,983)	(2,049)
Profit before tax		104,834	102,236
Tax	11	(27,893)	(29,513)
Profit for the year		76,941	72,723
Discontinued operations			
Loss from discontinued operations	34	—	(42,025)
Profit for the year, being attributable to equity holders of the parent			
		76,941	30,698
Dividends per share, paid and proposed	12	10.3p	8.8p
Earnings per share			
From continuing operations			
Basic	13	24.0p	22.9p
Diluted	13	23.3p	22.2p
From continuing and discontinued operations			
Basic	13	24.0p	9.7p
Diluted	13	23.3p	9.4p

¹ In the prior year, exceptional revenue of £10,195,000 related to income arising from the successful recovery of previous years' Insurance Premium Tax.

Group statement of comprehensive income

Year ended 31 March 2011

	Notes	2011 £000	2010 £000
Profit for the year		76,941	30,698
Exchange movements on translation of foreign operations	32	(895)	4,439
Actuarial gain/(loss) on defined benefit pension scheme	39	3,656	(2,664)
Movement on cash flow hedge	32	—	1,947
Tax (charge)/credit relating to components of other comprehensive income	23	(1,264)	746
Total comprehensive income for the year attributable to equity holders of the parent		78,438	35,166

Group balance sheet

31 March 2011

	Notes	2011 £000	(restated note 14) 2010 £000
Non-current assets			
Goodwill	14	192,080	188,431
Other intangible assets	15	65,618	56,386
Property, plant and equipment	16	38,525	32,923
Interests in joint ventures	18	7,614	5,924
Deferred tax assets	23	5,572	2,937
		309,409	286,601
Current assets			
Inventories	19	2,025	950
Trade and other receivables	20	247,532	235,122
Cash and cash equivalents	20	16,101	25,409
		265,658	261,481
Total assets		575,067	548,082
Current liabilities			
Trade and other payables	24	(222,941)	(206,174)
Current tax liabilities		(16,093)	(9,500)
Obligations under finance leases	37	(285)	—
Bank and other loans	22	(27,924)	(28,300)
		(267,243)	(243,974)
Net current (liabilities)/assets		(1,585)	17,507
Non-current liabilities			
Bank and other loans	22	—	(50,000)
Other financial liabilities	25	(19,397)	(15,799)
Retirement benefit obligation	39	(74)	(4,248)
Obligations under finance leases	37	(168)	—
		(19,639)	(70,047)
Total liabilities		(286,882)	(314,021)
Net assets		288,185	234,061
Equity			
Share capital	26	8,225	8,218
Share premium account	27	36,661	36,102
Merger reserve	28	70,992	70,992
Own shares reserve	29	(21,535)	(24,958)
Share incentive reserve	30	8,102	6,538
Capital redemption reserve	31	1,200	1,200
Hedging and currency translation reserve	32	7,827	8,722
Retained earnings		176,713	127,247
Total equity		288,185	234,061

The financial statements were approved by the Board of Directors and authorised for issue on 24 May 2011. They were signed on its behalf by:

Martin Bennett

Chief Financial Officer

24 May 2011

Group statement of changes in equity

Year ended 31 March 2011

	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 2010	8,218	36,102	70,992	(24,958)	6,538	1,200	8,722	127,247	234,061
Total comprehensive income	—	—	—	—	—	—	(895)	79,333	78,438
Dividends paid	—	—	—	—	—	—	—	(31,345)	(31,345)
Issue of share capital	7	559	—	—	—	—	—	—	566
Issue of trust shares	—	—	—	3,423	—	—	—	(1,583)	1,840
Share-based payments	—	—	—	—	2,899	—	—	—	2,899
Share options exercised	—	—	—	—	(1,335)	—	—	1,335	—
Tax on exercised share options	—	—	—	—	—	—	—	1,698	1,698
Deferred tax on share options	—	—	—	—	—	—	—	28	28
Balance at 31 March 2011	8,225	36,661	70,992	(21,535)	8,102	1,200	7,827	176,713	288,185

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

Group cash flow statement

Year ended 31 March 2011

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	35	93,838	48,295
Investing activities			
Interest received		80	191
Dividend from joint venture		3,719	3,255
Proceeds on disposal of property, plant and equipment		1,001	1,329
Purchases of intangible assets	15	(5,031)	(21,624)
Purchases of property, plant and equipment	16	(7,420)	(5,022)
Net cash outflow on acquisitions	33	(16,233)	(25,541)
Disposal of subsidiary undertakings		—	(241)
Acquisition of investment in joint venture	18	—	(223)
Net cash used in investing activities		(23,884)	(47,876)
Financing activities			
Dividends paid	12	(31,345)	(23,180)
Issue of shares from the employee benefit trust		1,840	1,453
Proceeds on issue of share capital	26	566	2,667
(Decrease)/increase in bank and other loans	22	(50,376)	23,000
Net cash (used in)/from financing activities		(79,315)	3,940
Net (decrease)/increase in cash and cash equivalents		(9,361)	4,359
Cash and cash equivalents at beginning of year		25,409	21,345
Effect of foreign exchange rate changes		53	(295)
Cash and cash equivalents at end of year		16,101	25,409

Notes to the financial statements

Year ended 31 March 2011

1. General information

HomeServe plc is a Company incorporated in the United Kingdom under the Companies Act. 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.

The Group has adopted IFRS3 'Business Combinations' (revised 2008) and IAS27 'Consolidated and Separate Financial Statements' (revised 2008). The most significant changes to the Group's previous accounting policies for business combinations are that acquisition related costs, which previously would have been included in the cost of a business combination, are included in operating costs as they are incurred.

The revised standards have been applied to the acquisitions in the current year, as described in note 33.

Any adjustments to contingent consideration for acquisitions made prior to 31 March 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS3 (2004) and IAS27 (2005).

IFRIC17 'Distributions of Non-cash Assets to Owners', IFRS2 (amended) 'Group Cash-settled Share-based Payment Transactions' and 'Improvements to IFRSs (2009)' have also been adopted in the year but their adoption has not had any significant impact on the amounts reported in 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:

IFRS9	Financial Instruments
IAS24 (revised Nov 2009)	Related Party Disclosures
Amendments to IAS12 (Dec 2010)	Deferred Tax: Recovery of Underlying Assets
Amendments to IFRS7 (Oct 2010)	Disclosures – Transfers of Financial Assets
Amendments to IFRIC14 (Nov 2009)	Prepayments of a Minimum Funding Requirement
IFRIC19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs (May 2010)	

The implementation of IFRS9 which the Group expects to adopt for the year beginning on 1 April 2013 will impact both the measurement and disclosures of Financial Instruments.

The Directors do not expect that the adoption of the other Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on a going concern basis as set out in the Corporate governance statement.

The principal accounting policies adopted are set out below.

Basis of consolidation

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

Notes to the financial statements

Year ended 31 March 2011

2. Significant accounting policies (continued)

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. 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.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Any adjustments to contingent consideration for acquisitions made prior to 31 March 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS3 (2004) and IAS27 (2005).

Goodwill

Goodwill arising in a business combination is recognised at cost as an asset at the date control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is 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 of the cash generating unit is less than the carrying amount of the unit, 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.

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 is not recognised if the recognition of such losses reduces the Group's share of the joint venture's net assets below zero where there is no recourse to the Group to fund these losses.

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, Insurance Premium Tax 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, on the sale of a policy, gross revenue consists of only a component of the overall policy price, representing the commission receivable for the marketing and sale of the policy, stated net of sales related taxes.

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 historical 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 of 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.

Repair revenue relates to repairs undertaken on behalf of underwriters subject to separate contractual arrangements. Such revenue is recognised on completion of the repair.

Leasing

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

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

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

Notes to the financial statements

Year ended 31 March 2011

2. Significant accounting policies (continued)

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 movements, if any, are classified as equity and transferred to the Group's translation reserve. Such cumulative exchange movements are recognised as income or expense 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.

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 is otherwise 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	3-15 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.

Notes to the financial statements

Year ended 31 March 2011

2. Significant accounting policies (continued)

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are classified either 'at fair value through profit or loss (FVTPL)' or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

The Group also issues cash-settled share-based payments to certain employees. For cash-settled share-based payments, a liability is recognised for the services acquired, measured initially at the fair value of the liability. At each balance sheet date, until the liability is settled, the fair value of the liability is remeasured with any changes in fair value recognised in the profit or loss for the year.

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.

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Year ended 31 March 2011

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

An appropriate proportion of revenue, sufficient to cover future costs and margin, 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.

An assessment is also made of any factors that are likely to materially affect the economic benefits which will flow to the Group such as policy cancellations. To the extent that economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. The Group uses historical experience in determining the appropriate amount of revenue to recognise.

Valuation of acquisition intangible assets

Acquisitions may result in customer relationships and customer databases being recognised as intangible assets. These are valued using the excess earnings method. In applying this methodology certain key judgements and estimates are required to be made in respect of future cash flows together with an appropriate discount factor for the purpose of determining the present value of those cash flows.

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 £192,080,000 (2010 restated: £188,431,000). The carrying value of acquisition intangibles is £37,157,000 (2010: £27,931,000). Following the annual impairment review, no impairment charge has been recorded against goodwill or acquisition intangibles in either year. As set out in note 14, reasonably possible changes in respect of commercial outcomes around sales volumes, prices, margins and discount rates 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

From 1 April 2010 the UK financial results include the revenue and costs of repair jobs undertaken by sub-contract engineers. This reflects a change in the Group's commercial relationship with its underwriter where it now provides a full repair service to underwriters instead of the previous repair administration service. This change has increased both revenue and costs by £41,700,000 in the current year; it only affects the UK and there is no impact on profits.

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

	2011 £000	2010 £000
Continuing operations		
Provision of services	467,117	379,190
Investment income (note 9)	80	191
	467,197	379,381
Discontinued operations		
Provision of services	—	81,983
	467,197	461,364

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 operating decision maker, who is considered to be the Chief Executive, to allocate resources to the segments and to assess their performance. The internal reporting of the Group has changed during the year such that all established businesses are reviewed individually, and all other new operations are reviewed collectively as 'New Markets'. Prior year presentation has been restated to reflect this new segmental analysis.

Inter-segment revenue is charged at prevailing market prices. Segment profit/loss represents the result of each segment including allocating costs associated with head office and shared functions, but before allocating investment income, finance costs and tax. This is the measure reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

The accounting policies of the operating segments are the same as those described in Significant Accounting Policies except in relation to our joint venture, Doméo, in France where the following adjustments are made for segmental reporting purposes: (a) revenue is included in Total Revenue and (b) shareholder fees from Doméo are added back, and Group cost allocations are deducted in arriving at segmental operating profit.

2011	UK £000	Doméo £000	Spain £000	USA £000	New Markets £000	Total £000
Revenue						
Total revenue	358,877	32,314	48,751	52,649	9,873	502,464
Inter-segment	(3,033)	—	—	—	—	(3,033)
Joint venture revenue not recognisable for statutory reporting	—	(32,314)	—	—	—	(32,314)
External revenue	355,844	—	48,751	52,649	9,873	467,117
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles and tax on joint ventures	104,334	8,198	1,705	6,116	(1,184)	119,169
Amortisation of acquisition intangibles	(1,396)	—	(1,678)	(2,623)	(3,537)	(9,234)
Tax on joint ventures	—	(2,983)	—	—	—	(2,983)
Operating profit/(loss)	102,938	5,215	27	3,493	(4,721)	106,952
Investment income						80
Finance costs						(2,198)
Profit before tax from continuing operations						104,834
Tax						(27,893)
Profit for the year						76,941

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Year ended 31 March 2011

5. Business and geographical segments (continued)

2010 (Restated – see above)	UK £000	Doméo £000	Spain £000	USA £000	New Markets £000	Total £000
Revenue						
Total revenue	288,135	29,842	46,927	25,676	9,742	400,322
Exceptional revenue	10,195	—	—	—	—	10,195
Inter-segment	(1,485)	—	—	—	—	(1,485)
Joint venture revenue not recognisable for statutory reporting	—	(29,842)	—	—	—	(29,842)
External revenue	296,845	—	46,927	25,676	9,742	379,190
Result						
Segment operating profit pre amortisation of acquisition intangibles, exceptional revenue and tax on joint ventures	95,754	5,692	382	1,483	1,126	104,437
Amortisation of acquisition intangibles	(1,258)	—	(1,956)	(1,448)	(1,822)	(6,484)
Tax on joint ventures	—	(2,049)	—	—	—	(2,049)
Exceptional revenue	10,195	—	—	—	—	10,195
Operating profit/(loss)	104,691	3,643	(1,574)	35	(696)	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

Segment information

	(restated note 14) Assets		(restated note 14) Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Continuing operations								
UK	410,918	408,639	202,466	230,796	12,597	20,671	10,106	8,211
Spain	36,882	38,506	12,847	14,585	564	536	2,161	2,265
USA	70,915	36,301	41,481	23,001	2,504	2,802	3,762	1,932
New Markets	48,961	58,935	30,088	45,639	448	166	3,810	2,198
	567,676	542,381	286,882	314,021	16,113	24,175	19,839	14,606
Doméo	7,391	5,701	—	—	—	—	—	—
Discontinued operations	—	—	—	—	—	968	—	1,845
Total	575,067	548,082	286,882	314,021	16,113	25,143	19,839	16,451

All assets and liabilities are allocated to reportable segments.

Revenues from major products and services

	2011 £000	2010 £000
Continuing operations		
Sale of home assistance and emergency policies	356,909	291,492
Provision of repair services	110,208	87,698
	467,117	379,190
Discontinued operations		
Provision of repair services	—	81,983
Consolidated revenue (excluding investment revenue)	467,117	461,173

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		Non-current assets	
	2011 £000	2010 £000	2011 £000	2010 £000
Continuing operations				(restated note 14)
United Kingdom	355,844	296,845	216,457	212,383
Continental Europe	58,624	56,669	44,851	51,515
United States of America	52,649	25,676	34,915	13,842
	467,117	379,190	296,223	277,740
Discontinued operations				
United Kingdom	—	81,983	—	—
	467,117	461,173	296,223	277,740

Information relating to Continental Europe in the table above includes Spain and New Market segments.

Information about major customers

Following the change in UK commercial arrangements with the principal underwriter effective 1 April 2010, the Group invoiced £63,300,000 (2010: £12,100,000) to Inter Partner Assistance in respect of repair services performed on policy claims, including both employed engineers and sub-contract engineers. There are no other customers in either year from which the Group earns more than 10% of its revenues.

6. Exceptional revenue

In the prior year, exceptional revenue of £10,195,000 related to income arising from the successful recovery of previous years' Insurance Premium Tax. This was treated as revenue to reflect where this income would originally have been recorded.

7. Profit for the year

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

	Continuing operations		Discontinued operations		Total 2011 £000	Total 2010 £000
	2011 £000	2010 £000	2011 £000	2010 £000		
Included in operating costs:						
Staff costs	133,362	115,096	—	28,151	133,362	143,247
Cost of inventories recognised as expense	5,363	3,779	—	14,814	5,363	18,593
Depreciation of property, plant and equipment	4,880	3,971	—	609	4,880	4,580
Amortisation of acquisition intangible assets	9,234	6,484	—	868	9,234	7,352
Amortisation of other intangibles	5,725	4,151	—	368	5,725	4,519
Other impairment loss recognised on trade receivables	787	736	—	38	787	774
Auditor's remuneration for audit services	167	178	—	26	167	204
Write down of inventories	—	—	—	204	—	204

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Year ended 31 March 2011

7. Profit for the year (continued)

The analysis of auditor's remuneration is as follows:

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	32	31
The audit of the Company's subsidiaries pursuant to legislation	135	173
Total audit fees	167	204
Other services pursuant to legislation	41	34
Tax services	156	250
Information technology services	—	19
Corporate finance services	—	25
Other services	10	9
Total non-audit fees	207	337

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 auditor.

Other services pursuant to legislation include fees in respect of the half year review of £38,000 (2010: £33,000). Tax services during the current and prior year include the provision of advice in respect of a number of compliance matters.

In the prior year, corporate finance services related to the provision of various services connected to the Group's disposal of the UK Emergency Services business. Information technology services in the prior year comprised a review of progress on in-house information technology projects.

8. Staff costs

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

	2011 number	2010 number
Continuing operations		
UK	2,922	2,726
Continental Europe (excluding joint ventures)	431	346
United States of America	413	182
	3,766	3,254
Discontinued operations		
UK Emergency Services	—	1,104
	3,766	4,358

	Continuing operations		Discontinued operations		Total	Total
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Their aggregate remuneration comprised:						
Wages and salaries	116,881	100,420	—	25,235	116,881	125,655
Social security costs	13,705	12,026	—	2,462	13,705	14,488
Other pension costs (note 39)	2,776	2,650	—	454	2,776	3,104
	133,362	115,096	—	28,151	133,362	143,247

9. Investment income

	2011 £000	2010 £000
Interest on bank deposits	80	191

10. Finance costs

	2011 £000	2010 £000
Interest on revolving credit facilities	1,411	3,421
Unwinding of discount on deferred and contingent consideration	399	631
Loan note interest	—	2
Exchange movements	388	—
	2,198	4,054

11. Tax

	Continuing operations		Discontinued operations		Total	Total
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Current tax						
– Current year	30,732	32,104	—	(8,597)	30,732	23,507
– Adjustments in respect of prior years	1,317	25	—	(2,536)	1,317	(2,511)
Total current tax charge/(credit)	32,049	32,129	—	(11,133)	32,049	20,996
Deferred tax (note 23)	(4,156)	(2,616)	—	1,472	(4,156)	(1,144)
Total tax charge/(credit)	27,893	29,513	—	(9,661)	27,893	19,852

UK corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2011 £000	2010 £000
Profit before tax on continuing operations	104,834	102,236
Tax at the UK corporation tax rate of 28% (2010: 28%)	29,354	28,626
Tax effect of expenses that are not deductible in determining taxable profit	540	704
Adjustments in respect of prior years – current tax	1,317	25
Adjustments in respect of prior years – deferred tax	483	671
Effect of overseas losses excluding joint ventures	(2,252)	522
Tax effect of share of results of joint venture	(1,549)	(1,035)
Tax expense for the year relating to continuing operations	27,893	29,513

In addition to the amount charged to the income statement, a deferred tax charge relating to retirement benefit obligations amounting to £1,264,000 (2010: credit £746,000) 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:

	2011 £000	2010 £000
Current tax		
Excess tax deductions related to Share-based payments on exercised options	1,698	1,798
Deferred tax		
Change in estimated excess tax deductions related to Share-based payments	28	775
Total tax recognised directly in equity	1,726	2,573

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Year ended 31 March 2011

11. Tax (continued)

On 23 March 2011 the Government announced that the main rate of Corporation Tax would reduce to 26% with effect from 1 April 2011, with subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014. The change to 26% took statutory effect when it was approved by the House of Commons on 29 March 2011, therefore the reduction had been substantively enacted at the balance sheet date and has been reflected in the financial statements for deferred tax purposes.

The subsequent proposed reductions have not been substantively enacted. The effect of these tax rate changes on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

12. Dividends

	2011 £000	2010 ¹ £000
Amounts recognised as distributions to equity holders in the year:		
Second interim dividend for the year ended 31 March 2010 of 4.8p (2009: nil) per share	15,278	—
Final dividend for the year ended 31 March 2010 of 1.7p (2009: 5.0p) per share	5,446	15,867
Interim dividend for the year ended 31 March 2011 of 3.3p (2010: 2.3p) per share	10,621	7,313
	31,345	23,180

¹ On 30 July 2010, shareholders of HomeServe plc approved a 5 for 1 split of the Company's shares which was effective on 2 August 2010. Comparative information in respect of the dividend per share has been restated to take account of the share split.

The proposed final dividend for the year ended 31 March 2011 is 7.0p per share amounting to £22,520,000 (2010: 1.7p per share amounting to £5,446,000). 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.

The second interim dividend for the year ended 31 March 2010 of 4.8p 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.

13. Earnings/(loss) per share

	Continuing operations		Discontinued operations		Continuing and discontinued operations	
	2011 pence	2010 ¹ pence	2011 pence	2010 ¹ pence	2011 pence	2010 ¹ pence
Basic	24.0	22.9	—	(13.3)	24.0	9.7
Diluted	23.3	22.2	—	(13.3)	23.3	9.4
Adjusted basic	25.9	22.2				
Adjusted diluted	25.2	21.5				

¹ On 30 July 2010, shareholders of HomeServe plc approved a 5 for 1 split of the Company's shares which was effective on 2 August 2010. Comparative information in respect of earnings per share has been restated to take account of the share split.

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

	2011 '000	2010 ¹ '000
Weighted average number of shares		
Basic	320,793	316,935
Dilutive impact of share options	9,245	10,720
Diluted	330,038	327,655

Continuing operations

	2011 £000	2010 £000
Profit for the year	76,941	72,723
Amortisation of acquisition intangibles	9,234	6,484
Exceptional revenue (note 6)	—	(10,195)
Tax impact arising on amortisation of acquisition intangibles and exceptional revenue	(2,965)	1,308
Adjusted profit for the year	83,210	70,320

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.

Discontinued operations

	2011 £000	2010 £000
Loss for the year (note 34)	—	(42,025)

Continuing and discontinued operations

	2011 £000	2010 £000
Profit for the year	76,941	30,698

14. Goodwill

	£000
Cost	
At 1 April 2009	234,846
Restatement	(1,755)
At 1 April 2009 (restated)	233,091
Recognised on acquisitions	25,355
Disposals	(44,325)
Exchange movements	4,100
At 1 April 2010	218,221
Recognised on acquisitions (note 33)	4,371
Exchange movements	(722)
At 31 March 2011	221,870
Accumulated impairment losses	
At 1 April 2009	59,179
Disposals	(29,389)
At 1 April 2010 and 31 March 2011	29,790
Carrying amount	
At 31 March 2011	192,080
At 31 March 2010	188,431

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Year ended 31 March 2011

14. Goodwill (continued)

During the year, the contingent consideration payable on the 2009 acquisition of SPT (Belgium) was reduced by £1,755,000. Goodwill on the acquisition has been reduced accordingly, with the goodwill and contingent consideration being restated in the comparative period.

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

	2011 £000	(restated) 2010 £000
UK	154,656	154,567
Spain – Reparalia	13,856	14,092
Belgium – SPT	4,309	4,436
France – SFG	15,079	15,336
United States of America	4,180	—
	192,080	188,431

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 rate, growth rates and expected changes to selling prices and direct costs during the period. Management estimate the Group discount rate using a pre-tax rate that reflects current market assessments of the time value of money and adjust, if necessary, to 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 an annual cash flow forecast derived from the most recent financial budgets approved by the Directors and extrapolates the annual cash flow using estimated long-term growth rates of between 2% and 2.5% (2010: 2.5%) representing long-term growth rates based on respective country GDP rates. The pre-tax rate used to discount the forecast cash flows for all CGUs is 9% (2010: 11.2%).

Management 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 and franchise assets relating to purchased franchise licences. Other intangibles include trademarks, access rights and software.

	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 2009	46,189	21,105	11,158	78,452	—	36,108	114,560
Additions	70	—	—	70	12,264	7,646	19,980
Acquisitions	5,691	1,166	—	6,857	—	370	7,227
Disposals	(12,996)	—	(11,158)	(24,154)	—	(16,365)	(40,519)
Exchange movements	2,867	(998)	—	1,869	195	(124)	1,940
At 1 April 2010	41,821	21,273	—	63,094	12,459	27,635	103,188
Additions	—	—	—	—	1,962	4,044	6,006
Acquisitions	7,145	12,570	—	19,715	—	149	19,864
Disposals	—	—	—	—	—	(1,416)	(1,416)
Exchange movements	(435)	(1,205)	—	(1,640)	(163)	(136)	(1,939)
At 31 March 2011	48,531	32,638	—	81,169	14,258	30,276	125,703
Accumulated amortisation and impairment							
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 movements	338	(111)	—	227	10	(83)	154
At 1 April 2010	28,410	6,753	—	35,163	474	11,165	46,802
Charge for the year	6,111	3,123	—	9,234	1,509	4,216	14,959
Disposals	—	—	—	—	—	(1,149)	(1,149)
Exchange movements	46	(431)	—	(385)	(28)	(114)	(527)
At 31 March 2011	34,567	9,445	—	44,012	1,955	14,118	60,085
Carrying amount							
At 31 March 2011	13,964	23,193	—	37,157	12,303	16,158	65,618
At 31 March 2010	13,411	14,520	—	27,931	11,985	16,470	56,386

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16. Property, plant and equipment

	Land & buildings £000	Furniture, fixtures & equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
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
Disposals	(6,237)	(7,284)	(5,778)	(494)	(19,793)
Exchange movements	(42)	(27)	(90)	(6)	(165)
At 1 April 2010	28,669	6,983	14,573	895	51,120
Additions	2,100	872	7,052	83	10,107
Acquisitions	78	65	180	782	1,105
Disposals	(446)	(1,017)	(3,135)	(502)	(5,100)
Exchange movements	(77)	(47)	(104)	(21)	(249)
At 31 March 2011	30,324	6,856	18,566	1,237	56,983
Accumulated depreciation and impairment					
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
Disposals	(5,037)	(6,692)	(5,504)	(81)	(17,314)
Exchange movements	—	6	(14)	—	(8)
At 1 April 2010	3,879	3,776	9,863	679	18,197
Charge for the year	1,156	1,015	2,456	253	4,880
Disposals	(120)	(1,042)	(2,870)	(481)	(4,513)
Exchange movements	(16)	(22)	(67)	(1)	(106)
At 31 March 2011	4,899	3,727	9,382	450	18,458
Carrying amount					
At 31 March 2011	25,425	3,129	9,184	787	38,525
At 31 March 2010	24,790	3,207	4,710	216	32,923

The carrying amount of the Group's fixtures and equipment includes an amount of £609,000 (2010: £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 (2010: £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 46 to the Company's separate financial statements.

18. Interests in joint ventures

	2011 £000	2010 £000
Interests in joint ventures	7,614	5,924

The following amounts relate to the results of the interests in Doméo and Doméo Assistance:

	2011 Doméo & Doméo Assistance £000	2010 Doméo & Doméo Assistance £000
Summary balance sheet		
Non-current assets	2,590	2,421
Current assets	51,102	43,723
Total assets	53,692	46,144
Current liabilities	(41,863)	(37,763)
Net assets	11,829	8,381
Group share, 49%	5,796	4,106
Goodwill	1,595	1,595
Carrying amount	7,391	5,701
Summary income statement		
Total revenue	65,946	60,902
Total profit after tax	11,288	7,435
Amount recognisable	5,531	3,643

In addition to the joint venture above, the Group made an investment in a joint venture in the prior year of £223,000. In respect of the interests in joint ventures, there are no capital commitments or contingent liabilities which require disclosure (2010: £nil).

19. Inventories

	2011 £000	2010 £000
Raw materials	—	553
Consumables	2,025	397
	2,025	950

20. Other financial assets

Trade and other receivables

	2011 £000	2010 £000
Amounts receivable for the provision of services	165,640	149,389
Other receivables	61,190	72,957
Loans to joint ventures	907	863
Prepayments and accrued income	19,795	11,913
	247,532	235,122

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.

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 £6,832,000 (2010: £4,176,000) 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 38 days (2010: 40 days).

Notes to the financial statements

Year ended 31 March 2011

20. Other financial assets (continued)

Ageing of past due but not impaired receivables:

	2011 £000	2010 £000
1–30 days	4,312	2,484
31–60 days	2,060	521
61–90 days	12	378
91 days +	448	793
Balance at 31 March past due but not impaired	6,832	4,176
Current	158,808	145,213
Balance at 31 March	165,640	149,389

Movement in the allowance for doubtful debts:

	2011 £000	2010 £000
At 1 April	2,335	11,579
Impairment losses recognised	787	774
Recognised as part of UK Emergency Services impairment	—	(7,152)
Amounts written off as uncollectible	(1,175)	(756)
Disposals	—	(1,661)
Amounts recovered during the year	(564)	(449)
Exchange movements	(98)	—
Balance at 31 March	1,285	2,335

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:

	2011 £000	2010 £000
1–30 days	26	545
31–60 days	40	135
61–90 days	186	370
91 days +	1,033	1,285
	1,285	2,335

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

Other receivables

As part of its 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 obligations such as the cost of underwriting 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 £16,101,000 (2010: £25,409,000) 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 to their fair value.

21. Derivative financial instruments

During the year ended 31 March 2008, the Group entered into an interest rate swap arrangement with a notional value of £50,000,000. The interest rate swap was used 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 41.

22. Bank and other loans

All of the Group's borrowings are denominated in US dollars (2010: Sterling).

	2011 £000	2010 £000
Revolving credit facilities	27,924	78,000
Loan notes	—	300
	27,924	78,300

The borrowings are repayable as follows:

On demand or within one year	27,924	28,300
After one year	—	50,000
	27,924	78,300

	2011 %	2010 %
The weighted average interest rates paid were as follows:		
Revolving credit facilities	1.1	3.5
Loan notes	—	0.5

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

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

- > The Group has revolving credit facilities with a number of banks totalling £150,000,000 (2010: £150,000,000). The revolving credit facility was taken out on 20 December 2007 and has a term of five years.
- > 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.
- > Loan notes are repayable on demand, subject to a minimum initial maturity of six months.
- > All of the Group's borrowings are currently at floating rates at margins of between 0.1% and 1% above LIBOR, thus exposing the Group to cash flow and interest rate risk.

At 31 March 2011, the Group had available £122,076,000 (2010: £72,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the financial statements

Year ended 31 March 2011

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 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)	—	564	1,352	(200)	10	1,144
Credit to comprehensive income	—	—	—	746	—	—	—	—	746
Credit to equity	—	—	—	—	775	—	—	—	775
Acquisitions	—	—	—	—	—	(2,080)	—	—	(2,080)
Disposals	(962)	—	—	—	(827)	(48)	—	—	(1,837)
At 1 April 2010	(529)	(717)	(101)	1,283	5,065	(3,890)	2,318	(492)	2,937
Credit/(charge) to income	(427)	717	(6)	—	632	1,729	1,505	6	4,156
Charge to comprehensive income	—	—	—	(1,264)	—	—	—	—	(1,264)
Exchange movements	—	—	—	—	—	(271)	(14)	—	(285)
Credit to equity	—	—	—	—	28	—	—	—	28
At 31 March 2011	(956)	—	(107)	19	5,725	(2,432)	3,809	(486)	5,572

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	Spain	USA	2011 £000	2010 £000
Deferred tax assets	5,744	1,018	2,791	9,553	8,666
Deferred tax liabilities	(3,981)	—	—	(3,981)	(5,729)
Net deferred tax asset	1,763	1,018	2,791	5,572	2,937

At the balance sheet date, the Group has unused tax losses of £23,735,000 (2010: £26,800,000) available for offset against future profits and which can be carried forward indefinitely. A deferred tax asset of £3,809,000 (2010: £2,318,000) has been recognised in respect of these losses based on estimates of budgeted profits in the forthcoming year. 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

	2011 £000	2010 £000
Trade creditors and accruals	93,788	78,674
Contingent consideration	1,650	1,813
Deferred consideration	2,272	1,749
Deferred income	21,334	13,414
Taxes and social security, excluding current tax	2,876	7,070
Other creditors	101,021	103,454
	222,941	206,174

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52 days (2010: 49 days).

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.

Other creditors mainly represent liabilities for amounts to be collected from policyholders in respect of the cost of underwriting 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

	Deferred income £000	Contingent consideration £000	Deferred consideration £000	Total £000
At 1 April 2010	8,438	1,632	7,361	17,431
Restatement (see note 14)	—	(1,632)	—	(1,632)
At 1 April 2010 (restated)	8,438	—	7,361	15,799
Movement in year	4,074	—	(476)	3,598
At 31 March 2011	12,512	—	6,885	19,397

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.

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.

26. Share capital

	2011 £000	2010 £000
Authorised:		
352,000,000 ordinary shares of 2.5p each (31 March 2010: 70,400,000 ordinary shares of 12.5p each)	8,800	8,800
Issued and fully paid:		
328,975,000 ordinary shares of 2.5p each (31 March 2010: 65,741,000 ordinary shares of 12.5p each)	8,225	8,218

On 30 July 2010, shareholders of HomeServe plc approved a 5 for 1 split of the Company's shares which was effective on 2 August 2010.

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 2.5p per share (2010:12.5p per share) on all issued and fully paid shares.

During the year, the Company issued 270,000 shares with a nominal value of 2.5p (adjusted for share split) creating share capital of £7,000 and share premium of £559,000. In the prior year, the Company issued 408,000 shares with a nominal value of 12.5p creating share capital of £51,000 and share premium of £2,616,000.

27. Share premium account

	£000
Balance at 1 April 2009	33,486
Premium arising on issue of equity shares	2,616
Balance at 1 April 2010	36,102
Premium arising on issue of equity shares	559
Balance at 31 March 2011	36,661

The share premium account represents consideration received for authorised and issued shares in excess of the nominal value of 2.5p per share.

Notes to the financial statements

Year ended 31 March 2011

28. Merger reserve

	£000
Balance at 1 April 2009, 1 April 2010 and 31 March 2011	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 at the date of issue of 12.5p and the share price immediately preceding the issue of £6.245 per share.

29. Own shares reserve

	number ¹ ('000)	£000
Balance at 1 April 2009	10,550	27,523
Issued from the employee benefit trust	(1,490)	(2,565)
Balance at 1 April 2010	9,060	24,958
Issued from the employee benefit trust	(1,788)	(3,423)
Balance at 31 March 2011	7,272	21,535

¹ On 30 July 2010, shareholders of HomeServe plc approved a 5 for 1 split of the Company's shares which was effective on 2 August 2010. Comparative information in respect of the number of shares in the own shares reserve has been restated to take account of the share split.

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 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 1 April 2010	6,538
Share-based payment charges in the year	2,899
Share options exercised in the year	(1,335)
Balance at 31 March 2011	8,102

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 2009, 1 April 2010 and 31 March 2011	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 2009	(1,947)	4,283	2,336
Movement in the year taken to comprehensive income	1,947	4,439	6,386
Balance at 1 April 2010	—	8,722	8,722
Movement in the year taken to comprehensive income	—	(895)	(895)
Balance at 31 March 2011	—	7,827	7,827

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

There were no amounts in the year (2010: £nil) removed from equity and included in the income statement for the period in respect of cash flow hedges.

33. Business combinations

On 12 August 2010, the Group acquired 100% of the issued share capital of Keyspan Energy Solutions LLC and National Grid Energy Services (New England) LLC (both trading as National Grid Energy Services). Together these companies provide home emergency and repair contracts to 183,000 customers. The acquisition accelerates the current strategy of HomeServe USA of offering utility branded service contracts, in a transaction which brings both existing contracts and the opportunity to add new contracts in previously un-marketed National Grid territories. This will give HomeServe USA marketing access to an additional 5m residential households. The acquisition also brings a US centre of excellence in repair management to the Group. The deferred consideration relates to a part of the overall deal value deferred to future periods.

On 8 March 2011, the Group entered into an agreement with South Jersey Energy Services Plus ("SJESP"). SJESP services residential and light commercial heating, ventilation and air-conditioning systems, provides plumbing repair services, and provides repair services under service contracts for appliances in New Jersey. These services are provided to in excess of 59,000 customers and include in excess of 125,000 distinct service contracts with those customers. The Group acquired the exclusive right to acquire these customer relationships, and to renew all existing and new customer contracts. The deferred consideration includes amounts dependent upon the retention and transfer of the customer relationships to the Group and other amounts deferred to future periods.

The recognised amounts of identifiable assets acquired and liabilities assumed are set out in the table below:

	National Grid Energy Services			South Jersey Energy Services Plus			Total fair value £000
	Original book value £000	Fair value adjustments £000	Fair value £000	Original book value £000	Fair value adjustments £000	Fair value £000	
Net assets acquired:							
Property, plant and equipment	1,227	(122)	1,105	—	—	—	1,105
Other intangibles	149	—	149	—	—	—	149
Trade and other receivables	3,836	—	3,836	—	—	—	3,836
Inventories	1,382	(350)	1,032	—	—	—	1,032
Cash and cash equivalents	91	—	91	—	—	—	91
Trade and other payables	(12,439)	(1,319)	(13,758)	—	—	—	(13,758)
Total identifiable liabilities	(5,754)	(1,791)	(7,545)	—	—	—	(7,545)
Intangible assets identified on acquisition			14,203			5,512	19,715
Goodwill			4,282			—	4,282
Total consideration			10,940			5,512	16,452
Satisfied by:							
Cash			9,786			1,853	11,639
Deferred consideration			1,154			3,659	4,813
			10,940			5,512	16,452
Net cash outflow arising on acquisition:							
Cash consideration			9,786			1,853	11,639
Cash and cash equivalents acquired			(91)			—	(91)
			9,695			1,853	11,548

Notes to the financial statements

Year ended 31 March 2011

33. Business combinations (continued)

National Grid Energy Services

The provisional fair value adjustments recognised on the acquisition of National Grid Energy Services relate to the best estimate of provisions against assets, the recognition of additional liabilities as at the acquisition date and the recognition of intangible assets on acquisition. Goodwill of £4,282,000 arose from the acquisition (£39,000 increase from the £4,243,000 disclosed in the Condensed Consolidated financial statements for the six months ended 30 September 2010, due principally to an update to the assessment of liabilities on acquisition).

The goodwill arising on the excess of consideration over the fair value of the assets and liabilities acquired represents the expectation of synergy savings and efficiencies. The goodwill and intangible assets are expected to be deductible for tax purposes.

The acquisition contributed £16,022,000 in revenue and a profit before acquisition amortisation of £2,990,000 (profit of £1,913,000 post acquisition amortisation) since acquisition on 12 August 2010. It is not practicable to disclose the revenue and profit before tax between 1 April 2010 and 12 August 2010 because the acquired companies operated a number of other businesses, which were discontinued during that period by the vendor. Costs in respect of the acquisition of the business, relating to legal and financial advisory services, were not significant during the year and were expensed to operating results.

South Jersey Energy Services Plus

The acquisition of SJESP results in intangible assets relating to the exclusive access to customer and marketing databases. As the consideration relates principally to the acquisition of these exclusive access rights, no goodwill arises. The intangibles assets are expected to be deductible for tax purposes.

Due to the timing of the acquisition, there was no significant contribution to the Group's results for the year. It is not practicable to disclose the revenue and profit before tax between 1 April 2010 and 8 March 2011 because the acquired business was subsumed in the vendor's other activities and therefore this information is not available. Costs in respect of the acquisition of the business, relating to legal and financial advisory services, were not significant during the year and were expensed to operating results.

In addition to the net cash outflow arising on the acquisitions above of £11,548,000, contingent and deferred consideration of £4,685,000 was paid relating to current and prior period acquisitions; and additional goodwill of £89,000 was recognised in respect of adjustments to consideration relating to other prior acquisitions.

34. Discontinued operations

In the prior year, the Group exited from its Emergency Services Division through the disposal of a number of businesses and the closure of the Property Repairs business, resulting in a 2010 reported loss of £42,025,000. In the current year there was no profit or loss.

During the year, the discontinued operations had a net cash inflow of £1,824,000 (2010: outflow of £17,705,000) in respect of operating cash flows, paid £nil (2010: £962,000) in respect of investing activities and paid £nil (2010: £nil) in respect of financing activities.

35. Notes to the cash flow statement

	2011 £000	2010 £000
Operating profit from continuing operations	106,952	106,099
Operating loss from discontinued operations	—	(27,555)
Operating profit from continuing and discontinued operations	106,952	78,544
Adjustments for:		
Depreciation of property, plant and equipment	4,880	4,580
Amortisation of intangible assets	14,959	11,871
Share-based payments expense	2,944	2,397
Share of results in joint ventures	(5,531)	(3,643)
(Profit)/loss on disposal of property, plant and equipment and software	(147)	446
Operating cash flows before movements in working capital	124,057	94,195
(Increase)/decrease in inventories	(53)	3,615
Increase in receivables	(10,366)	(27,039)
Increase in payables	5,370	2,624
Cash generated by operations	119,008	73,395
Income taxes paid	(23,760)	(21,490)
Interest paid	(1,410)	(3,610)
Net cash inflow from operating activities	93,838	48,295

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.

36. Operating lease arrangements

The Group as lessee

	2011 £000	2010 £000
Minimum lease payments under operating leases recognised in income for the year	4,649	5,142

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:

	2011 £000	2010 £000
Within one year	4,356	3,396
In the second to fifth years inclusive	8,858	9,640
After five years	3,441	3,116
	16,655	16,152

Operating lease payments principally represent rentals payable by the Group for certain of its land and buildings, motor vehicles and office equipment. The leases have varying terms and some have renewal options.

Notes to the financial statements

Year ended 31 March 2011

37. Obligations under finance leases

	2011 £000	2010 £000
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	285	—
Amounts due for settlement after 12 months: in the second to fifth years inclusive	168	—
Present value of lease obligations	453	—
Minimum lease payments		
Within one year	292	—
In the second to fifth years inclusive	173	—
Less: future finance charges	(12)	—
Present value of lease obligations	453	—

Certain motor vehicles are held under finance leases. The average lease term is 5 years. For the year ended 31 March 2011, the average effective borrowing rate was 3%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in US dollars.

The fair value of the Group's lease obligations is approximately equal to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 16.

38. Share-based payments

During the year ended 31 March 2011, the Group had five (2010: 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 was dependent upon the Profit Before Tax of the Group for the year ended 31 March 2008 and was 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 performance and matching awards. The vesting period is three years and for the awards granted in 2008 and 2009 vesting is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. From 2010, 50% of the award is dependent upon Total Shareholder Return and 50% is subject to a target based on Earnings per Share growth. If the awards remain unexercised after a period of one year from vesting, they 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.

	ESOP	KEIP	LTIP	DBP ²	SAYE	CSS
2010¹						
Number						
Outstanding at 1 April 2009	9,284,640	1,800,195	4,623,190	1,277,440	3,879,635	184,530
Granted	—	—	2,353,445	—	386,455	—
Lapsed/forfeited	(2,833,150)	(652,590)	(2,501,560)	(540,255)	(1,256,125)	—
Exercised	(2,125,200)	(405,095)	(53,530)	—	(746,735)	(184,530)
Outstanding at 31 March 2010	4,326,290	742,510	4,421,545	737,185	2,263,230	—
Exercisable at 31 March 2010	2,922,270	512,370	—	256,995	37,610	—
Weighted average exercise price (£)						
Outstanding at 1 April 2009	2.17	2.50	—	—	1.77	—
Granted	—	—	—	—	2.60	—
Lapsed/forfeited	2.95	1.87	—	—	1.89	—
Exercised	1.27	1.92	—	—	1.75	—
Outstanding at 31 March 2010	2.11	2.62	—	—	1.85	—
Exercisable at 31 March 2010	1.47	2.19	—	—	2.34	—
Range of exercise price of options outstanding at 31 March 2010						
£0.01 to £0.99	300,000	—	—	—	—	—
£1.00 to £1.99	2,622,270	371,225	—	—	1,660,485	—
£2.00 to £2.99	—	59,670	—	—	602,745	—
£3.00 to £3.99	1,404,020	311,615	—	—	—	—
Weighted average remaining contractual life	5	6	2	—	3	1
Weighted average fair value of options awarded in 2010	—	—	£1.71	—	£1.18	—

Notes to the financial statements

Year ended 31 March 2011

38. Share-based payments (continued)

	ESOP	KEIP	LTIP	DBP ²	SAYE	CSS
2011						
Number						
Outstanding at 1 April 2010	4,326,290	742,510	4,421,545	737,185	2,263,230	—
Granted	—	—	2,106,745	—	444,646	—
Lapsed	(1,404,020)	(263,420)	—	(120,141)	—	—
Forfeited	—	(24,095)	(610,655)	—	(338,946)	—
Exercised	(1,118,505)	(172,130)	—	(360,049)	(268,058)	—
Outstanding at 31 March 2011	1,803,765	282,865	5,917,635	256,995	2,100,872	—
Exercisable at 31 March 2011	1,803,765	282,865	—	256,995	22,990	—
Weighted average exercise price (£)						
Outstanding at 1 April 2010	2.11	2.62	—	—	1.85	—
Granted	—	—	—	—	3.42	—
Lapsed	3.44	3.59	—	—	—	—
Forfeited	—	3.15	—	—	1.94	—
Exercised	1.66	2.22	—	—	2.09	—
Outstanding at 31 March 2011	1.36	1.92	—	—	2.14	—
Exercisable at 31 March 2011	1.36	1.92	—	—	2.40	—
Range of exercise price of options outstanding at 31 March 2011						
£0.01 to £0.99	300,000	—	—	—	—	—
£1.00 to £1.99	1,503,765	282,865	—	—	1,259,255	—
£2.00 to £2.99	—	—	—	—	403,325	—
£3.00 to £3.99	—	—	—	—	438,292	—
Weighted average remaining contractual life	3	4	1	—	2	—
Weighted average fair value of options awarded in 2011	—	—	£3.17	—	£1.59	—

¹ Restated to take account of the 5 for 1 share split on 2 August 2010.

² 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 £4.59 (2010: £3.25).

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 (which are comparable to the prior year) 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. Volatility is calculated by looking at the historical share price movements prior to the date of grant over a period of time commensurate with the remaining term for each award.

The Group recognised total expenses of £2,899,000 (2010: £2,397,000) related to equity-settled, share-based payment transactions and total expenses of £45,000 (2010: £nil) related to cash-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 £2,723,000 (2010: £2,484,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2011, contributions of £249,000 (2010: £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 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 results of the actuarial valuation as at 31 March 2008 were updated to 31 March 2011 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.

In July 2010, the government announced its intention that future revaluation pension increase orders would be measured by the Consumer Prices Index, rather than the Retail Prices Index. The impact of this change on the benefits provided by the Section has been reflected in the Company's assumptions and an actuarial gain of £2,331,000 has been recognised as a result. This amount is included within the actuarial gains recognised outside profit and loss in other comprehensive income in the figures below.

	Valuation at 2011	2010
Key assumptions used:		
Discount rate at 31 March	5.6%	5.6%
Consumer price inflation	3.0%	n/a
Retail price inflation	3.7%	3.9%
Expected rate of salary increases	5.2%	5.4%
Future pension increases	3.0%	3.9%
Expected rate of return on scheme assets at 31 March	7.8%	8.0%
Life expectancy of male aged 60 at balance sheet date	26.5 yrs	26.4 yrs

Pensions accounting entries are subject to judgement and volatility, as the assets are largely linked to the equity market, whereas the present value of the obligation is linked to yields on AA-rated corporate bonds.

As an indication, all other things being equal:

- > an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the obligations of the Section of approximately £0.4m; and
- > a 5% rise in the value of the Section's return seeking portfolio would improve the balance sheet position by approximately £0.8m.

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

	2011 £000	2010 £000
Current service cost	171	263
Interest cost	1,145	861
Expected return on scheme assets	(1,263)	(820)
Past service cost	—	316
Recognised in operating costs	53	620

The actual return on scheme assets was a gain of £1,201,000 (2010: gain of £4,807,000).

Notes to the financial statements

Year ended 31 March 2011

39. Retirement benefit schemes (continued)

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

	2011 £000	2010 £000
Present value of defined benefit obligations	(17,912)	(20,422)
Fair value of scheme assets	17,838	16,174
Deficit in scheme recognised in the balance sheet in non-current liabilities	(74)	(4,248)

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

	2011 £000	2010 £000
At 1 April	20,422	12,363
Employer's part of the current service cost	171	263
Interest cost	1,145	861
Contributions from scheme members	55	57
Actuarial (gains)/losses	(3,718)	6,651
Benefits paid	(163)	(89)
Past service cost	—	316
At 31 March	17,912	20,422

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

	2011 £000	2010 £000
At 1 April	16,174	10,444
Expected return on scheme assets	1,263	820
Actuarial (losses)/gains	(62)	3,987
Contributions from the sponsoring companies	571	955
Contributions from scheme members	55	57
Benefits paid	(163)	(89)
At 31 March	17,838	16,174

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 2011 is a gain of £3,656,000 (2010: loss of £2,664,000). The cumulative amount recognised outside profit and loss at 31 March 2011 is a loss of £658,000.

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	
	2011 %	2010 %	2011 £000	2010 £000
Equity instruments	7.8	8.0	13,150	15,326
Diversified growth funds	7.3	—	3,180	—
Other assets	4.3	4.5	1,508	848
			17,838	16,174

The overall expected rate of return on assets for the financial year ending 31 March 2011 was 7.8% per annum (2010: 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 2010.

The history of experience adjustments is as follows:

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of defined benefit obligations	(17,912)	(20,422)	(12,363)	(13,283)	(14,535)
Fair value of scheme assets	17,838	16,174	10,444	13,458	13,888
(Deficit)/surplus in scheme	(74)	(4,248)	(1,919)	175	(647)
Experience adjustments on scheme liabilities					
Amount of (gain)/loss (£000)	(386)	(238)	807	(164)	144
Percentage of scheme liabilities (%)	(2)	(1)	7	(1)	1
Experience adjustments on scheme assets					
Amount of (gain)/loss (£000)	62	(3,987)	4,443	1,961	(420)
Percentage of scheme assets (%)	0	(25)	43	15	(3)

The estimated amounts of contributions expected to be paid to the scheme during the forthcoming financial year is £560,000 (2011: actual £571,000) plus any Pension Protection Fund levy payable.

40. 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 51).

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	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Harpin Limited	2	—	470	326	—	—	117	92
Pilot Services (GB) Limited	—	—	—	18	—	—	—	—
Lexicon Partners (US) LLC	—	—	104	65	—	—	3	65
Joint ventures	1,711	2,331	891	1,000	396	887	447	387

Harpin Limited and Pilot Services (GB) Limited are related parties of the Group because they are controlled by Richard Harpin, Chief Executive Officer of the Group and Director of the parent company of the Group.

Lexicon Partners (US) LLC, is a New York (USA) based subsidiary of the Lexicon Partnership LLP, a UK based limited liability partnership of which Andrew Sibbald, Non-Executive Director, is the Senior Partner.

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.

	2011 £000	2010 £000
Short-term employee benefits	4,327	5,983
Post-employment benefits	306	482
Share-based payment	3,020	1,598
	7,653	8,063

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

Notes to the financial statements

Year ended 31 March 2011

41. Financial instruments

Principal financial instruments

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

Group

- | | |
|-----------------------------|---|
| – cash and cash equivalents | – bank overdrafts and revolving credit facilities |
| – trade receivables | – loans to joint ventures |
| – other receivables | – trade payables |
| – other creditors | – 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 32 and the Group Statement of Changes in Equity.

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

	2011 £000	2010 £000
Shareholders' funds	288,185	234,061
Revolving credit facilities	27,924	78,000
Unsecured loan notes	—	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.

On 30 July 2010, shareholders of HomeServe plc approved a 5 for 1 split of the Company's shares which was effective on 2 August 2010. The purpose of the sub-division was 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.

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.

Financial risk management is overseen by the Board according to objectives, targets and policies set by the Board. Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with objectives, targets and policies set by the Board. Treasury is not a profit centre and does not enter into speculative transactions.

Classification of financial instruments

In addition to the other financial assets and liabilities set out above in 'Principal financial instruments' and disclosed in notes 20, 22 and 24, the Group had derivative instruments in the prior year in designated hedge accounting relationships. The interest rate swap expired during the year ended 31 March 2010.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt requirements with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps 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 based on contractual maturities is provided in the table below. Interest is payable on the bank overdraft and revolving credit facilities. Deferred and contingent consideration payments are stated on the basis of expected cash outflows before discounting.

The actual payment profile of 'Other creditors' is dependent upon the collection of the corresponding 'Other receivables' from policyholders. These amounts principally relate to underwriting, which are collected from policyholders and remitted to underwriters following cash collection. Therefore, the actual cash flows may differ from those presented, but will not result in the acceleration of the settlement of the liability.

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Other creditors £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2011						
Under 2 months	27,924	93,788	39,238	—	93	161,043
Between 2 and 6 months	—	—	31,691	—	1,278	32,969
Between 6 and 12 months	—	—	30,092	—	2,676	32,768
Between 1 and 2 years	—	—	—	—	2,195	2,195
Between 2 and 3 years	—	—	—	—	1,512	1,512
Between 3 and 4 years	—	—	—	—	1,517	1,517
Between 4 and 5 years	—	—	—	—	901	901
After 5 years	—	—	—	—	2,063	2,063
Total	27,924	93,788	101,021	—	12,235	234,968

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Other creditors £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2010						
Under 2 months	28,000	78,674	40,983	300	1,854	149,811
Between 2 and 6 months	—	—	33,183	—	391	33,574
Between 6 and 12 months	—	—	29,288	—	1,914	31,202
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	78,674	103,454	300	15,246	275,674

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).

Notes to the financial statements

Year ended 31 March 2011

41. Financial instruments (continued)

	2011	2010
Increase in interest rate	10%	10%
Reduction in profit before tax (£000)	132	322

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	
	2011 £000	2010 £000	2011 £000	2010 £000
Euro	86,722	45,752	(36,420)	(32,648)
US dollar	65,776	20,374	(64,276)	(14,193)

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.

	2011	2010
Increase in £:\$ exchange rate:	10%	10%
Effect on profit before tax (£000)	(324)	86
Effect on equity (£000)	(136)	120
Increase in £:€ exchange rate:	10%	10%
Effect on profit before tax (£000)	(656)	(1,024)
Effect on equity (£000)	(4,573)	(1,535)

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 auditor's report

We have audited the parent Company financial statements of HomeServe plc for the year ended 31 March 2011 which comprise the Company statement of comprehensive income, the Company balance sheet, the Company statement of changes in equity, the Company cash flow statement and the related notes 42 to 56. 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 and applied in accordance with the provision of Companies Act 2006.

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 auditor's 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 auditor

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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion the parent Company financial statements:

- > give a true and fair view of the state of the Company's affairs as at 31 March 2011;
- > have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.

Company independent auditor's report

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 2011.

Christopher Robertson

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham

24 May 2011

Company statement of comprehensive income

Year ended 31 March 2011

	Notes	2011 £000	2010 £000
Profit/(loss) for the year		69,331	(10,968)
Actuarial gain/(loss) on defined benefit pension scheme	39	3,656	(2,664)
Movement on cash flow hedge	32	—	1,947
Tax (charge)/credit relating to components of other comprehensive income	50	(1,264)	746
Total comprehensive income/(expense) for the year attributable to equity holders of the parent		71,723	(10,939)

Company balance sheet

31 March 2011

	Notes	2011 £000	2010 £000
Non-current assets			
Other intangible assets	45	1,716	1,713
Property, plant and equipment	45	12	—
Investment in subsidiaries	46	108,468	108,468
Deferred tax assets	50	3,229	4,288
		113,425	114,469
Current assets			
Trade and other receivables	47	47,104	177,418
Current tax assets		—	2,792
Cash and cash equivalents	47	107,308	50,663
		154,412	230,873
Total assets		267,837	345,342
Current liabilities			
Trade and other payables	48	(26,408)	(91,589)
Current tax liabilities		(255)	—
Bank loans	49	(27,924)	(28,000)
		(54,587)	(119,589)
Net current assets		99,825	111,284
Non-current liabilities			
Retirement benefit obligation	39	(74)	(4,248)
Bank loans	49	—	(50,000)
		(74)	(54,248)
Total liabilities		(54,661)	(173,837)
Net assets		213,176	171,505
Equity			
Share capital	26	8,225	8,218
Share premium account	27	36,661	36,102
Merger reserve	28	70,992	70,992
Share incentive reserve	55	2,408	2,243
Capital redemption reserve	31	1,200	1,200
Retained earnings		93,690	52,750
Total equity		213,176	171,505

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 24 May 2011. They were signed on its behalf by:

Martin Bennett

Chief Financial Officer

24 May 2011

Company statement of changes in equity

Year ended 31 March 2011

	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 2010	8,218	36,102	70,992	2,243	1,200	—	52,750	171,505
Total comprehensive income	—	—	—	—	—	—	71,723	71,723
Dividends paid	—	—	—	—	—	—	(31,345)	(31,345)
Issue of share capital	7	559	—	—	—	—	—	566
Issue of trust shares	—	—	—	—	—	—	(1,583)	(1,583)
Share-based payments	—	—	—	1,021	—	—	—	1,021
Share options exercised	—	—	—	(856)	—	—	856	—
Tax on exercised share options	—	—	—	—	—	—	1,345	1,345
Deferred tax on share options	—	—	—	—	—	—	(56)	(56)
Balance at 31 March 2011	8,225	36,661	70,992	2,408	1,200	—	93,690	213,176

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

Company cash flow statement

Year ended 31 March 2011

	Notes	2011 £000	2010 £000
Net cash inflow/(outflow) from operating activities	43	57,020	(23,845)
Investing activities			
Interest received		24	6,766
Dividends received from subsidiary undertakings		78,725	—
Purchases of intangible assets		(97)	(1,713)
Purchases of property, plant and equipment		(12)	—
Issue of shares from the employee benefit trust		1,840	1,453
Net cash from investing activities		80,480	6,506
Financing activities			
Dividends paid		(31,345)	(23,180)
Share capital issued		566	2,667
Decrease/increase in bank loans		(50,076)	23,000
Net cash (used in)/from financing activities		(80,855)	2,487
Net movement in cash and cash equivalents		56,645	(14,852)
Cash and cash equivalents at beginning of year		50,663	65,515
Cash and cash equivalents at end of year		107,308	50,663

Notes to the financial statements

Year ended 31 March 2011

Company only

The following notes 42 to 56 relate to the Company only position for the year ended 31 March 2011.

42. Significant accounting policies

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's profit for the year was £69,331,000 (2010: £10,968,000 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) adopted by the European Union.

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 less impairment.

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.

43. Notes to the cash flow statement

	2011 £000	2010 £000
Operating loss	(11,351)	(19,466)
Adjustments for:		
Amortisation of intangible assets	94	—
Share-based payment expense	1,066	796
Operating cash flows before movements in working capital	(10,191)	(18,670)
Decrease/(increase) in receivables	126,572	(26,412)
(Decrease)/increase in payables	(64,386)	23,956
Cash generated from/(used in) operations	51,995	(21,126)
Income taxes received	5,306	(93)
Interest paid	(281)	(2,626)
Net cash inflow/(outflow) from operating activities	57,020	(23,845)

44. Other information

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	32	31
Total audit fees	32	31

Notes to the financial statements

Year ended 31 March 2011

45. Other intangible assets and tangible assets

	Trademarks & access rights £000	Total intangibles £000	Furniture fixtures & equipment £000	Total tangibles £000
Cost				
At 1 April 2009	—	—	—	—
Additions	1,713	1,713	—	—
At 1 April 2010	1,713	1,713	—	—
Additions	97	97	12	12
At 31 March 2011	1,810	1,810	12	12
Accumulated amortisation and impairment				
At 1 April 2009 and 1 April 2010	—	—	—	—
Charge for the year	(94)	(94)	—	—
At 31 March 2011	(94)	(94)	—	—
Carrying amount				
At 31 March 2011	1,716	1,716	12	12
At 31 March 2010	1,713	1,713	—	—

46. Subsidiaries

Details of the Company's principal subsidiaries at 31 March 2011 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			
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
Continental Europe			
Reparalia Direct 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
Assistenza Casa SRL	Italy	100	100
United States of America			
HomeServe USA Corp	USA	100	100
HomeServe Energy Services (New England) LLC	USA	100	100
Keyspan Energy Solutions LLC	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:

1 April 2009, 1 April 2010 and 31 March 2011	£000
	108,468

47. Financial assets

Trade and other receivables

	2011 £000	2010 £000
Accounts receivable from Group companies	45,546	157,880
Other receivables	763	19,479
Prepayments and accrued income	795	59
	47,104	177,418

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 (2010: £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 (2010: 30 days).

Ageing of past due but not impaired receivables:

	2011 £000	2010 £000
1–30 days	—	—
31–60 days	—	—
61–90 days	—	—
91 days +	—	—
Balance at 31 March past due but not impaired	—	—
Current	45,546	157,880
Balance at 31 March	45,546	157,880

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 is 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 to their fair value.

Cash balances and cash equivalents

Cash balances and cash equivalents of £107,308,000 (2010: £50,663,000) 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 to their fair value.

Notes to the financial statements

Year ended 31 March 2011

48. Financial liabilities

Trade and other payables

	2011 £000	2010 £000
Trade creditors and accruals	6,919	6,392
Amounts payable to Group companies	15,026	77,243
Taxes and social security, excluding corporation tax	308	4,071
Other creditors	4,155	3,883
	26,408	91,589

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 21 days (2010: 45 days).

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

49. Bank loans

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

50. 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 2009	537	1,919	2,456
Credit to income	—	153	153
Credit to comprehensive income	746	—	746
Credit to equity	—	933	933
At 1 April 2010	1,283	3,005	4,288
Credit to income	—	261	261
Charge to comprehensive income	(1,264)	—	(1,264)
Charge to equity	—	(56)	(56)
At 31 March 2011	19	3,210	3,229

There is no unprovided deferred tax.

51. Related party transactions

	Provision of services		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Harpin Limited	2	—	470	319	—	—	117	92
Pilot Services (GB) Limited	—	—	—	16	—	—	—	—
Joint Ventures	1,711	2,331	891	1,000	396	887	447	387
Subsidiary Companies	3,014	3,846	—	—	45,546	157,880	15,026	77,243

Harpin Limited and Pilot Services (GB) Limited are related parties of the Company because they are controlled by Richard Harpin, Chief Executive Officer of the Group and Director of the Company.

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, 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.

	2011 £000	2010 £000
Short-term employee benefits	2,059	4,739
Post-employment benefits	150	327
Share-based payment	1,526	789
	3,735	5,855

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

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

The movements on these items are disclosed in notes 26, 27, 28 and 31 to the financial statements.

53. Share-based payments

During the year ended 31 March 2011, the Company had five (2010: five) share-based payment arrangements, which are described in note 38.

	ESOP	KEIP	LTIP	DBP ²	SAYE
2010¹					
Number					
Outstanding at 1 April 2009	4,602,780	483,345	1,984,550	738,325	442,475
Transfer	862,105	172,130	521,880	569,240	—
Granted	—	—	797,100	—	26,380
Lapsed/forfeited	(801,685)	(285,965)	—	(324,770)	(104,095)
Exercised	(1,087,500)	(84,350)	(1,540,205)	(521,920)	(70,660)
Outstanding at 31 March 2010	3,575,700	285,160	1,763,325	460,875	294,100
Exercisable at 31 March 2010	2,722,270	251,880	—	—	—

Weighted average exercise price (£)

Outstanding at 1 April 2009	1.79	2.93	—	—	1.75
Transfer	2.49	2.05	—	—	—
Granted	—	—	—	—	2.60
Lapsed/forfeited	3.00	3.22	—	—	2.08
Exercised	1.06	1.92	—	—	1.60
Outstanding at 31 March 2010	1.91	2.40	—	—	1.75
Exercisable at 31 March 2010	1.44	2.61	—	—	—

Range of exercise price of options outstanding at 31 March 2010

£0.01 to £0.99	300,000	—	—	—	—
£1.00 to £1.99	2,422,270	144,015	—	—	247,660
£2.00 to £2.99	—	59,670	—	—	46,440
£3.00 to £3.99	853,430	81,475	—	—	—
Weighted average remaining contractual life	5	6	2	—	3
Weighted average fair value of options awarded in 2010	—	—	£1.74	—	£1.16

Notes to the financial statements

Year ended 31 March 2011

53. Share-based payments (continued)

	ESOP	KEIP	LTIP	DBP2	SAYE
2011					
Number					
Outstanding at 1 April 2010	3,575,700	285,160	1,763,325	460,875	294,100
Transfer	(25,000)	(43,605)	171,910	117,950	—
Granted	—	—	937,425	—	44,053
Lapsed	(853,430)	—	—	—	—
Forfeited	—	—	(198,255)	—	(38,730)
Exercised	(950,000)	—	—	(321,830)	(57,020)
Outstanding at 31 March 2011	1,747,270	241,555	2,674,405	256,995	242,403
Exercisable at 31 March 2011	1,747,270	241,555	—	256,995	4,515
Weighted average exercise price (£)					
Outstanding at 1 April 2010	1.91	2.40	—	—	1.75
Transfer	1.92	2.50	—	—	—
Granted	—	—	—	—	3.42
Lapsed	3.44	—	—	—	—
Forfeited	—	—	—	—	1.59
Exercised	1.61	—	—	—	1.96
Outstanding at 31 March 2011	1.34	1.92	—	—	2.02
Exercisable at 31 March 2011	1.34	1.92	—	—	1.99
Range of exercise price of options outstanding at 31 March 2011					
£0.01 to £0.99	300,000	—	—	—	—
£1.00 to £1.99	1,447,270	241,555	—	—	165,950
£2.00 to £2.99	—	—	—	—	32,400
£3.00 to £3.99	—	—	—	—	44,053
Weighted average remaining contractual life	3	4	1	—	2
Weighted average fair value of options awarded in 2011	—	—	£3.17	—	£1.62

¹ Restated to take account of the 5 for 1 share split on 2 August 2010

² 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 £4.68 (2010: £3.47).

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 set out in note 38.

The Company recognised total expenses of £1,021,000 (2010: £796,000) related to equity-settled share-based payment transactions and total expenses of £45,000 (2010: £nil) related to cash-settled share-based payment transactions.

54. Retirement benefit schemes

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

55. Share incentive reserve

	£000
Balance at 1 April 2009	2,623
Share-based payment charges in the year	796
Share options exercised in year	(1,176)
Balance at 1 April 2010	2,243
Share-based payment charges in the year	1,021
Share options exercised in year	(856)
Balance at 31 March 2011	2,408

56. 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
- other receivables
- trade payables
- other creditors

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 49, cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in notes 52 and 55 and the Company Statement of Changes in Equity.

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

	2011 £000	2010 £000
Shareholders' funds	213,176	171,505
Revolving credit facilities	27,924	78,000

On 30 July 2010, shareholders of HomeServe plc approved a 5 for 1 split of the Company's shares which was effective on 2 August 2010. The purpose of the sub-division was 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.

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.

Notes to the financial statements

Year ended 31 March 2011

56. Financial instruments (continued)

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, other and group payables £000	Total £000
2011			
Under 2 months	27,924	26,100	54,024
Total	27,924	26,100	54,024
	Bank overdrafts and revolving credit facilities £000	Trade, other and group payables £000	Total £000
2010			
Under 2 months	28,000	87,518	115,518
Between 1 and 2 years	50,000	—	50,000
Total	78,000	87,518	165,518

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).

	2011	2010
Increase in interest rate	10%	10%
Increase in profit before tax (£000)	4	161

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

2007-2011

Continuing operations

Unaudited	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
External revenue					
UK	355,844	286,650	246,609	236,452	188,157
Spain	48,751	46,927	—	—	—
New Markets	9,873	9,742	—	—	—
Continental Europe (excluding joint ventures)	—	—	40,250	18,961	9
United States of America	52,649	25,676	17,919	8,097	3,841
Eliminations	—	—	(497)	(295)	(11,854)
External sales	467,117	368,995	304,281	263,215	180,153
Profit/(loss) pre amortisation of acquisition intangibles					
UK	104,334	95,754	87,228	76,302	56,720
Doméo	5,215	3,643	—	—	—
Spain	1,705	382	—	—	—
New Markets	(1,184)	1,126	—	—	—
Continental Europe	—	—	3,406	765	(221)
United States of America	6,116	1,483	(294)	(2,248)	(2,381)
	116,186	102,388	90,340	74,819	54,118
Amortisation of acquisition intangibles	(9,234)	(6,484)	(3,664)	(2,251)	(884)
Exceptional items	—	10,195	(2,317)	(2,154)	—
Operating profit	106,952	106,099	84,359	70,414	53,234
Net interest	(2,118)	(3,863)	(3,571)	(5,250)	(2,175)
Profit before tax	104,834	102,236	80,788	65,164	51,059

Revenue in respect of 2011, 2010 and 2009 has been shown gross of commissions payable to third parties. It is not practicable to re-present this information for 2008 and 2007.

The internal financial reporting of the Group has changed during the year such that established businesses are reviewed individually, and all other new operations are reviewed collectively as 'New Markets'. Revenue and profit/(loss) in respect of 2011 and 2010 has been shown on the new basis. It is not practicable to re-present this information for 2009, 2008 and 2007.

Exceptional revenue in respect of 2010 has been included in exceptional items.

Shareholder information

Financial calendar

2011

29 July	Annual General Meeting
3 August	Final dividend for the year ended 31 March 2011 to be paid
22 November	Interim results for the six months ending 30 September 2011 to be announced

2012

January	Interim dividend for the year ending 31 March 2012 to be paid
May	Preliminary announcement of results for the year ending 31 March 2012
June	2012 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.