2012
Annual Report & Accounts

WORLDWIDE OVERVIEW

What we do and how we do it

HomeServe provides home emergency and repair services to over 4.9m customers across established businesses in the UK, USA, France and Spain. We also have developing businesses in Italy, Germany and France.

We are responsible for the marketing and administration of 11 million home repair and appliance warranty policies.

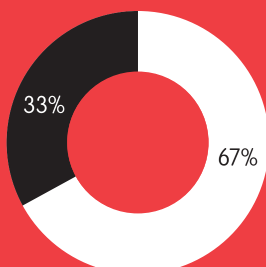
Our business is built on developing long-term affinity relationships with utility companies and appliance manufacturers. We deliver policies under their brands to our customers, capitalising on our product development knowledge and direct consumer marketing expertise as well as our skills in managing the claims handling process and engineer network management.

We fix our customers' household emergencies through the use of our directly employed, franchised and sub-contract networks of engineers.

Our products cover plumbing and drains, gas boiler and central heating, ventilation and air conditioning, electrics and household appliances such as showers and washing machines.

Our business model is the same in each of our countries and has proved to be robust in both growing and shrinking economies. The model generates high levels of recurring revenues with over 80% of policies being renewed each year.

AFFINITY PARTNER HOUSEHOLDS 71m



■ UK
□ International

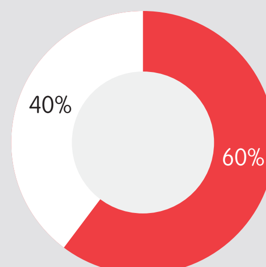
CUSTOMERS 4.9m

POLICIES PER CUSTOMER 2.3

JOBS 1.6m

EMPLOYEES 4,000

TOTAL POLICIES 11.0m



■ UK
□ International

HOMESERVE AT A GLANCE

Our established membership businesses

UK

Affinity partner households	**24m**
Customers	**2.7m**
Income per customer	**£99**
Retention rate	**80%**
Adjusted operating profit [1]	**£103.1m**

USA

Affinity partner households	**21m**
Customers	**1.1m**
Income per customer	**$113**
Retention rate	**79%**
Adjusted operating profit [1]	**£9.0m**

DOMEO

Affinity partner households	**14m**
Customers	**0.89m**
Income per customer	**€96**
Retention rate	**88%**
Adjusted operating profit [1]	**£16.7m**

SPAIN

Affinity partner households	**12m**
Customers	**0.26m**
Adjusted operating profit [1]	**£2.8m**

Overview

1 HomeServe at a glance
2 2012 Summary
4 Chairman's statement

Business review

8 Our business model
10 Chief Executive's review
24 Financial review
34 Principal risks and uncertainties

Corporate responsibility

40 Introduction
42 Employees
43 Community
44 Health and safety
46 Environment

Governance

48 Directors
50 Directors' report
53 Corporate governance
62 Remuneration report
81 Directors' responsibilities

Financial statements

82 Group independent auditor's report
84 Group financial statements
132 Company independent auditor's report
134 Company financial statements

[1] Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional expenditure, see Financial review and note 5.

2012 SUMMARY

REVENUE (£m)

+14%

ADJUSTED OPERATING PROFIT[1] (£m)

+8%

ADJUSTED PROFIT BEFORE TAX[2] (£m)

+8%

ADJUSTED EARNINGS PER SHARE[3] (p)

+8%

STATUTORY PROFIT BEFORE TAX (£m)

+32%

BASIC EARNINGS PER SHARE (p)

+48%

DIVIDEND PER SHARE (p)

+10%

FINANCIAL SUMMARY

- Revenue up 14% to £535m
- Adjusted group operating profit[1] up 8% to £128m
- Established International businesses adjusted operating profit[1] up 78% to £29m
- Free cashflow of £64m with net debt of £66m at 31 March 2012
- Statutory results include £24m of one-off UK costs.

RESTORING OUR CUSTOMER FOCUS IN THE UK

- Retention rate is strong and stable at 80%
- Addressing sales and marketing, complaints handling and governance and controls
- Constructive relationship with the FSA; commencement of investigation into past issues
- Customer numbers down 9% as a result of reduced marketing activity and effectiveness
- Planned reduction in customers to 2.2 – 2.4m during FY2013.

STRONG GROWTH IN INTERNATIONAL EARNINGS AND CUSTOMER NUMBERS

- International customers up 14% to 2.2m, including a 16% increase to 1.1m in the USA
- Retention rate remains strong at 83% across our International businesses
- Acquired full control of Doméo in France
- Customer and policy numbers in Spain up over 50% in the past 12 months
- Signed a test marketing agreement with BS Energy in Germany.

[1] Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional expenditure, see Financial review and note 5.
[2] Excluding amortisation of acquisition intangibles, joint venture taxation, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review.
[3] Excluding amortisation of acquisition intangibles, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review and note 13.

CHAIRMAN'S STATEMENT

JM Barry Gibson
Chairman, HomeServe plc

The identification of the regulatory issues in our UK business in October 2011 has made this the most challenging year in HomeServe's history. We took immediate action to address these issues and have implemented a thorough and extensive change programme in our UK business. While this is taking longer and costing more to implement than originally planned, we are pleased with the progress we have made.

Our International businesses have continued to make strong progress throughout the past 12 months with 12 new affinity partnerships agreed, customer numbers growing by 14% to 2.2m and adjusted operating profit[1] from our established businesses in the USA, France and Spain increasing to £28.5m (2011: £16.0m).

HomeServe's policies continue to free customers from the worry and inconvenience of home emergencies and repairs with over 1.6m emergency repairs carried out over the past 12 months. These jobs were carried out using a network of over 4,000 directly employed, franchised and sub-contract engineers and with a continued investment in our service delivery capabilities.

HomeServe's products continue to meet clear customer needs and our business model continues to offer long-term value.

[1] Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional expenditure, see Financial review and note 5.
[2] Excluding amortisation of acquisition intangibles, joint venture taxation, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review.
[3] Excluding amortisation of acquisition intangibles, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review and note 13.

RESULTS

In the year, revenue was up 14% to £534.7m (2011: £467.1m) and adjusted profit before tax[2] was up 8% to £126.0m (2011: £117.1m). The growth principally reflects continued development in our International businesses and the benefit of acquiring full control of Doméo in France in December 2011 (originally a joint venture), partially offset by a reduction in UK operating profit[1] as a result of the suspension of sales and marketing activity. Adjusted earnings per share[3] increased by 8% to 28.0p (2011: 25.9p).

The business continues to have a strong balance sheet and generates high levels of free cash flow. Net debt at 31 March 2012 was £66.0m (2011: £11.8m) and reflects the acquisition of the remaining 51% shareholding in Doméo for £82m.

On a statutory basis, revenue increased by 14% to £534.7m, profit before tax increased by 32% to £138.0m and earnings per share increased by 48% to 35.4p. The Group's statutory result includes a gain of £55m due to the re-measurement to fair value of our original 49% shareholding in Doméo at the time of the acquisition of the remaining 51% as well as £24m of one-off costs relating to addressing our UK issues.

UK

During the year, our UK business identified a number of potential failings in its sales and marketing, complaints handling and associated governance and controls. The UK business is making progress in implementing the necessary steps to restore its customer focus and ensure its customers are receiving the high standards of service that we expect to deliver. This includes strengthening the UK management team as well as the UK Board.

The UK management team has a constructive relationship with the Financial Services Authority (FSA), with regard to the business improvement initiatives being undertaken.

The FSA has informed us that they intend to investigate certain historic issues. The FSA's investigation will take a number of months to complete.

We re-started our UK sales and marketing activity on a phased basis, following its temporary suspension in October, as our retraining and process enhancements were completed and tested. As mentioned above, it has taken longer than we originally anticipated to re-start activity, but we remain confident that the actions we are implementing are in the long-term interest of all stakeholders.

INTERNATIONAL BUSINESS DEVELOPMENT

We have achieved strong growth in our International businesses during the year.

HomeServe USA has continued to sign up new affinity partners, including EPCOR Utilities Inc. (EPCOR), our first Canadian water utility and Florida Public Utilities, a gas and electric utility. We now have over 1 million customers in the USA.

In France, we were very pleased to be able to take full control of Doméo in December 2011 with the purchase of the remaining 51% shareholding from Veolia, as well as agreeing a long-term marketing agreement with them. Owning 100% of Doméo will enable us to develop the product range further and to sign new utility and appliance manufacturer affinity partners in France in the future. The transition to full ownership by HomeServe has gone well and we are continuing to develop our plans for further growth in France.

In Spain, we have achieved strong growth in customer and policy numbers; whilst in our New Markets segment we are continuing to test acquisition marketing in Italy and have signed a test agreement with BS Energy in Germany.

DIVIDEND

The Board is proposing a final dividend of 7.67p per share bringing the total dividend for the year to 11.3p (2011: 10.3p), an increase of 10%, reflecting its confidence in the long-term prospects of the business.

MANAGEMENT AND BOARD CHANGES

In July 2011, we announced that Jonathan King would return to the UK as Chief Executive Officer of our UK business, replacing Jon Florsheim. Also in July we announced the appointment of Tom Rusin as Chief Executive Officer of HomeServe USA.

Following the announcement in October that Andrew Sibbald had stepped down as a Non-Executive Director, we announced the appointment of Ben Mingay to the Board as a Non-Executive Director in December 2011. Ben is a Managing Partner of Smith Square Partners, an independent corporate finance advisory firm, and has more than 20 years' experience as a corporate finance adviser. I would like to thank Andrew for his support and contribution to HomeServe over the past four years and welcome Ben to the Board.

In January 2012, we announced the creation of the new Board position of Chief Operating Officer and the appointment of Martin Bennett, previously Chief Financial Officer, to this new position. Martin now has responsibility for the effective and efficient delivery of HomeServe's operating model, IT systems, best practice and risk management across all our geographies working closely with the country Chief Executive Officers. Martin's initial priority is to support Jonathan King (UK Chief Executive Officer) and the UK business on claims and network management, underwriting, systems and efficiency.

We have today announced the forthcoming appointment of Johnathan Ford as Chief Financial Officer. Johnathan is currently the Group Finance Director of NWF Group plc, an AIM listed specialist agricultural and distribution group. Johnathan is expected to join HomeServe on 1 October 2012. Until this time David Bower, Group Finance Director, will continue as Interim Chief Financial Officer and I would like to thank David for stepping into this role during this challenging period.

PEOPLE

It has been a difficult year for HomeServe, and particularly our staff in the UK. The actions we are implementing to restore our customer focus are resulting in significant changes within the UK business, including a reduction in the number of people. I would like to thank all of the UK team for their professionalism during this period of change and am confident that the actions we are taking will strengthen the quality and consistency of our service to customers and result in increased employee engagement in the future.

In our International businesses, we continue to increase the number of people we employ as we grow our customer and policy numbers.

On behalf of the Board, I would like to thank all of our people for their contribution in what has been a challenging year for the Company.

SUMMARY AND OUTLOOK

HomeServe's products continue to meet clear customer needs and our business model continues to deliver long-term value. We are addressing the shortfall in standards that we identified in our UK business and have already taken a number of actions to improve the business.

We are confident that we can create a smaller, more customer focused UK business from which to grow, whilst achieving strong progress in our International markets.

JM Barry Gibson
Chairman
22 May 2012

OUR BUSINESS MODEL

Our vision

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

Our mission

To provide an affinity branded membership service which frees our customers from the worry and inconvenience of home emergencies and repairs.

HOW WE CREATE VALUE

Our business is built on developing long-term affinity relationships with utility companies and appliance manufacturers. We deliver policies under their brands to our customers, capitalising on our product development knowledge and direct consumer marketing expertise as well as our skills in managing the claims handling process and engineer network management.

We fix our customers' household emergencies through the use of our directly employed, franchised and sub contract networks of engineers.

Our products cover plumbing and drains, gas boiler and central heating, ventilation and air conditioning, electrics and household appliances such as showers and washing machines.

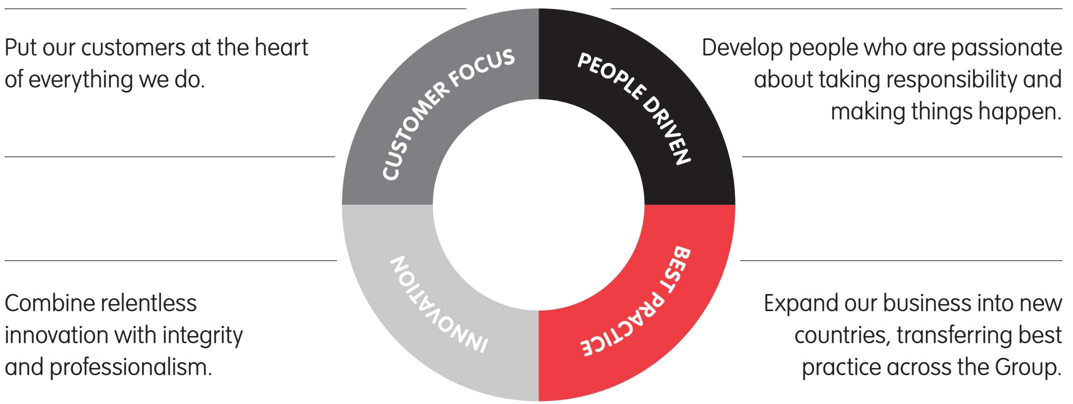
KEY PERFORMANCE INDICATORS

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

These key performance indicators are shown in the Chief Executive's review.

STRONG AFFINITY PARTNERSHIPS	We build long term relationships with partners whose brands have an affinity with our products, providing us with direct access to millions of customers via trusted brands. Our partners benefit from risk-free income and are able to offer their customers value-added products that build their customer relationships and differentiate them from competitors.
PRODUCT DESIGN	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.
SALES AND MARKETING CAPABILITY	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.
CLAIMS AND NETWORK MANAGEMENT	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.
CUSTOMER LOYALTY	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.

UNDERPINNED BY OUR CORE VALUES



CHIEF EXECUTIVE'S REVIEW

Richard Harpin
Chief Executive Officer

HomeServe is committed to providing a membership service which frees our customers from the worry and inconvenience of home emergencies and repairs both in the UK and internationally. At HomeServe our values are to put the customer at the heart of everything we do, develop and engage great people who are passionate about taking responsibility and making things happen, combine relentless innovation with integrity and professionalism and strive to be the best in the world at what we do. It was therefore disappointing to identify sales and marketing, complaints handling and governance and control issues in our UK business during the year.

Having identified the issues in our UK business, we took immediate action to address the root cause of the problems. The temporary suspension of our sales and marketing activity in the second half of the year has had a significant impact on our UK customer and policy numbers and the extensive change programme we are now implementing in the UK business has resulted in a high level of exceptional costs. We believe that these actions were the right ones to take, despite the impact on our reported results.

We are confident that HomeServe can complete the necessary changes in its UK business and at the same time continue to grow its International operations.

We have made significant changes to our UK board and management team during the second half of the year. We have also changed the way in which we incentivise management and staff across both the UK and International businesses to ensure that customer service and quality metrics have an appropriate weighting. We have introduced two customer service goals focused on increasing customer satisfaction and minimising complaints.

[1] Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional expenditure, see Financial review and note 5.
[2] Excluding amortisation of acquisition intangibles, joint venture taxation, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review.
[3] Excluding amortisation of acquisition intangibles, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review and note 13.

The issues in our UK business have not impacted our International businesses' results which have shown strong growth over the past 12 months. Our International customer numbers have increased by 14% to 2.2m and profits[1] from our established International businesses, in the USA, Spain and France, increased by 78% to £28.5m.

The strong growth in the number of International customers has offset the reduction in the UK following the temporary suspension and phased restart of sales and marketing activity. Global customers at 31 March 2012 were 4.9m (2011: 4.9m) with policy numbers at 11.0m (2011: 11.4m), a reduction of 0.4m over the past year. Income per customer has increased by 9% to £86 (2011: £79) with adjusted profit before tax[2] growing by 8% to £126.0m (2011: £117.1m).

The table below shows our performance metrics on a global basis as at 31 March 2012.

The following sections report on the performance of each of our business segments.

UK

At 31 March 2012, our UK business had 2.7m customers with 6.7m policies. In the past 12 months we have completed over 0.9m home emergency repairs through our network of over 750 directly employed plumbing and drainage and sub-contract engineers, with 94% of customers satisfied with the service they received.

During the year, our UK business identified a number of potential failings in its sales and marketing, complaints handling and associated governance and controls which are discussed in more detail below. Addressing these issues has had a significant impact on the UK's financial and operational results in the year.

Over the next 12 months the UK business will refocus on the partner markets of water utilities, manufacturers of installed appliances and financial services companies. We will reduce the number of customers acquired on high discounts and those where we have limited cross-sell potential and rebase the business to a level from which we will be able to grow higher quality and sustainable earnings in the future.

GLOBAL MEMBERSHIP BUSINESS METRICS

	UK		International		Total		
	2012	2011	**2012**	2011	**2012**	2011	Change
Affinity partner households (m)	**24**	23	**47**	45	**71**	68	+4%
Customers (m)	**2.7**	3.0	**2.2**	1.9	**4.9**	4.9	—
Penetration of affinity households (%)	**11.5**	12.8	**4.7**	4.3	**6.9**	7.2	-0.3ppts
Income per customer (£)	**99**	89	**71**	64	**86**	79	+9%
Policies (m)	**6.7**	7.5	**4.3**	3.9	**11.0**	11.4	-3%
Policies per customer	**2.5**	2.5	**2.0**	2.0	**2.3**	2.3	—
Retention rate (%)	**80**	83	**83**	86	**81**	84	-3ppts
Operating profit[1] (£m)	**103.1**	104.3	**25.1**	14.9	**128.2**	119.2	+8%

CUSTOMER COMPLAINTS

The winter of 2010 saw the most extreme weather for over 100 years and, in the majority of cases, we believe that we provided the best service we could in light of the unprecedented demand from our customers. We did, however, receive an unusually high number of customer complaints, predominantly due to the number of customer calls and emergency repairs undertaken during the period. The majority of the complaints related to the grade of service in response to a customer's emergency and none went unanswered.

We have developed a plan to review all the complaints that were received during the period in which our procedures may not always have operated correctly. All customers that may not have received a fair outcome are being re-contacted and, where appropriate, compensated. The expected cost of this re-contact exercise, including any compensation payments, has been included in the UK exceptional expenditure.

The number of customer complaints has fallen significantly during the past 12 months, partly due to our winter planning which included the recruitment of an extra 140 call centre agents at our 24 hour claims centre in Preston. This gave us increased capacity over the 2011 winter period and was successful in ensuring that we maintained our service standards throughout the peak period.

In addition, we have invested £2.5m in our Claims operations systems, which improves the process for booking sub-contract engineers following a customer's call and enhances our ability to manage those jobs, improving the overall customer experience.

SALES AND MARKETING ACTIVITY

Sales and marketing is one of our core value drivers and is at the heart of our relationships with customers and our business partners. HomeServe is committed to operating to the highest standards of sales practices in respect of both our existing and potential customers.

During the year, our UK compliance function continued its monitoring activities and in order to supplement this work the business commissioned an independent report from external consultants. This report raised a number of points including a potential issue around the way in which 'Complete Cover' policies had been sold as an upgrade to existing customers by telesales staff. We took the decision on 28 October to temporarily suspend all sales and marketing activity in the UK and since then we have developed new telesales scripts, re-trained sales agents, improved compliance and monitoring processes across the whole business, and reviewed and revised how we incentivise our sales staff. We have also made improvements to the clarity of our sales and marketing materials.

We are re-contacting any customers where there is a risk that they may have suffered detriment as a result of the way in which they were sold their policy. The expected cost of this exercise has been included in the UK exceptional expenditure.

We re-started our inbound call centre activity in early November on a phased basis, while direct mail activity for new customer acquisition and cross-sell re-started from January. We have had mixed results to date from our direct mail activity, with the acquisition campaigns under-performing our response rate expectations, while cross-sell has delivered good results. We will continue to test alternative marketing approaches over the next few months as we aim to improve the response rates and meet our internal targets, while maintaining clarity in all our communications.

We have also reviewed our channel strategy and concluded in February that our outbound telephony channel would, in the future, focus primarily on cross-selling policies to existing customers. While this will reduce the number of new customers acquired in the short-term, we believe the benefits in terms of retention, reputation and value will offset this in the long-term.

We are pleased to confirm that we recommenced outbound cross-sell activity with a pilot in early April. We are monitoring the results of this pilot closely and expect to roll out further activity over the coming weeks.

In July 2011 Ofcom announced an investigation into outbound marketing calls made on behalf of HomeServe by one specific outsourced supplier. This concerned non-compliance with rules regarding silent, abandoned or repeat calls between 1 February 2011 and 21 March 2011. As a result of the investigation Ofcom imposed a fine of £750,000 in April 2012. We can confirm that all of our dialler systems have been fully compliant with Ofcom regulations since 22 March 2011.

UK MANAGEMENT CHANGES

In August, Jonathan King returned from the US, where he had served as CEO of HomeServe USA for six years, to take over the leadership of the UK business. The UK management team has seen significant change since the first half of FY2012. We have appointed an experienced Compliance Director, a new Customer Relations Director and are in the process of appointing a new Marketing Director who has extensive experience in financial services. The UK team is also benefitting from the support of Martin Bennett, Chief Operating Officer, who is supporting the UK on claims and network management, underwriting, systems and efficiency.

We also further enhanced the Board of Directors of the UK business. In November, we appointed Diana Miller, who was previously Compliance Director at Legal & General, as a Non-Executive Director and we are in the process of finalising the appointment of an Independent Non-Executive Chairman, who will provide significant experience of working in the financial services industry.

IMPROVING CONTROLS & GOVERNANCE

We have commissioned an external review of our governance and controls and a number of measures have already been implemented, including the strengthening of the UK board and the implementation of new incentive schemes.

We believe that Jonathan King and his management team, supported and challenged by the new independent Non-Executive Directors, will be able to identify and complete the implementation of the changes necessary to improve our controls and governance procedures and put the customer back at the centre of the business. The team has developed a constructive relationship with the FSA over the past nine months with regard to the business improvement initiatives being undertaken and our future plans in the UK.

UK

- Lower customer and policy numbers as a result of less sales and marketing activity in the second half of the year
- Retention rate remains high at 80%

PERFORMANCE METRICS	2012	2011	Change
Affinity partner households (m)	**24**	23	+1%
Customers (m)	**2.7**	3.0	-9%
Penetration of affinity households (%)	**11.5**	12.8	-1.3ppts
Income per customer (£)	**99**	89	+11%
Total policies (m)	**6.66**	7.53	-12%
Policies per customer	**2.46**	2.52	-0.06
Policy retention rate (%)	**80**	83	-3ppts

RETENTION RATE

80%

INCOME PER CUSTOMER

+11%

POLICIES SPLIT BY TYPE

	2012	2011
Water ('000)	**3,731**	4,227
Electrical ('000)	**674**	777
Heating, ventilation, air conditioning (HVAC) ('000)	**773**	928
Manufacturer warranties ('000)	**520**	503
Other ('000)	**963**	1,095
Total policies ('000)	**6,661**	7,530

UK

UK revenue reduced by £5.4m to £353.5m (2011: £358.9m) principally due to the temporary suspension of sales and marketing activity in October. In addition, revenues in the prior year included £8m from the sale of furniture warranties, which we ceased selling in June 2011.

Income per customer has increased, primarily as a result of the favourable mix impact of fewer new customers in the year, where policy prices are heavily discounted, together with the benefit of the annual increase in prices. Adjusted operating profit[1] in the UK was £103.1m, a reduction of £1.2m compared to the prior year (2011: £104.3m). There was also exceptional one-off expenditure of £24.2m which reflects the cost of addressing the issues identified in the UK business during the year.

We were pleased to announce in December that we had signed a new long-term partnership with Sembcorp Bournemouth Water (SBW) with whom we did not previously work. The addition of SBW as an affinity partner increased our UK affinity partner marketable households to 23.6m UK households.

Our UK gross new policy sales, and customer and policy numbers have all reduced during the year as a result of significantly lower sales and marketing activity in the second half of the year. We initially suspended all of our sales and marketing activity at the end of October before re-starting activity on a phased basis when we were confident that our processes were able to deliver the standards of service that we and our customers expect.

As already noted, it took longer than we originally expected to restart our sales and marketing operations and the results of this activity during the final quarter of the year have been mixed. Customer numbers at 31 March 2012 were down 9% to 2.7m (2011: 3.0m) whilst policy numbers fell 12% on a year ago to 6.7m (2011: 7.5m), resulting in an average number of policies held of 2.46 (2011: 2.52). Gross new policy sales were 0.7m, significantly below the 1.8m policies sold in the prior year.

We announced plans to reduce the UK headcount by around 200 in February and announced yesterday plans for a further reduction of 250, as we align our sales and support functions with our marketing plans and the lower customer base.

The retention rate for policies which have been held for two or more years has remained stable and continues to be significantly above the overall reported rate of 80% (2011: 83%). The reduction in the reported rate primarily reflects a lower retention rate on policies renewing for the first time and the effect of suspending our retention call centre agent incentive schemes for the majority of the second half of the year.

INTERNATIONAL – USA

- 8 new affinity partnerships signed during the year
- 1 million customer milestone reached
- Expanded US footprint – now operating in 41 US states and Alberta, Canada

PERFORMANCE METRICS	**2012**	2011	Change
Affinity partner households (m)	**21**	21	+3%
Customers (m)	**1.1**	0.91	+16%
Penetration of affinity households (%)	**5.0**	4.4	+0.6ppts
Income per customer ($)	**113**	85	+33%
Total policies (m)	**1.71**	1.39	+23%
Policies per customer	**1.62**	1.52	+0.1
Policy retention rate (%)	**79**	82	-3ppts

INCOME PER CUSTOMER

+33%

TOTAL POLICIES

+23%

POLICIES SPLIT BY TYPE

	2012	2011
Water ('000)	**833**	689
Electrical ('000)	**103**	93
Heating, ventilation, air conditioning (HVAC) ('000)	**324**	212
Other ('000)	**449**	391
Total policies ('000)	**1,709**	1,385

USA

Revenues in the USA were £82.3m (2011: £52.6m), 56% higher than a year ago, and adjusted operating profit[1] was £9.0m (2011: £6.1m), up £2.9m. The growth reflects a full 12 months of income from the National Grid businesses acquired in August 2010 and a 16% increase in customer numbers.

During the past year, we have signed a record number of new affinity partners in the USA. We announced new utility partner agreements with Middlesex Water in New Jersey, Contra Costa in California, Biddeford & Saco in Maine, Water One in Kansas and EPCOR in Canada; and manufacturer warranty partnerships with A O Smith and Rinnai. We have also recently signed a marketing agreement with Florida Public Utilities (FPU) a gas and electric utility serving 0.1m households.

During the year, we have successfully integrated the policies acquired from Middlesex Water and South Jersey Energy Services Plus as they have come due for renewal. Acquiring existing home emergency programmes run by a number of utilities in the USA remains one of our key strategies for accelerating the growth of our business alongside signing more organic marketing agreements. We continue to meet whenever possible with the management team of each of the programmes where we believe there is the greatest likelihood of a potential transaction so that we are ready to progress a partnership as and when the catalyst for change occurs.

We now work with partners that have access to over 21m marketable households in the US and Canada and are also targeting around 7m households in 39 states who we market to under our own name until we sign a utility in the area. We are building a truly national business and are now licensed to operate in 49 states with work already underway to gain approval for the final state of Wisconsin.

We have made good progress in getting our partners' agreement to broaden the range of sales channels and products that we can use and promote to their customers. As a result, gross new policy sales during the year were 0.6m (2011: 0.4m). This growth, together with a good retention performance, has resulted in customer numbers increasing by 16% to 1.1m (2011: 0.9m) and policy numbers increasing by 23% to 1.71m (2011: 1.39m). As a result, policies per customer have increased from 1.52 to 1.62.

The increasing proportion of higher value heating, ventilation, and air conditioning (HVAC) policies, together with the growth in the number of policies per customer, has resulted in income per customer increasing by 33% to $113 (2011: $85).

The US retention rate was 79% (2011: 82%) and reflects a combination of the growing proportion of own brand policies, the increased proportion of first year renewing policies and an increased proportion of 'off-bill' customers, principally following the acquisition of National Grid, where retention rates are lower.

INTERNATIONAL – DOMEO

- Acquired full control of the business, buying the 51% shareholding from Veolia for £82m
- High retention rate of 88% maintained

PERFORMANCE METRICS	2012	2011	Change
Affinity partner households (excluding apartments) (m)	**14**	14	—
Customers (m)	**0.89**	0.86	+4%
Penetration of affinity households (%)	**6.3**	6.0	+0.3ppts
Income per customer (€)	**96**	93	+3%
Total policies (m)	**2.33**	2.22	+5%
Policies per customer	**2.61**	2.60	+0.01
Policy retention rate (%)	**88**	88	—

TOTAL POLICIES

+5%

INCOME PER CUSTOMER

+3%

POLICIES SPLIT BY TYPE

	2012	2011
Water ('000)	**1,903**	1,831
Electrical ('000)	**253**	257
Other ('000)	**169**	136
Total policies ('000)	**2,325**	2,224

We are continuing to develop our product range in the USA and are currently working on electrical surge protection and appliance protection products. In addition, we have recently started to market our manufacturer warranty policies to the water heater customers of A O Smith and Rinnai.

As part of our plans to continue the growth of our own brand marketing activity, we are implementing a new programme to raise the awareness of homeowners of their responsibilities for the pipes and wires in and around their homes. As part of this activity we also highlight HomeServe's products and service standards to key stakeholders in each community, in advance of entering a new territory.

In the USA, we completed 0.24m jobs during FY2012 with customer satisfaction averaging over 96%. These jobs were completed by our 139 directly employed technicians in the National Grid territories and our network of over 700 high quality sub-contractors covering the rest of the country. Over the past 12 months we have expanded our network of sub-contractor engineers, establishing networks in eight new US States and Canada to service our new affinity partner households as well as the growth in our Own Brand policies.

DOMEO

Doméo was originally established as a joint venture with Veolia in 2001 and has grown successfully over the past 10 years. In December 2011 we were delighted to announce that we had reached agreement with Veolia to acquire their 51% share of Doméo and take full control of the business. As part of the acquisition we also agreed a long-term marketing agreement with Veolia, providing Doméo with continued use of their brands in France. This acquisition completed on 7 December with net cash consideration amounting to £82m for the 51% shareholding.

While HomeServe has historically provided the majority of the day to day management expertise to Doméo, we have not been able to significantly expand its affinity partner relationships beyond Veolia. However, by obtaining full control of Doméo, we now have a good opportunity to develop the product range further and broaden the range of affinity partners in France. In particular, we can now discuss potential agreements with heating manufacturers as well as other water utilities, neither of which were possible under the original joint venture shareholder agreement. In addition, Doméo and our other French business, SFG, will be able to work much more closely together to maximise cross-sell opportunities and share expertise where appropriate.

Doméo contributed revenues for the eight months during which it was a joint venture and the four months during which it was wholly owned of £51.8m (2011: £32.3m). French customers continue to remain very loyal with the policy retention rate remaining high at 88% (2011: 88%). This, together with increased renewal revenues, has resulted in Doméo's adjusted operating profit[1] contribution increasing to £16.7m (2011: £8.2m).

Customer numbers increased by 4% to 0.89m (2011: 0.86m) during the year, with policy numbers growing by 5% to 2.3m (2011: 2.2m). Customers in France continue to have the highest number of polices per customer of any of our regions with 2.61 policies (2011: 2.60). Income per customer increased by 3% to €96 (2011: €93), reflecting the growth in customer and policy numbers, partly offset by the mix of policies held by customers.

INTERNATIONAL – SPAIN

- Customer and policy numbers up over 50%
- Gross new policy sales up over 48%, with strong growth in 'Club' policies

PERFORMANCE METRICS	2012	2011	Change
Affinity partner households (m)	12	10	+17%
Customers (m)	0.26	0.17	+55%
Penetration of affinity households (%)	2.2	1.7	+0.5ppts
Total policies (m)	0.34	0.22	+57%
Policies per customer	1.31	1.29	+0.02

As the Spanish policy book is relatively small and growing quickly we do not currently report the retention rate and income per customer metrics.

CUSTOMERS

+55%

TOTAL POLICIES

+57%

POLICIES SPLIT BY TYPE

	2012	2011
Water ('000)	97	30
Electrical ('000)	128	107
Other ('000)	112	78
Total policies ('000)	337	215

Doméo achieved gross new policy sales of 0.4m (2011: 0.5m) with strong sales of water supply pipe policies and coverage relating to taps. We are continuing to test different marketing initiatives in order to make further progress with the apartment segment of the market, which is significant in France, as well as increasing the number of Veolia call centres that transfer calls into our sales teams.

All of our repairs in France are managed through our network of 980 sub-contract engineers with over 96% of customers who have had a claim being satisfied with the service they received.

SPAIN

In Spain, revenue increased by 23% to £60.2m (2011: £48.8m) and adjusted operating profit[1] by 65% to £2.8m (2011: £1.7m) reflecting growth in customer numbers as well as higher claims handling volumes and margins, despite the very difficult economic conditions in Spain.

We increased our investment in marketing in Spain over the past twelve months as we rolled out activity to Agbar, whilst continuing to target sales to Endesa households. This has resulted in gross new policy sales increasing by 48% to 239k (2011: 161k). We continue to find outbound telesales particularly successful in Spain with around 46% of gross new policy sales coming through this channel.

Customer and policy numbers continue to show strong growth. Customer numbers have increased by 55% to 258k (2011: 167k) and policy numbers are up 57% to 337k (2011: 215k).

We continue to have particular success in selling our 'Club' product in Spain. Club provides customers with access to our repair network and one hour's free labour per annum across a range of 25 trades. The Club product is essentially an 'entry' level product and our goal for the future is to retain and up sell these customers a full water or electrical emergency cover policy thereby increasing income per customer and the membership operating margin.

Our claims handling business in Spain continues to perform well with continued growth in the number of claims managed and a tight control on margins.

Our network of 1,450 sub-contract and Reparalia franchised engineers completed over 0.35m repairs over the past twelve months, with 91% of customers satisfied with the service they received.

NEW MARKETS

- Continuing to test acquisition marketing activity in Italy
- Good progress in developing SFG's manufacturer warranty operation
- Exited Belgium, as a result of being unable to sign a large utility partner
- Signed a test marketing agreement in Germany

Our New Markets segment now includes our developing businesses in France, via our warranty business Société Francaise de Garantie (SFG), Italy and Germany.

Despite positive discussions with a number of potential affinity partners in Belgium, we have been unable to reach agreement on any long-term partnership. We have therefore sold the businesses we acquired to enter Belgium and refocused our European management efforts and marketing spend on France, Italy and on launching in Germany with our first utility partner, BS Energy.

The New Markets businesses, including those in Belgium, reported revenue of £11.6m (2011: £9.9m) and an adjusted operating loss[1] of £3.4m which was in line with our expectations (2011: £1.1m) and reflects additional investment in marketing activity in SFG and our Italian businesses. We expect to maintain this level of investment in our New Markets businesses in future years as we aim to grow in Italy, Germany and the French warranty market.

Our test marketing with Enel in Italy has proved successful in acquiring new customers and we have therefore extended our original test agreement to ensure that we can also test renewal activity. In parallel, we are discussing the opportunity to agree a long-term affinity partnership with access to an increased number of households.

We have also achieved encouraging results from our marketing with Veolia Acqua, a small Italian water utility, in addition to discussing potential agreements with a number of other Italian water companies.

In SFG, we have continued to invest in the development of a post-point of sale and manufacturer warranty operation with marketing activity with Indesit and Mistergooddeal. We are making good progress in developing the manufacturer warranty operation and are pleased to have signed a new longer-term agreement with Indesit. Revenues from the original retail warranty customer base have, as we expected, reduced during the year.

We are pleased to have signed BS Energy (part of the Veolia group) as our first partner in Germany and will shortly start our test marketing activity. We will be promoting plumbing, electric and gas home emergency services to BS Energy's 150k water, gas and electric households in Lower Saxony.

THE FUTURE

We are confident that our membership business model can continue to deliver value for customers, affinity partners and shareholders. We believe that we can make the necessary changes to our UK business while at the same time growing and investing in our International operations. The business remains very cash generative and we are confident of continuing to deliver a robust financial performance.

UK

The next 12 months will be a year of transition as we refocus on the partner markets of water utilities, manufacturers of installed appliances and financial services companies. By reducing the use of high discounts and focusing on these markets, we expect the number of new customers acquired to reduce and for total UK customer numbers to fall from 2.7m to between 2.2m and 2.4m by the end of FY2013. We expect the underlying UK retention rate to remain stable in FY2013 and to increase in the next few years as we focus more on the value of customers and less on the quantity.

The customer need is unchanged, with customers wanting to buy plumbing cover from their water utility and heating cover from the appliance manufacturer. We will be developing and testing a number of new propositions over the next 12 months, including offering our pay on use services under water company names for plumbing and boiler manufacturer names for heating emergencies.

We are planning to improve our cost efficiency by reducing the complexity of the UK business. The continued investment in new technology and system improvements will be just one of the ways in which we aim to achieve this goal. Whilst we test new marketing activity in FY2013, we will manage this expenditure carefully. Savings in marketing costs will also be supported by other initiatives, as we align our people, infrastructure and marketing activity with our smaller customer base.

Our expectations for UK profit remain unchanged for FY2013. As a result of the lower customer numbers at the end of FY2013, we expect FY2014 renewals revenue to reduce accordingly, partly offset by lower operating costs.

INTERNATIONAL

In our established International businesses we will be targeting continued growth by increasing the penetration of existing partner households, new partner signings and the acquisition of policy books.

We expect to increase our marketing activity in our established International businesses in FY2013 as we build on the progress achieved over the past 12 months.

We will also be continuing to invest in the development of our New Markets businesses with the expected operating loss in FY2013 increasing as a result of an additional £2m of marketing investment in Italy and Germany.

SUMMARY

2012 was a challenging year for HomeServe with continued growth in our International businesses being overshadowed by issues in our UK business.

We took significant, pro-active action to tackle the UK problems. We are determined to put the customer at the heart of everything we do and deliver against all our values.

Our International businesses were not affected by our UK issues and delivered strong growth. We are planning to invest in additional marketing expenditure in both our established and new International businesses over the next 12 months as we target continued customer and policy growth.

We are confident that HomeServe can complete the necessary changes in our UK business and at the same time continue to grow our International operations and deliver a robust financial performance.

Richard Harpin
Chief Executive
22 May 2012

FINANCIAL REVIEW

David Bower
Interim Chief Financial Officer

We have a strong balance sheet and our business model is expected to continue to generate high levels of free cashflow.

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 2011.

SEGMENTAL RESULTS

The Group has five operating segments – UK, USA, Doméo, Spain, and New Markets. The New Markets division combines the results of our businesses in Belgium, SFG in France, Italy and Germany. The revenue and adjusted operating profit[1] for each of these segments are set out in the table opposite.

Group revenue has increased by 14% to £534.7m (2011: £467.1m), and adjusted operating profit[1] by 8% to £128.2m (2011: £119.2m), principally due to the growth in our International businesses and the full ownership of Doméo from December 2011.

UK revenue has reduced by £5.4m to £354m as result of the 9% reduction in customer numbers and the exit from the sale of furniture warranties in June 2011. The growth in our International revenues reflects higher customer numbers as well as the benefit of owning 100% of Doméo from December 2011 (previously 49%).

The Group adjusted operating margin (adjusted operating profit/(loss)[1] divided by revenue) has reduced from 25.5% to 24.0% principally as a result of the increased investment in marketing in our New Markets businesses.

[1] Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional expenditure, see Financial review and note 5.
[2] Excluding amortisation of acquisition intangibles, joint venture taxation, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review.
[3] Excluding amortisation of acquisition intangibles, exceptional expenditure and re-measurement of joint venture interest on acquisition of control, see Financial review and note 13.

£million	Revenue £m		Adjusted operating profit/(loss)[1] £m		Operating margin %	
	2012	2011	**2012**	2011	**2012**	2011
UK	**353.5**	358.9	**103.1**	104.3	**29.2%**	29.1%
USA	**82.3**	52.6	**9.0**	6.1	**11.0%**	11.6%
Doméo	**51.8**	32.3	**16.7**	8.2	**32.2%**	25.4%
Spain	**60.2**	48.8	**2.8**	1.7	**4.7%**	3.5%
New Markets	**11.6**	9.9	**(3.4)**	(1.1)	**-29.8%**	-12.0%
JV/inter-division	**(24.7)**	(35.4)	**—**	—	**—**	—
Group	**534.7**	467.1	**128.2**	119.2	**24.0%**	25.5%

UK

Our UK business reported revenue of £353.5m (2011: £358.9m), a reduction of £5.4m and adjusted operating profit[1] of £103.1m, a reduction of £1.2m compared to the prior year (2011: £104.3m). The reductions were principally due to the suspension of sales and marketing activity in October and the suspension of retention call centre incentives. In addition, revenues in the prior year included £8m from the sale of furniture warranties, which we ceased to sell from June 2011.

Revenue in the UK business can be analysed as 'net income' (income per customer multiplied by the number of customers) of £268m (2011: £267m), with the remaining income of £86m (2011: £92m) representing £71m of repair network revenue (2011: £66m) and other income of £15m (2011: £26m), including third party claims handling revenue.

Income per customer increased by £10 to £99 (2011: £89) driven by the mix impact of having a lower proportion of new customers in the year, where policies are heavily discounted, and a higher proportion of policies renewing in the year, where prices are higher.

Operating costs within the UK business reduced by £4m compared to the previous year. This was driven by lower marketing expenditure in the second half of the year and the exit from the sale and servicing of furniture warranties in June 2011, partially offset by the additional ongoing costs of maintaining our customer focus. Within the UK business the most significant costs are the repair network and marketing costs. The repair network costs are driven by the number of customers and policies whilst the marketing costs are variable and are driven by our customer acquisition and cross-sell plans.

The UK adjusted operating margin was 29.2%, 0.1ppt increase compared to the previous year and has benefited from exiting the low margin furniture warranty sales and the cost savings from lower marketing activity in the second half of the year.

USA

In the USA, revenue has increased by 56% to £82.3m (2011: £52.6m) and adjusted operating profit[1] increased from £6.1m to £9.0m. This reflects the growth in customer and policy numbers as well as the full 12 month benefit from the National Grid businesses acquired in August 2010.

The ongoing investment in marketing with both new and existing partners and our own brand, as well as the investment in infrastructure and people, has resulted in the adjusted operating margin remaining broadly stable at 11.0% (2011: 11.6%).

DOMEO

Doméo contributed revenue for the eight months during which it was our joint venture (49% owned by HomeServe) and the four months during which it was 100% owned by HomeServe of £51.8m (2011: £32.3m) and adjusted operating profit[1] of £16.7m (2011: £8.2m). £20.6m of the revenue reflects our 49% share of the joint venture prior to our acquisition of the remaining 51% shareholding in December 2011.

On a like for like basis, revenue and operating profit[1] increased by 11% and 25% respectively, where the growth reflects the increased renewal revenue as well as good cost control.

The adjusted operating margin has increased from 25.4% in 2011 to 32.2% in 2012. The adjusted operating margin on a like for like basis increased to 29.1%, reflecting the strong retention rate and increasing proportion of renewal revenue.

SPAIN

In Spain, revenue was £60.2m, £11.4m higher and adjusted operating profit[1] was £2.8m (2011: £1.7m), £1.1m higher compared to the same period last year. Membership revenue increased by over 50% to £8.6m (2011: £5.6m) reflecting the growth in customer and policy numbers. Claims handling revenue increased by around 20% as a result of increased volumes and a higher price per job.

Spain has reported an adjusted operating margin of 4.7% (2011: 3.5%). The increased margin reflects the growth in claims volumes and improved network management partially offset by increased investment in membership marketing activity.

NEW MARKETS

Our New Markets businesses reported revenue of £11.6m (2011: £9.9m) and an adjusted operating loss[1] of £3.4m (2011: £1.1m). The increased operating loss[1] reflects the increased investment in marketing activity in Italy and SFG in France, as well as set-up costs for our German business. Our Belgian businesses, which have now been sold, contributed £1.9m of revenue and £0.5m of adjusted operating profit[1].

CASH FLOW AND FINANCING

Our business model continues to be highly cash generative with cash generated by operations in 2012 amounting to £114.3m, representing a cash conversion ratio of 134% (2011: 111%).

The reported increase in working capital is lower than previous years principally due to £21.0m of the costs relating to addressing the UK issues not being paid at 31 March 2012. Excluding the impact of these amounts, working capital increased by £22.2m. This is significantly higher than the increase in the prior period, as this was itself lower than usual due principally to the timing of the declaration of our second interim dividend for the year ended 31 March 2010.

During the year, we incurred net capital expenditure of £16.9m (2011: £11.5m) primarily in support of information systems and access rights to affinity partner customer databases.

Free cashflow during the period was £64.4m (2011: £86.1m). The reduction primarily reflects increased taxation payments, higher capital expenditure and certain of the one-off costs related to addressing the UK issues. Taxation payments in the prior period benefited from the utilisation of tax losses generated from the closure of certain parts of the discontinued Emergency Services division.

£million	2012	2011
Adjusted operating profit[1]	**128.2**	119.2
Exceptional items, tax on joint venture and amortisation of acquisition intangibles	**(42.9)**	(12.3)
Operating profit	**85.3**	106.9
Depreciation, amortisation and other non-cash items	**30.2**	17.1
Increase in working capital	**(1.2)**	(5.0)
Cash generated by operations	**114.3**	119.0
Net interest	**(3.2)**	(1.3)
Taxation	**(33.3)**	(23.8)
Capital expenditure	**(16.9)**	(11.5)
Doméo dividend received	**3.5**	3.7
Free cash flow	**64.4**	86.1
Acquisitions / disposals	**(87.8)**	(16.2)
Equity dividends paid	**(34.2)**	(31.3)
Issue of shares	**2.2**	2.4
Net movement in cash and bank borrowings	**(55.4)**	41.0
Impact of foreign exchange	**2.2**	0.1
Finance leases	**(1.0)**	—
Opening net debt	**(11.8)**	(52.9)
Closing net debt	**(66.0)**	(11.8)

During the first half of the year we renewed our banking facilities. As part of the agreement we increased the size of the facility from £150m to £250m and increased the number of banks with whom we work. The new facility, which has a similar cost to the previous arrangement, will ensure we maintain our financial flexibility over the next few years.

Net debt at 31 March 2012 was £66.0m (2011: £11.8m), an increase of £54.2m over the 12 month period. The increase in net debt is primarily as a result of the £82m spent acquiring full control of our French subsidiary Doméo. We continue to have a strong balance sheet with our net debt significantly below our facility limit.

GROUP STATUTORY RESULTS

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

Statutory profit before tax was £138.0m, up £33.2m (2011: £104.8m). Statutory profit before tax is after the amortisation of acquisition intangibles, exceptional costs, gain on the re-measurement of our joint venture interest following the acquisition of the remaining 51% shareholding and tax on the earnings from Doméo during the period in which it was a joint venture.

£million	2012	2011
Total revenue	**534.7**	467.1
Operating profit	**85.3**	106.9
Net finance costs	**(2.2)**	(2.1)
Gain on re-measurement of joint venture interest on acquisition of control	**54.9**	—
Adjusted Profit before tax[2]	**126.0**	117.1
Amortisation of acquisition intangibles	**(10.4)**	(9.3)
Exceptional expenditure	**(31.1)**	—
Gain on re-measurement of joint venture interest on acquisition of control	**54.9**	—
Tax on JV	**(1.4)**	(3.0)
Statutory Profit before tax	**138.0**	104.8
Tax	**(23.7)**	(27.9)
Profit for the year, being attributable to equity holders of the parent	**114.3**	76.9

AMORTISATION OF ACQUISITION INTANGIBLES AND JOINT VENTURE TAXATION

The amortisation of acquisition intangibles of £10.4m (2011: £9.3m) principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The £1.1m increase in the amortisation charge principally reflects the acquisition of the 51% shareholding in Doméo in December 2011.

Doméo was a joint venture in France for the first eight months of the year and for this period the operating result is defined under IFRS as profit after tax and therefore a charge of £1.4m (2011: £3.0m) of joint venture tax is reported within statutory operating profit and statutory profit before tax.

EXCEPTIONAL EXPENDITURE

The exceptional expenditure of £31.1m includes costs relating to addressing the issues in the UK, costs relating to the acquisition of the 51% shareholding in Doméo and a reduction in the carrying value of certain assets of our Belgian businesses, which have now been sold.

- UK exceptional expenditure

The £24.2m one-off charge of addressing the issues in the UK include our estimated cost of re-contacting and, if appropriate, compensating customers who may have suffered any detriment as a result of the way in which complaints have been handled or their policy purchased.
In addition, there are redundancy and reorganisation costs, costs related to reviewing and improving our controls and governance and sales and marketing materials and the Ofcom fine. At the end of 2012, we had incurred £3.2m of actual expenditure, with the remaining £21.0m expected to be spent over the next 12 – 18 months.

The costs of re-contacting customers and the extent of any compensation due has been based on our best estimates at this time using the results of internal and external reviews as well as the early results from initial pilots. It is possible that our assumptions regarding the number of customers, level of compensation payable, response rates and the upheld rate could be different to those currently assumed such that the amount currently recognised in this regard could be higher or lower.

Furthermore, there is currently no certainty as to the nature or extent of the action, if any, that the FSA may seek to take following the conclusion of its investigation and accordingly any related financial effect, which could include a fine, cannot be estimated reliably. As a result, no provisions have been made in this regard in the current year.

- Doméo acquisition costs and Belgium asset values

The exceptional expenditure also includes £3m of costs related to the acquisition of the 51% shareholding in Doméo and a £3.9m reduction in the carrying value of certain assets of our Belgian businesses, which have now been sold.

- Gain on re-measurement of joint venture interest on acquisition of control

As part of the acquisition of the remaining 51% shareholding in Doméo in December 2011 we are required to re-measure the value of our original 49% shareholding. This re-measurement has resulted in a reported gain of £54.9m.

EARNINGS PER SHARE

Adjusted earnings per share[3] for the period increased by 8% from 25.9p to 28.0p. The average number of shares in issue increased from 321m to 322m.

On a statutory basis, earnings per share increased by 47.8% to 35.4p.

FINANCE COSTS

The Group's net finance costs were £2.2m (2011: £2.1m). The cost of servicing the higher level of debt following the acquisition of the remaining 51% shareholding in Doméo was broadly offset by a lower level of debt in the first nine months of the year.

TAXATION

The tax charge in the financial year, prior to adjusting for tax on joint ventures, was £23.7m (2011: £27.9m).

In order to calculate an effective tax rate that reflects the ongoing tax burden of the Group, it is necessary to take account of the effect of joint venture results, which are shown net of tax within statutory profit before tax, on the Group's profits and tax for the year and also exclude both the £54.9m exceptional one-off gain as a result of the re-measurement of our 49% shareholding in Doméo following the acquisition of full control and the £3.9m reduction in the carrying value of certain assets in our Belgian businesses.

Adjusting the tax rate to include the tax relating to joint ventures and excluding the above exceptional items (an adjusted tax charge of £25.1m) and similarly grossing up for the joint venture tax on the statutory profit before tax (excluding the above exceptional items), the underlying joint venture adjusted tax rate is 28.4% (2011: 28.6%). We expect the rate to gradually increase in future years as our International businesses, all of which are based in countries with a higher corporation tax rate than the UK, contribute an increasing proportion of profits.

DIVIDEND

The proposed final dividend of 7.67p per share together with payment of the interim dividend of 3.63p per share brings the total dividend for the year to 11.3p (2011: 10.3p). The final dividend, subject to shareholder approval, will be paid on 1 August 2012 to shareholders on the register on 29 June 2012.

FOREIGN EXCHANGE IMPACT

The impact of changes in the € and $ exchange rates between FY2011 and FY2012 has resulted in the reported adjusted operating profit[1] and revenue of our International businesses reducing by £0.1m. The impact of foreign exchange rate movements on the individual businesses is summarised in the table below.

ACQUISITIONS

Acquisition spend during the period totalled £87.8m (2011: £16.2m). This expenditure includes the £82m spent acquiring full control of Doméo in December 2011 as well as deferred consideration of £4.5m in relation to acquisitions completed in prior periods.

	Average exchange rate			Effect on (£m) Revenue	Effect on (£m) Adjusted operating profit[1]
	2012	2011	**Change**	**2012**	**2012**
USA ($)	**1.59**	1.56	**+0.03**	**(0.8)**	**0.2**
Doméo (€)	**1.16**	1.18	**-0.02**	**(0.1)**	**(0.2)**
Spain (€)	**1.16**	1.18	**-0.02**	**0.6**	**(0.1)**
New Markets (€)	**1.16**	1.18	**-0.02**	**0.2**	**—**
Total International				**(0.1)**	**(0.1)**

STATUTORY AND PRO-FORMA RECONCILIATIONS

The Group believes that adjusted operating profit[1] and adjusted profit before tax[2], which exclude the amortisation of acquisition intangibles, tax on joint ventures, exceptional expenditure and the gain on re-measuring the value of our 49% shareholding in Doméo following the acquisition of the remaining 51%, are important performance indicators for monitoring the business.

This report 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.

GOING CONCERN AND ASSET IMPAIRMENT

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.

£million	**2012**	2011
Operating profit (statutory)	**85.3**	106.9
Amortisation of acquisition intangibles	**10.4**	9.3
Tax on joint ventures	**1.4**	3.0
Exceptional expenditure	**31.1**	—
Adjusted operating profit[1]	**128.2**	119.2
Profit before tax (statutory)	**138.0**	104.8
Amortisation of acquisition intangibles	**10.4**	9.3
Tax on joint ventures	**1.4**	3.0
Exceptional expenditure	**31.1**	—
Gain on re-measurement of joint venture interest on acquisition of control	**(54.9)**	—
Adjusted profit before tax[2]	**126.0**	117.1
Pence per share		
Earnings per share (statutory)	**35.4**	24.0
Amortisation of acquisition intangibles	**2.2**	1.9
Exceptional expenditure	**7.4**	—
Gain on re-measurement of joint venture interest on acquisition of control	**(17.0)**	—
Adjusted earnings per share[3]	**28.0**	25.9

The Directors have reviewed the Group's forecasts and cash flows, including reviewing a number of scenarios in connection with the future financial performance of the UK business, and have concluded that 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.

In addition, the Directors have considered the issues facing the UK business at this time in relation to the carrying value of goodwill and other assets and have concluded that there is no impairment of these assets.

David Bower
Interim Chief Financial Officer
22 May 2012

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.

The table below sets out what the Board believes to be the principal risks and uncertainties facing the Group, the mitigating actions for each, and an update on any change in the profile of each risk during the past year. 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 / Impact	Mitigation	Change since 2011 Annual Report
Financial cost of customer re-contact exercises The cost of re-contacting customers and the possible compensation that may be paid to them if any detriment is identified have been based on our best estimates. It is possible that the actual number of customers, response rates and level of compensation could be different.	The forecasts are based on our best estimates including initial pilot exercises. The UK business is a cash generative, profitable business which, if necessary, could set aside additional funds to meet higher costs if required.	This is a new risk that was identified during FY2012. The charge included in our FY2012 results is based on our best estimates taking into account the results of initial pilot exercises.
Commercial relationships Underpinning the success in our 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 our future customer and policy growth plans. While these partnerships are secured under long-term contracts, which increase the security of these relationships over the medium-term, they can be terminated in the event of non-compliance with laws or regulations and / or damage to reputation.	We have regular contact and reviews with the senior management of our affinity partners to ensure that we respond to their needs and deliver the service that they expect. There are a number of partnerships across our markets, mitigating, in part, the impact of losing any single relationship.	We have continued to sign and renew affinity partnerships with utilities in the UK, France, and USA during the past 12 months. We worked closely with all our UK partners to ensure they understood the UK issues that we identified and the corrective action we are implementing.

Risk – Description / Impact	Mitigation	Change since 2011 Annual Report
Ability to implement an updated strategy successfully within the UK business The successful implementation of an updated strategy and the restoration of a customer focused culture in the UK business is of considerable importance to our future. If we are not able to implement the strategy or achieve the restoration as effectively or as rapidly as we intend, the future performance of the UK business may be adversely affected, potentially materially. There is no certainty as to scope and cost of the additional activities that we may need to undertake to achieve our desired culture.	We have strengthened the UK management team and recruited a dedicated programme director to oversee the development, testing and implementation of the updated strategy. We are using a number of third-party specialists to assist in the implementation of projects which are designed to restore the customer focused culture. The expected cost of restoring our customer focus has been provided for in the FY2012 results and the business has the financial strength to incur additional costs if necessary.	This is a new risk that was identified during FY2012. At the end of FY2012 we believe we are making progress in re-invigorating our UK customer focus, although the implementation of initiatives and revised processes is taking longer than originally expected.
Competition 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 our ability to meet its expectations and objectives for the business in terms of the number of customers, policies or the financial returns achieved.	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. Both qualitative and quantitative research is undertaken to ensure that our products and services continue to meet the needs of our customers whilst retaining a competitive position in the market. We believe we have a compelling proposition for customers, providing them with real value. This helps reduce the impact of increased competition.	There has been no significant change in the competitive landscape in any of the countries in which we operate.

Risk – Description / Impact	Mitigation	Change since 2011 Annual Report
Customer loyalty/retention A key element of our business model is customer loyalty. Any reduction in the proportion of customers renewing their policies could significantly impact our revenues.	The policy retention rate is one of our Key Performance Indicators. Any variance to budget is carefully investigated to identify why customer behaviour is changing and to implement corrective action. We have a wide range of tools available to manage retention rates including specific retention 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.	Retention remains high in all countries although the mix of new and older policyholders in the UK and the mix of utility branded and own brand policyholders in the USA have resulted in lower reported rates. The UK rate did reduce slightly quicker than we expected as a result of the suspension of call centre agent's incentive schemes in October. In March 2012, we implemented new schemes which reflect an improved balance between customer and commercial outcomes and we are confident that these will enable us to improve retention rates in the future. We have closely monitored the impact of the media coverage on our reputation following the identification and announcement of the UK's sales and marketing issues. To date, we do not believe the media coverage has had a significant impact on our customer loyalty.
Marketing effectiveness A significant reduction in the response rates on direct marketing or telesales campaigns could have a significant impact on customer and policy numbers.	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.	In the UK, we have reviewed all our mailings and telesales scripts and made a number of changes to give greater clarity to customers. We have also decided to focus our UK outbound telesales activity on cross-selling activity in the future, thereby reducing new customer acquisition in FY2013. The take-ups on the new UK direct mail creative introduced at the end of January 2012 were below our initial expectations and we will therefore be undertaking further test marketing activity in FY2013. We are closely monitoring the impact of the media coverage on our reputation following the identification and announcement of the UK's sales and marketing issues. To date we do not believe the media coverage has had a significant impact on new customer acquisition activity.

Risk – Description / Impact	Mitigation	Change since 2011 Annual Report
Exposure to legislation or regulatory requirements We are subject to a broad spectrum of regulatory requirements in each of the markets in which we operate, particularly relating to product design, marketing materials, sales processes and data protection. Failure to comply with the regulatory requirements in any of our countries could result in us having to reduce the effectiveness or suspend either temporarily or permanently certain activities. Any changes in the legislative, regulatory or judicial environment in the countries in which we operate, or failure to comply with regulations may adversely affect our ability to deliver our growth expectations.	We have regulatory specialists and compliance teams within each of our businesses to help ensure that all aspects of the legislative regime in each territory are fully understood and adopted as required. We keep up to date on current government policies through our external advisors and this ensures products are designed, marketed and sold in accordance with relevant legal and regulatory requirements. In the UK, we are maintaining a regular dialogue with the FSA and are ensuring that our actions are in line with their feedback.	During FY2012 we have been strengthening our UK governance and control processes and management team in our UK business. This has included the appointment of a new Compliance Director and a stronger Board in the UK business with a new Non-Executive Director and good progress towards the appointment of a Non-Executive Chairman. We have since November 2011 reviewed all of our UK sales and marketing materials and made a number of changes to ensure they meet all the regulatory requirements. The FSA has informed us that they plan to investigate past issues, which will take a period of several months to complete. The FSA have wide ranging powers, which include restrictions on business activities, customer redress and fines if they consider them appropriate under the circumstances.
Availability of underwriters We use underwriters to minimise the impact of significant short-term deviations in claims frequencies and costs. We need to ensure that policy pricing and claims frequency represent an acceptable risk that the underwriters are prepared to price.	We use a number of underwriters, with the main partner in the UK being separate to those in rest of Europe and the US. Our principal underwriters are subject to medium-term agreements, with the rates subject to regular review. In addition to this, we maintain relationships with a number of other underwriters and regularly review the market to ensure we understand current market rates and how these apply to our policies.	We continue to review our underwriting relationships on a regular basis to ensure they provide the best returns for customers and shareholders.

Risk – Description / Impact	Mitigation	Change since 2011 Annual Report
Quality of customer service Our reputation is heavily dependent on the quality of our customer service. Any failure to meet our service standards or negative media coverage of poor service could have a detrimental impact on customer and policy numbers.	Processes have been established to ensure that all directly employed engineers and sub-contractors meet minimum standards. These include criminal record checks and minimum qualification requirements. 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 engineer's line manager.	Our engineer network continues to provide a high quality service, with high levels of customer satisfaction with the quality of service provided. During the year we did, however, identify issues with our UK complaints handling process. We have, therefore, undertaken a re-training programme for all our UK complaints handling agents and have reviewed all of our complaints handling processes. Any customers who may have suffered any detriment through the way in which their complaint was handled or the way in which they were sold 'Complete Cover' via the telephone are being re-contacted.
Dependence on recruitment and retention of skilled personnel Our ability to meet growth expectations and compete effectively is, in part, dependent on the skills, experience and performance of our personnel. The inability to attract, motivate or retain key talent could impact on our overall business performance.	Our employment policies, remuneration and benefits packages and long-term incentives are regularly reviewed and designed to be competitive with other companies. 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. Processes are in place to identify high performing individuals and to ensure that they not only have fulfilling careers, but we are managing succession planning.	We have strengthened our management teams during FY2012 with key appointments in both the USA and UK.

Risk – Description / Impact	Mitigation	Change since 2011 Annual Report
Exposure to country and regional risk As a result of our growing international footprint we are subject to increased economic, political and other risks associated with operating in overseas territories. 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.	The criteria for entering a new country include 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. When entering a new country, we generally do so with a small scale test basis. This low risk entry strategy minimises the likelihood of any loss.	We plan to undertake test marketing activity in Germany in FY2013, having signed a test marketing agreement this year.
Financial strategy and treasury risk The main financial risks are the availability of short and long-term funding to meet business needs, the risk of suppliers and policyholders not paying monies owed and fluctuations in interest rates.	**Interest rate risk** Our policy is to manage our interest cost using a mix of fixed and variable rate debts. Where necessary, 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 notional principal amount. These swaps are designated to hedge underlying debt obligations.	As a result of our relatively low level of bank borrowings and a stable interest environment we have not entered into any swaps during FY2011 or FY2012.
	Credit risk HomeServe trades only with creditworthy third parties. All suppliers who wish to trade on credit terms are reviewed for financial stability. The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions.	There has been no change in the creditworthiness of our third party suppliers.
	The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.	There has been no significant change in the level of mid-term policy cancellations.
	Liquidity risk HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.	During FY2012, we renewed our banking facilities. As part of the renewal, we increased our facility from £150m to £250m.

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:

- 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
- Achieve sustainable profits for our shareholders.

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; living and breathing HomeServe's customer charter.

2. EMPLOYEES

- Embed customer focused values and behaviours within our business operations.
- Hire, develop and retain talent to ensure our customers enjoy a consistently good 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 are reflected in the way we deal with customers, employees, partners and the community.
A Corporate Responsibility Committee was established in the UK in 2010 to govern and ensure successful implementation of our policy and during the last twelve months, committees have been established in all of our other geographies.

CUSTOMERS

The UK business has recently introduced a Customer Charter which outlines our commitment to our customers; we'll make things easy for customers and treat customers fairly, every step of the way. The charter has been committed to by all of our colleagues, from the management team to our front line.

EMPLOYEES

HomeServe's values and company characteristics reflect our focus on delivering consistently good customer service and are embedded in our recruitment, selection, development and reward arrangements. Our company characteristics ensure that individuals hired or promoted into positions at HomeServe possess the appropriate attitude and behaviours, as well as the necessary commercial and technical skills required. We also review performance against the characteristics as part of our annual performance management and succession planning processes, considering how people behave, as well as what they have achieved, and might achieve in the future.

In 2011 HomeServe launched its Group Leadership Development Programme in conjunction with Cranfield University. The programme has been very successful, with strong endorsements from both participants and senior management, and a significant expansion of the programme has been agreed for 2012. Our Graduate Development Programme in the UK was successfully replicated in France in 2011, and HomeServe's UK Plumbing and Drainage business continues to benefit from its Apprenticeship Programme.

HomeServe attaches considerable importance to ensuring that all its employees benefit from effective communications and engagement, including regular business updates, the effective use of company intranets, staff magazines, question and answer opportunities and constructive relationships with employee representatives. An employee survey is run in all businesses each year, with results reported to the Board and action plans devised and implemented locally.

In the UK, employee feedback has been an important driver of the Customer Charter, and employees will be actively involved in the creation of a "Colleague Charter" setting out what all employees need to do to ensure the delivery of consistently good customer service.

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.

COMMUNITY

HomeServe aims to use its core business skills to support charitable initiatives and to 'give back' to the community. In April 2010, HomeServe partnered with Marie Curie Cancer Care, pledging £1 million by March 2013. The objectives were to raise £500,000 to pay for 25,000 hours of nursing care and provide £500,000 of free home emergency cover.

Two thirds through its partnership, HomeServe is now well on its way to its £1 million target.

To date £325,000 has been raised through employee fundraising, business donations and sponsorship of Walk Ten, which will pay for 16,250 hours of Marie Curie nursing care. HomeServe has also provided £325,000 of free home emergency cover to patients through its patient policy which provides practical support (from fixing a boiler to unblocking a toilet) through its network of engineers to patients in their own homes. Over 1,000 home emergency insurance policies have been provided to patients and 550 jobs have been carried out in their homes.

HomeServe was proud to be the headline sponsor of Marie Curie's summer walking events, Walk Ten, for the second consecutive year in 2011 and the business also made a number of substantial cash and gift-in-kind donations during the year, including:

- **My Voice Survey**: £1 donated for every employee survey completed.
- **Corporate Christmas e-card**: A donation is made in lieu of printing and posting cards.
- **Cause Related Marketing**: CRM is integrated into customer acquisition, cross sales and renewal marketing activity. Customers are updated with fundraising progress via the customer magazine, mailing inserts, social media and website. For example, for the second year running, customers who switched to pay for their policy by Direct Debit during Marie Curie's Great Daffodil Appeal, triggered a £1 donation from HomeServe.

Employees have got involved and raised funds and donated their time in a number of different ways:

- Sponsored events: cycling challenges and sky dives.
- Local events: cake bakes, clothes collections and book sales.
- Pennies for Patients: whereby staff donate the change from their salary each month.
- A Charity Holiday Day: whereby staff can purchase an extra day's annual leave by donating their pay for that day.
- Solihull Hospice: apprentices tidying the grounds for patients to enjoy.
- Charity Shop Team Challenge: competition to take over two shops and raise the most money, with the winning team boosting sales by 202%
- Great Daffodil Appeal: staff sold daffodil pins in local towns and supermarkets.

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

"We're extremely grateful to HomeServe for offering our patients this cover, which offers a practical solution for patients and families, giving peace of mind at a difficult time."

HomeServe has also supported Comic Relief for eight consecutive years, opening its Walsall call centre and recruiting volunteers to take donation calls while the live show is broadcast by the BBC. In March 2012, we opened 120 donation lines during the live BBC show. A record 300 volunteers answered nearly 2,000 calls and raised over £60,000 to help vulnerable people both in the UK and Africa.

HomeServe's annual Youth Team Sponsorship Scheme provides grants to teams associated with employees' children. In June 2011, 32 grants were awarded of up to £400 each to youth teams (including football and rugby teams, scout groups, dance and drama schools) in local communities.

HomeServe USA has selected Habitat for Humanity (HFH) as its nominated charity. The charity seeks to eliminate poverty housing and homelessness by building houses in partnership with families in need. HFH has helped build over 400,000 decent, affordable houses providing more than 2 million people around the world with homes. They operate in all 50 states in the US and staff have been able to volunteer at projects close to our offices in Stamford, Chattanooga and Miami.

In addition to this charity partnership, HomeServe USA has continued to support charities in the local community. This has included volunteering at soup kitchens and toy collections. The business aims to complete one volunteer initiative every quarter.

HEALTH & SAFETY

HomeServe considers the health, safety and welfare of its employees, customers and third parties connected with its business to be of paramount importance. We aim to provide a safe working environment and ensure that our employees have the information and resources to perform their duties safely. We are committed to maintaining high standards and complying with relevant local legislation and guidelines in all of the areas in which we operate.

The health and safety of our people and activities is the responsibility of line management and employees themselves.

RISKS

HomeServe has a variety of health and safety risks to manage. 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 we strengthened our focus on the International businesses. We have updated our Group-wide Health & Safety (H&S) policy commitment statement which provides guiding principles to all of our business units. We have carried out H&S reviews across our four largest business areas; the UK, the USA, France and Spain, resulting in a number of H&S improvement actions. We have improved our H&S co-ordination and interface processes, particularly focusing on improved group wide reporting and group notification requirements in the unfortunate event of a significant accident or incident occurring.

In the UK, we have continued to deliver our 'IOSH Managing Safely' and 'IOSH Working Safely' training programmes to our Network management employees and we successfully rolled out a computer based H&S awareness training package to all office based employees. We have addressed improvement actions highlighted by the aforementioned H&S review, and we have commenced a complete review of our current H&S policy manual. This is with a view to improving our arrangements and highlighting opportunities where we can standardise, reduce and simplify our H&S processes across our UK sites.

In the USA we took the decision to employ a full time H&S Manager who joined the business in December 2011. We are already seeing the benefits of our investment with a much more focused and proactive approach to the management of H&S in the business. The establishment of active Safety Committees has been one of our first priorities in order to ensure we engage staff in risk reduction and health and safety initiatives.

Elsewhere, we have continued to utilise outside specialist expertise that provide H&S advice and recommendations to local management, whilst at the same time taking account of improvement actions highlighted by our internal H&S review.

ACCIDENTS/INCIDENTS

Following the introduction of Group wide H&S reporting requirements in 2011, our reporting of accidents and incidents has improved which allows us to pick up trends, anticipate issues and cascade this knowledge across our business units.

	2012	2011
Frequency rate[1]	11.65	13.26
Severity rate[2]	0.57	0.43
Incident rate[3]	11	13

1 Per million hours worked
2 Number of days lost through injuries as calculated in total days lost per 1,000 hours worked
3 Rate per 1,000 workers

There have been no significant accidents or health and safety events reported across the Group. 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.

Although our accident frequency rate and incident rate have both fallen slightly there is clearly a need to ensure that successful health and safety management remains a continued priority for HomeServe.

PLANS FOR 2012/13

In 2012/13 we intend to focus on the development of Group wide H&S roadmap standards. The roadmap standards are intended to be used as a self-evaluation tool by business units and a management tool for driving improvement of our health and safety performance.

We also aim to review our arrangements in respect of the management of our contractors, particularly focusing on how we set H&S requirements, how we evaluate our contractors' ability to meet these requirements, and how we continue to monitor their H&S performance.

ENVIRONMENT

At HomeServe, we believe that we are in a strong position to help our customers reduce their impact on the environment. Throughout the year we have given our customers tips and hints on how they can reduce costs whilst reducing their impact on the environment. Over the next year, HomeServe is committed to taking this further and will look to offer customers advice on how they can reduce the amount of water that they consume.

FLEET

Commercial fleet is an environmental priority for HomeServe. Whilst as a business we are driving more miles, it is essential that we continue to make sure we do this in the most efficient way possible. Some of the initiatives include:

- 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.
- The continued use of the most efficient vehicles with the latest Euro 5 compliant engines which incorporate Start/Stop technology.
- Regularly reviewing the company car list to take advantage of new technology that can reduce our carbon footprint.

ENVIRONMENTAL TRAINING

Environmental training is key, especially in areas that potentially have a greater impact on the environment. Over the past year further training sessions have been completed with the engineers covering topics such as the importance of being an environmentally friendly company, pollution prevention, legal compliance, waste management, recycling and efficient driving.

GREEN TRAVEL

HomeServe is committed to reducing the number of business miles travelled and we are investing in new technology to connect our sites via a new high definition video conferencing system.

REDUCING OUR PAPER CONSUMPTION

While it is vital for HomeServe to keep its customers fully informed, it is also important for HomeServe to manage its paper use and carbon footprint associated with customer communication. HomeServe uses external suppliers to produce and distribute its printing and mailing and continues to work closely with these suppliers to ensure this is achieved in a sustainable and responsible manner. This includes:

- 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.

RECYCLING

HomeServe has completed various projects in respect of waste management and recycling. HomeServe believe that reducing the amount of waste that is sent to landfill is a vital part of its environmental commitment and some of the projects include:

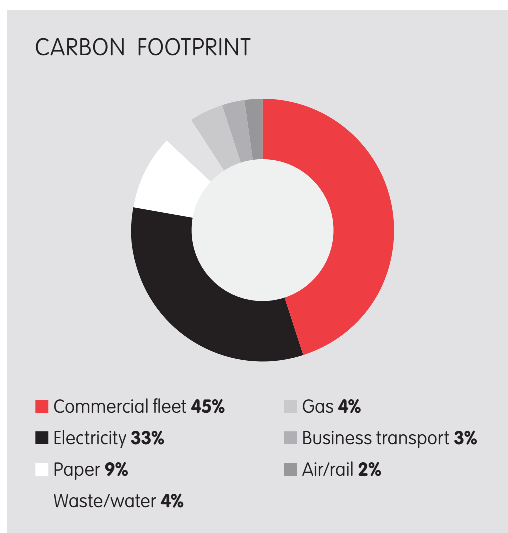
- HomeServe now works closely with one waste broker in the UK to ensure that its impact on the environment is positive.
- HomeServe completes a full annual legal compliance audit on its national waste and recycling partner. On top of the documentation checks, a number of site visits to the waste disposal sites also take place which enables HomeServe to observe, first-hand, the full life cycle of its waste streams.
- Work has been completed, on a trial at the head office in Walsall, to consider ways to increase recycling and reduce the waste produced.
- Training for any employee disposing of waste at recycling / waste management facilities.

In 2011/12 the business has reduced the general waste leaving its UK sites, therefore reducing the amount of waste that ends up in landfill:

	2012	2011
General waste leaving UK	25%	49%
General waste sent to landfill	6%	17%
UK recycling rate	94%	83%

CARBON FOOTPRINT

The carbon footprint for HomeServe's UK operation in 2011/12 was 10,064 tco2e.



DIRECTORS

JM BARRY GIBSON (60)[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 the non-executive chairman of Harding Brothers Holdings Ltd. 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 (47)

Founder and Chief Executive Officer 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 (43)

A Board member since 2009. Appointed as Group Chief Operating Officer in January 2012 following three years as chief financial officer. 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.

BEN MINGAY (47)[1 2 3]

Appointed to the Board in January 2012. Currently managing partner of Smith Square Partners, an independent corporate finance advisory firm. He has more than 20 years' experience as a corporate finance adviser and, prior to co-founding Smith Square Partners, he was a managing director of Hawkpoint Partners Ltd and Credit Suisse First Boston (Europe). He is also a non-executive director of AIM-listed Alternative Networks plc.

MARK MORRIS (52)[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.

ANNA MAUGHAN (42)

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.

KEY:
[1] Non-Executive.
[2] Audit Committee (Chairman: Mark Morris).
[3] Nomination Committee (Chairman: Barry Gibson).
[4] Remuneration Committee (Chairman: Ian Chippendale).
[5] Member of Executive Committee only.
[6] Interim.

JONATHAN KING (51)

A Board member since 2010. Appointed as Chief Executive Officer of HomeServe Membership in the UK in August 2011. He spent six years as chief executive officer of HomeServe USA 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 (63) [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 Alleghany Corporation and Chairman of Allen and Allen Group 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.

STELLA DAVID (49) [1 3 4]

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 Ltd where she undertook a number of roles culminating in four years as global chief marketing officer. Currently a non-executive director of C&J Clark Limited, she also spent seven years as a non-executive director at Nationwide Building Society.

RACHAEL HUGHES (41) [5]

Appointed as Chief Executive Officer of HomeServe Europe in 2005 having been managing director of Doméo, 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.

TOM RUSIN (43) [5]

Appointed as Chief Executive Officer, HomeServe USA in July 2011. Previously at Affinion Group where he undertook a number of roles culminating in three years as president and chief executive officer of Affinion Group's North American Division from 2007 to 2010. Before joining Affinion, he owned Just for Travel Inc. Currently a non-executive director of The Ambassadors Group.

DAVID BOWER (40) [6]

Appointed interim Chief Financial Officer in January 2012. He joined the business in 2005 as head of group finance before being appointed as finance director of HomeServe Emergency Services and then group finance director. Prior to joining HomeServe he spent 12 years at Arthur Andersen, later Deloitte LLP, where he qualified as a chartered accountant.

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 March 2012.

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 including the key performance indicators used to manage it are set out in the Chairman's statement, Chief Executive's review and Financial review.

A description of the principal risks and uncertainties facing the Group is included in the Financial review. Information relating to the environment and employees is included in the Corporate responsibility report.

FINANCIAL RESULTS AND DIVIDENDS

The Group's results are shown in the Group income statement. The Directors are recommending the payment on 1 August 2012 of a final dividend of 7.67p per ordinary share to shareholders on the register at the close of business on 29 June 2012 which, together with the net interim dividend of 3.63p per ordinary share paid on 3 January 2012, results in a total net dividend for the year of 11.3p per share (2011: 10.3p). For further details of the dividend see note 12 to the financial statements.

CAPITAL STRUCTURE

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the Articles of Association as approved and adopted at the AGM in 2010 reflect this. Details of the issued share capital, together with details of shares issued during the year, are set out in note 26. 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 37. 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 2011 authorised the Directors to allot shares in the capital of the Company within certain limited circumstances and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2012 AGM.

AUTHORITY TO PURCHASE SHARES

The Company was authorised at the 2011 AGM to purchase its own shares, within certain limits and as permitted by the Articles of Association. A renewal of this authority will be proposed at the 2012 AGM. No shares were purchased during the year and no shares are held in Treasury.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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. The Group's bank facility agreements contain provisions that, on 30 days' notice, the lenders may exercise their discretion to require prepayment of the loans on a change of control and to cancel all commitments. No other agreements are considered to be significant in terms of their likely impact on the business of the Group as a whole. 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.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of the Company is to be held on 20 July 2012. The notice of the meeting accompanies this report.

DISCLOSURE OF INFORMATION TO 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 auditor is 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 auditor is 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 auditor and authorising the Board to fix their remuneration will be put to the Annual General Meeting.

FIXED ASSETS

Capital expenditure on tangible fixed assets amounted to £5.3m (2011: £10.1m) during the year.

DONATIONS

Charitable donations of £70,000 (2011: £79,000) 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.

DIRECTORS' 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 2012 represented 39 days of purchases during the year (2011: 52 days) for the Group and 28 for the Company (2011: 21 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 11 May 2012, except for the following:

Name	Ordinary shares	%
Invesco Ltd	69,336,287	21.02
Richard Harpin [1]	39,512,980	11.98
Marathon Asset Management Ltd	22,174,631	6.72
Prudential plc	21,368,175	6.48
Franklin Templeton Institutional LLC	16,527,443	5.01
Pennant Capital Management LLC	10,648,986	3.23
Jeremy Middleton	10,000,000	3.03

[1] Includes an indirect interest of 28,500 shares.

TAXATION STATUS

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

By Order of the Board

Anna Maughan
Company Secretary
22 May 2012

CORPORATE GOVERNANCE

The Board believes that good corporate governance underpins good business performance. This report explains how the Board applied the principles of the 2010 UK Corporate Governance Code ('the Code'). Commentary on the Code's principles relating to remuneration matters is contained in the Remuneration report. 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.

HomeServe complied with the provisions set out in the Code throughout the year save as where mentioned in this report.

THE BOARD

The powers of the Directors are set out in the Company's Articles of Association which are available on request. The Articles of Association may be changed by special resolution. The Directors also have responsibilities and duties under other legislation and in particular, the Companies Act 2006.

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
- the approval of 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
- the Company's internal controls.

The full schedule is available on the website.

BOARD COMPOSITION

The Board is made up of a balance of Executive Directors and independent Non-Executive Directors.

The Directors who held office during the year were:
John Michael Barry Gibson
Richard David Harpin
Martin John Bennett
Jonathan Charles King
Ian Chippendale
Stella Julie David
Benjamin Edward Mingay (appointed 1 January 2012)
Mark Christopher Morris
Jon Florsheim (resigned 29 July 2011)
Andrew Sibbald (resigned 13 October 2011)

CORPORATE GOVERNANCE

The Board is led by the Chairman, Barry Gibson. The Chairman's responsibilities are clearly defined in a written specification agreed by the Board and which make 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.

During the year, in addition to the Chairman, five independent Non-Executive Directors (Messrs Chippendale, Mingay, 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.

In accordance with the provisions of the Code, each Director is subject to election by the Company's shareholders at the Annual General Meeting immediately following his appointment and is subject to re-election every year thereafter.

Short biographies of each of the Directors including their membership of committees may be found on page 48.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2012 and 22 May 2012 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.

SUCCESSION PLANNING

A succession planning process has been established and plans for each business within the Group drawn up. The Executive Committee reviews the plans in detail twice a year and the Board reviews the high level plan at least annually.

BOARD MEETINGS

Up to ten regular meetings are held each year to review and monitor current and forecast performance. 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 has an annual strategy meeting, 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.

ATTENDANCE AT MEETINGS

All Directors are expected to attend all Board and relevant committee meetings. Details of attendance by Directors at meetings during the year are set out in the table below. Directors who were unable to attend specific meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee. Any Director who misses a meeting will, as a matter of course, receive the minutes of that meeting for reference.

	Board	Audit Committee	Remuneration Committee
Number of meetings held	**9**	**4**	**6**
Meetings attended			
R D Harpin	9		
M J Bennett	8		
J King	8		
J M B Gibson [1]	9	1	6
I Chippendale	9	4	6
S David	9		4
B Mingay [2]	3	1	
M Morris	9	4	6
J Florsheim [3]	4		
A Sibbald [4]	5	1	

[1] Barry Gibson stepped down as a member of the Audit Committee in May 2011.
[2] Ben Mingay was appointed on 1 January 2012.
[3] Jon Florsheim left on 29 July 2011.
[4] Andrew Sibbald left on 13 October 2011.

BOARD DEVELOPMENT

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 and Ben Mingay commenced his induction.

BOARD EVALUATION

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.

An external Board evaluation process was completed during the year by Lintstock Limited. Directors completed evaluation questionnaires and these were followed up by individual interviews with Lintstock who then compiled a formal written report summarising the Directors' views and containing recommendations to further improve the effectiveness of the Board. Lintstock presented this report to the Board in February 2012. The Board concluded that it was operating effectively, although a number of recommendations for further improvement were approved.

CORPORATE GOVERNANCE

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 membership and activities of the Remuneration Committee are detailed in the Remuneration report.

NOMINATION COMMITTEE

MEMBERS

J M Barry Gibson (Chair)
Ian Chippendale
Stella David
Ben Mingay
Mark Morris

RESPONSIBILITIES

The primary responsibilities of the Committee are to:

- make recommendations to the Board on the appointment of Directors
- review of the size, structure and composition of the Board
- consider succession planning arrangements for Directors and other senior managers.

KEY ISSUES CONSIDERED DURING THE YEAR

The Committee met informally on a number of occasions during the year to consider the appointment of Jonathan King to the position of UK CEO, the appointment of Martin Bennett as Group COO and also to consider the appointment of a further Non-Executive Director to replace Andrew Sibbald (a position that Ben Mingay was appointed to in January 2012). Following these informal meetings, recommendations were made to the Board and decisions taken by the Board as a whole.

In the year, the Committee also commenced the recruitment process for a new CFO.

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.

AUDIT COMMITTEE

MEMBERS

Mark Morris (Chair)
Ian Chippendale
Ben Mingay

RESPONSIBILITIES

The primary responsibilities of the Committee are to:

- monitor, on behalf of the Board, compliance with and the effectiveness of, the Company's accounting and internal control systems
- agree audit strategy
- monitor the scope and results of the Company's annual audit
- review the independence and objectivity of its auditors
- review the preliminary and interim results and financial statements before they are presented to the Board
- receive reports from the Company's internal and external auditors
- make recommendations to the Board on accounting policies
- make 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
- review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit Committee is chaired by Mark Morris who has recent and relevant financial experience. He worked in audit, business advisory and corporate finance before becoming a plc finance director. The Committee did not comply with the Code for the whole of the year as the Chairman was a member of the Committee until May 2011. Andrew Sibbald joined the Committee for the period from May 2011 until he left the Board in October 2011. Ben Mingay joined the Committee in January 2012. Ian Chippendale served on the Committee throughout the year.

The internal and external auditors, the Chief Financial Officer, the Chief Executive Officer and the Chairman 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 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 compliance services. In addition, any proposed spend over a predetermined limit must be approved by the Committee.

CORPORATE GOVERNANCE

The fees payable to the auditor for non-audit related work (excluding compliance services) totalled £0.6m which exceeded the fees payable in respect of audit and compliance services which totalled £0.3m. During the year, the UK business instigated a number of reviews of its activities by external advisers. Advisers were selected on the basis of their expertise and experience but in recognition of the number and quality of participants in the market, it was not deemed appropriate to exclude Deloitte LLP in every case. Furthermore, it was felt that using a number of advisers would ensure that the advice received was appropriately diverse. Deloitte LLP was selected to undertake a comprehensive review of the UK telephone sales operations and procedures and the fees in respect of this review represent the significant majority of the non-audit related work. Further detail on the fees paid is provided in Note 7.

In accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board, and as a matter of best practice, the external auditor has confirmed its independence as auditor of the Company, in a letter addressed to the Directors.

The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness and that of the internal and external audit process. The Committee reviews the performance of the external auditor annually. Having reviewed the performance and independence of the external auditor, the Committee has recommended that Deloitte LLP be proposed for reappointment at the AGM.

EXECUTIVE COMMITTEE

The day-to-day running of the business is delegated to an Executive Committee which is led by Richard Harpin. Other members of the Executive Committee are Martin Bennett, Jonathan King, Rachael Hughes, Chief Executive of HomeServe Europe, Tom Rusin, Chief Executive of HomeServe USA and David Bower, Interim CFO. The Committee has adopted formal terms of reference.

RISK COMMITTEE

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.

DIRECTORS' INDEMNITIES AND INSURANCE

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. The Company maintains directors' and officers' liability insurance for its Directors and officers.

ADVICE FOR DIRECTORS

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.

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.

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

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board has delegated the day to day management of the Company to the Group Chief Executive and the other Executive Directors. The system of internal control is designed to manage and mitigate 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.

As detailed in the Chairman's statement and Chief Executive's review, the issues identified in the UK business during the year indicate that there has been a breakdown in certain internal controls in the UK business in the year which has given rise to exceptional one-off expenditure. The Board commissioned a thorough review of the issues which was led by the Group Chief Executive and the Group Assurance Director. The Board considered the outcome of this review and has agreed a number of specific actions and work is underway to address the areas of concern. In addition to the general internal review, a number of specific reviews of the UK business have been undertaken by external advisers. A business improvement programme has been established, consisting of a number of focused workstreams and this work will continue into 2012/13.

CORPORATE GOVERNANCE

The Board is committed to ensuring that the Company learns from the experiences in the UK business and will seek to ensure that the learnings are shared and policies and procedures strengthened across all territories.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. This has been in place for the year under review and up to the date of approval of this Annual Report and Accounts. The process is regularly reviewed by the Board and accords with the Turnbull Guidance. The key elements of the control framework and review processes in place across the Group are as follows:

- The Group's strategy is set by the Board and three year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.
- 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. Risks are reviewed in detail at local risk committees and, on an overall basis, by the Risk Committee.
- The Risk Committee meets quarterly and 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. Quarterly updates are provided to the Board.
- 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.
- Weekly telephone meetings of the Executive Committee monitor 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.
- 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 which makes 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.
- 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.
- Appropriate treasury policies are in place.
- A whistle blowing policy allows employees, franchisees and sub-contractors who wish to raise any issues of concern relating to the Group's activities to do so on a confidential basis by contacting an external hotline.
- A mechanism exists to extend the Group's formal risk management processes to any significant new business acquired or established immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of the year.

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 Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration. The Risk Committee meets at least quarterly to monitor these risks, in light of the Group's risk appetite and to evaluate in detail, risk registers compiled by the Group's businesses.
- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

By Order of the Board

JM Barry Gibson
Chairman
22 May 2012

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 within the 2010 UK Corporate Governance Code (the "Code") relating to Directors' remuneration. A resolution to approve the report will be proposed at the Annual General Meeting.

The Act requires the external auditor 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

MEMBERS

Ian Chippendale (Chair)
Stella David
JM Barry Gibson
Mark Morris

All of the members are independent Non-Executive Directors. The Board determined that the Company Chairman, Barry Gibson, should remain a member of the Committee, taking into account that he was considered to be independent on appointment 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.

RESPONSIBILITIES

The primary responsibilities of the Committee are to:

- determine the Group's overall remuneration strategy
- determine the remuneration packages of the Executive Directors and other members of the Executive Committee
- approve the grant and exercise of executive long-term incentive arrangements and oversee the operation of other share-based plans across the Group.

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 aims to develop and recommend remuneration strategies that drive performance and reward it appropriately. In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Code, which was effective for the Company for the first time in 2011/12. The Committee operates under the delegated authority of the Board and its terms of reference are available on the website.

The remuneration of Non-Executive Directors is a matter for the Board. No Director is involved in determining his or her own remuneration.

The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness.

ADVISERS

During the year New Bridge Street ('NBS'), a firm of independent remuneration consultants, served as advisers to the Committee. The Company also instructed NBS 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, NBS has no other connections with the Company. NBS 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 as Aon Benfield and NBS operate entirely independently of one another. The terms of engagement for NBS are available on request from the Company Secretary.

The Committee has also received assistance from Richard Harpin, Chief Executive Officer, Mike Winstone, Group HR Director and Anna Maughan, Company Secretary, all of whom attended meetings of the Committee as required. No executive took part in discussions in respect of matters relating directly to their own remuneration.

REMUNERATION REPORT

REMUNERATION POLICY

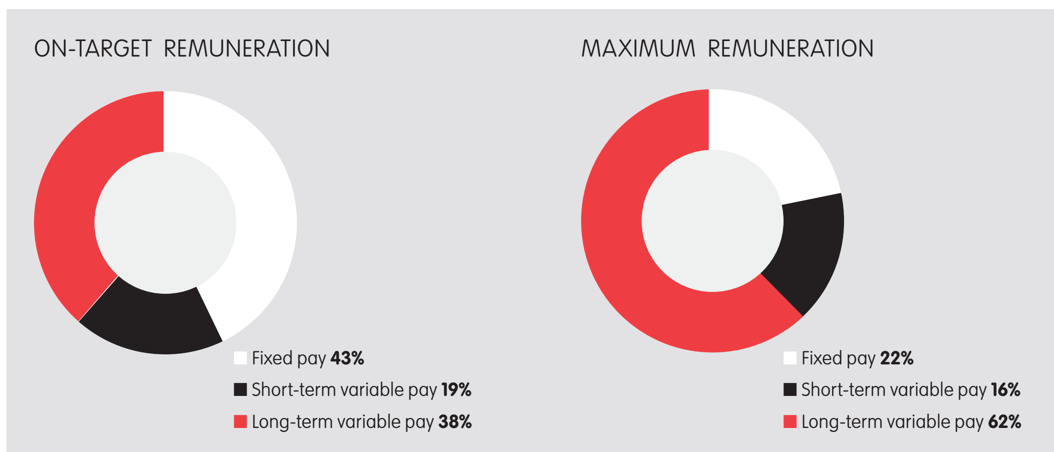
The Committee's remuneration policy for the remuneration of Executive Directors and other senior executives is based on the following principles:

- to provide a remuneration package that is sufficient, but no more than necessary, to attract, retain and motivate high calibre executives;
- to align rewards with the Group's performance;
- to reward good performance with remuneration that is in line with that payable by broadly comparable businesses i.e. 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 under the normal remuneration policy for the Executive Directors. In the case of the long-term incentive arrangements the charts assume certain levels of share price growth. Maximum performance assumes the achievement of maximum bonus and full vesting of shares under the Company's long-term incentive arrangements.

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



The Committee has the discretion to take into account performance on environmental, social and governance matters when setting the remuneration of the Executive Directors. As detailed later in this report, a customer satisfaction related element has been added to the bonus arrangements for 2012/13. However, the Committee has chosen not to take any other matters into specific account in setting performance targets for 2012/13 in the belief that the structures in place neither encourage nor reward inappropriate behaviour 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 LTIP, 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. Furthermore, a claw-back provision to annual bonuses and long-term incentive awards was introduced in 2011 which helps to further guard against excessive risk-taking.

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;
- Approval of the bonuses payable for the 2010/11 financial year;
- Determination of the targets for the 2011/12 annual bonus plan;
- Detailed review of the annual bonus plan and long-term incentives;
- Approval of the 2011 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 LTIP;
- Review of the performance targets and confirmation of the level of vesting of LTIP 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 2012/13; and
- Consideration of institutional investor guidelines on executive compensation.

REMUNERATION REPORT

SUMMARY OF COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION

Type	Objective	Performance Period	Policy for 2012/13
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 were determined according to the Group's financial (80%) and individual (20%) performance for 2011/12. For 2012/13, bonus payments will be determined according to performance in respect of commercial (40%), customer (40%) and personal targets (20%).
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 Mr 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). Policy awards are 150% of salary. Awards of 200% of salary will be made to Messrs Bennett and King in 2012/13 only, reflecting the change in their roles during the year and their criticality to the business.

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 in the top half of the FTSE-250 and pay and employment conditions of employees elsewhere in the Company.

In July 2011 the salaries of Messrs King and Bennett were reviewed following changes in their responsibilities. Mr King's salary remained unchanged but it was agreed that certain relocation expenses be paid in respect of his move from the US to the UK and that a living allowance of £44,000 per annum be paid for a period of two years (with effect from 1 September 2011). Mr Bennett's role as CFO was expanded and he took on wider operational responsibilities (including for example for information systems). His role was externally benchmarked and his basic salary was increased by 6.4%.

It has been agreed that basic salaries for Executive Directors will not be increased with effect from 1 April 2012. No increase in salary has been applied to the general workforce in the UK.

Current salaries are set out below:

Name of Director	
R D Harpin	£522,750
M Bennett	£333,650
J King	£368,250

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 performance is achieved.

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 has been subject to a comparative Total Shareholder Return ('TSR') performance condition and an EPS target.

REMUNERATION REPORT

2011/12

During the year, 80% of bonus potential was based on 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 had the potential to earn a higher proportion of their bonus based on targets specifically related to the performance of the divisions for which they were responsible.

No bonuses will be paid in respect of 2011/12.

2012/13

Bonus potential will remain at 100% of salary. The Remuneration Committee has however undertaken a detailed review of the bonus objectives and some significant changes will be introduced with a view to ensuring that customer outcomes are of equal importance to commercial outcomes. Bonus objectives will be as follows:

Commercial objectives (40% of bonus)	Customer objectives (40% of bonus)	Personal objectives (20% of bonus)
• Profit before tax • Core renewable customers	• A reduction in customer complaints • An increase in customer satisfaction	• An improvement in employee engagement • Up to four other stretching personal objectives

Executive Directors with a specific responsibility for a particular territory will be able to earn a higher proportion of bonus potential based on their respective territory. This will apply to Jonathan King and Martin Bennett, both of whom have specific responsibility for the UK.

Stringent bonus gates will be applied with the customer objectives being considered first. If an agreed percentage of the customer objectives are not achieved, no bonus will be payable. If customer objectives are achieved, the level of profit (and therefore affordability) will be considered. Finally, Executives will need to achieve 40% of their personal objectives for any bonus to be paid.

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.

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 invest their annual bonus voluntarily into a matching share arrangement (matching awards) under the Long Term Incentive Plan adopted in 2008 (the '2008 LTIP').

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

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.

2011 AWARDS

Performance share awards were granted to the Executive Directors in 2011 equal to 150% of salary. Matching awards up to the maximum ratio of two shares for each invested share were also granted.

50% of the award of performance and matching shares was subject to TSR targets and the other 50% of the award was subject to a target based on a range of EPS growth as follows:

TSR	EPS
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 percentage points per annum. In determining the vesting of awards in any year under the TSR part of the award, the Committee will also take into account the underlying financial performance of the business.	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 is measured over a period of three financial years.

The estimated fair value of LTIP awards granted in 2011 was 75% of the face value of the share at the time of grant.

REMUNERATION REPORT

2012 AWARDS

The Committee has reviewed the operation of the LTIP for 2012 given the recent issues in the business and the reduced share price and has decided to make some minor changes to the operation of the LTIP for 2012.

Firstly, in light of the criticality to the business of Martin Bennett and Jonathan King and their individual performance, the Remuneration Committee is intending to grant a one-off larger award of performance shares, at 200% of base salary for 2012/13, but still within the limits of existing shareholder approval. The LTIP award for Richard Harpin will remain at 150% of salary.

Secondly, in view of the difficulties with using a long term financial performance condition, and to ensure management has a strong focus on improving the stock market performance of the business, a TSR performance condition (with financial underpin) will be used for all of the LTIP award. This approach will provide a strong and unequivocal investor alignment, something which we believe is necessary in the present circumstances.

The specific performance condition will operate as previously, requiring HomeServe's TSR to match that of the FTSE-250 Index for 25% of the shares to vest, rising on a straight-line basis so that full vesting requires out-performance of the Index by 15% per annum. This is consistent with how the TSR condition has been operated to date. The Committee believes that this is a stretching target range. In addition, the Committee must be satisfied with the underlying financial performance of the business before allowing an award to vest by reference to TSR.

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. Given that bonuses for 2011/12 were zero, no bonus deferral will be possible this year. However, executives may voluntarily invest up to 25% of salary in shares from their own money.

SAVE AS YOU EARN SCHEME

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 77.

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. Dates of current contracts are summarised in the table below:

Name	Date of contract
R Harpin	18 January 2002
M Bennett	26 June 2009
J King	1 September 2011

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.

REMUNERATION REPORT

PENSIONS

Executive Directors currently participate in one of two pension schemes:

The Water Companies Pension Scheme	A funded, Inland Revenue approved occupational defined benefit scheme
Members	Richard Harpin Jonathan King
Main features	• pension at normal retirement age of one-half of final pensionable salary and a tax free lump sum of one and a half times final pensionable salary on completion of 40 years' service at an accrual rate of 80ths plus 3/80ths cash; • life assurance of five times basic salary; • pension payable in the event of ill health; and spouse's pension on death; • normal retirement at age 60.
Special features	Non-contributory for Richard Harpin.
The HomeServe Money Plan	A funded, Inland Revenue approved occupational defined contribution pension scheme
Members	Martin Bennett
Main features	• employer contributions of 20%; • life assurance of five times basic salary; • permanent health insurance; • spouse's pension on death; • normal retirement at age 60
Unapproved pension provision	A notional earnings cap restricts the benefits provided to members of the Water Companies Pension Scheme and the HomeServe Money Plan. An unapproved pension payment, equal to 20% of the amount by which basic salary exceeds the notional cap is paid annually. The notional cap is indexed in line with earnings inflation. For 2011/12 the notional cap was £125,371.

NON-EXECUTIVE DIRECTORS

Non-Executive Directors serve under letters of appointment for periods of three years. The Non-Executive Directors 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	Date of contract
J M B Gibson	1 April 2010
I Chippendale	1 January 2010
S David	23 November 2010
B Mingay	1 January 2012
M Morris	27 February 2012

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. The Chairman's fee was £200,000. No increase is proposed for 2012/13.

EXECUTIVE COMMITTEE

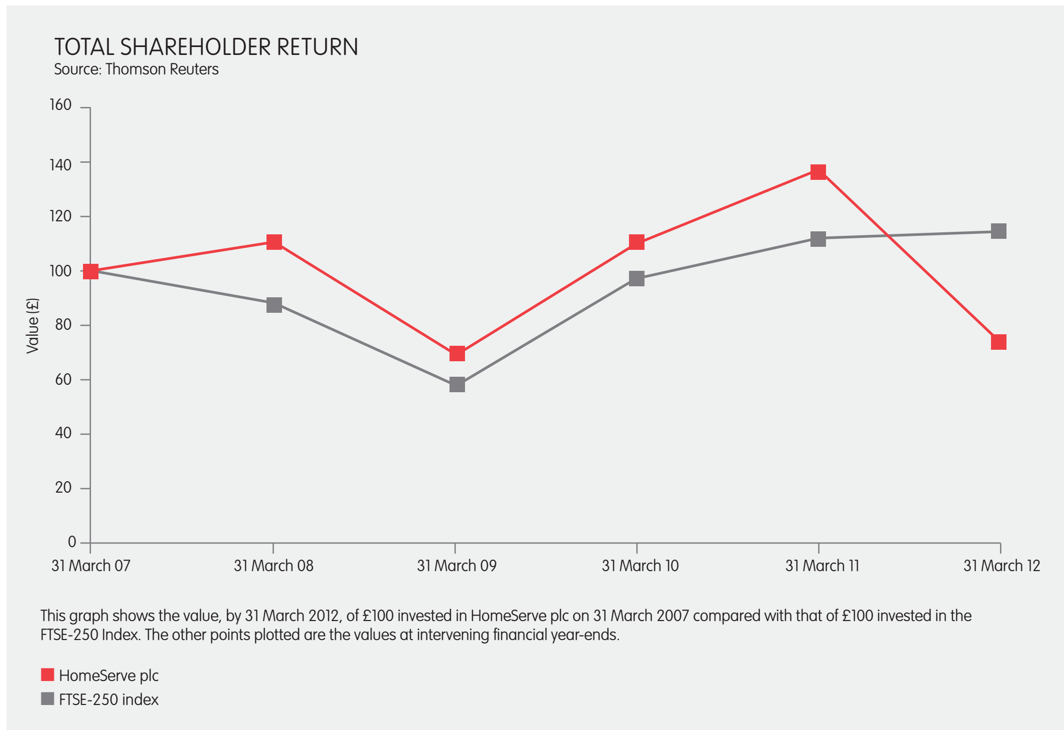
The following table sets out the base salaries of executive members of the Executive Committee (other than Executive Directors) on a banded basis at 31 March 2012.

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

REMUNERATION REPORT

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 2012. 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.



This graph shows the value, by 31 March 2012, of £100 invested in HomeServe plc on 31 March 2007 compared with that of £100 invested in the FTSE-250 Index. The other points plotted are the values at intervening financial year-ends.

AUDITED INFORMATION
DIRECTORS' EMOLUMENTS

	Basic salary £000	Benefits £000	Bonus £000	Compensation for loss of office £000	Total emoluments and compensation **2012** **£000**	Total emoluments and compensation 2011 £000
Executive						
R Harpin	523	36	—	—	**559**	953
M J Bennett	329	23	—	—	**352**	569
J King [1]	380	281	—	—	**661**	583
J Florsheim [2]	194	24	—	632	**850**	719
B Whitty [3]	—	—	—	—	**—**	255
Non Executive						
J M B Gibson	200	—	—	—	**200**	200
I Chippendale	58	—	—	—	**58**	58
S David [4]	44	—	—	—	**44**	16
B Mingay [5]	11	—	—	—	**11**	—
M Morris	53	—	—	—	**53**	53
A Sibbald [6]	24	—	—	—	**24**	44
Total 2012	**1,816**	**364**	**—**	**632**	**2,812**	
Total 2011	1,959	123	1,368	—		3,450

1 Jonathan King relocated from the US to the UK with effect from 1 September 2011. His benefits include relocation expenses of £246,000 and a living allowance of £44,000 per annum (which was payable from 1 September 2011).
2 Jon Florsheim resigned as a Director on 29 July 2011 and left the Company on 12 August 2011. He was paid compensation for loss of office in line with his contractual terms which comprised his annual salary and benefits (totalling £587,000), plus an allowance for pension contributions of £42,000 (included in the pension table overleaf) and outplacement services of £45,000.
3 Brian Whitty left the Company on 31 March 2010. As disclosed previously, 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 Stella David was appointed on 23 November 2010.
5 Ben Mingay was appointed on 1 January 2012.
6 Andrew Sibbald left on 13 October 2011.

Benefits comprise company car, fuel allowance and medical insurance.
Contributions to money purchase pension schemes are shown separately overleaf.

REMUNERATION REPORT

AGGREGATE DIRECTORS' REMUNERATION

The total amounts for Directors' remuneration were as follows:

	2012 £000	2011 £000
Emoluments	**2,180**	3,450
Compensation for loss of office	**632**	—
Gains on exercise of share options	**1,796**	1,085
Money purchase pension contributions	**249**	215
	4,857	4,750

DIRECTORS' PENSIONS

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 2012 £000	Increase in accrued pension in the year £000	Increase in accrued pension in the year in excess of inflation £000	Accrued pension 31 March 2011 £000	Transfer value of increase £000
R Harpin	**45**	2	1	43	4
J King	**52**	2	1	50	1

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 2012 £000	Increase in transfer value in the year less director's contributions £000	Increase in transfer value in the year £000	Transfer value 31 March 2011 £000
R Harpin	**698**	66	66	632
J King	**960**	76	88	872

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

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

	2012 £000	2011 £000
R Harpin	**79**	77
M Bennett	**66**	61
J Florsheim[1]	**55**	41
J King[2]	**49**	36

[1] Jon Florsheim resigned as a Director on 29 July 2011 and left the Company on 12 August 2011. The amount above includes £42,000 paid as part of his termination arrangements.
[2] Jonathan King was appointed on 5 July 2010.

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 2012	31 March 2011
R Harpin[1]	**39,512,980**	39,230,969
M J Bennett	**80,151**	62,745
J King	**251,483**	225,630
J M B Gibson	**75,000**	57,500
I Chippendale	**20,000**	15,000
S David	**17,688**	—
B Mingay[2]	**20,000**	—
M C Morris	**17,500**	17,500

[1] Includes an indirect interest of 28,500.
[2] Ben Mingay was appointed on 1 January 2012.

There were no changes in the Directors' interests in shares between 31 March and 22 May 2012.

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 2012	Granted during year	Lapsed during year	Exercised during year	31 March 2011	Option price	Date granted	Date exercisable from
R Harpin	**8,152**	8,152	—	—	—	£1.84	19.12.11	1.3.17
M Bennett	**—**	—	4,451	—	4,451	£3.42	21.12.10	1.3.16
	8,152	8,152	—	—	—	£1.84	19.12.11	1.3.17
J King	**4,891**	4,891	—	—	—	£1.84	19.12.11	1.3.15
J Florsheim[1]	**6,315**	—	—	—	6,315	£1.52	22.12.08	1.3.12

[1] Jon Florsheim resigned as a Director on 29 July 2011 and left the Company on 12 August 2011. He was treated as a good leaver under the rules of the scheme and therefore was able to exercise a proportion of the option after he left.

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 22 May 2012.

REMUNERATION REPORT

ESOP

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

	31 March 2012	Granted during year	Lapsed during year	Exercised during year	31 March 2011	Option price	Date granted
R 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

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. 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.

The price of an ordinary share on 14 July 2011 when Mr Harpin exercised his option was £4.985.
There were no changes in the options held under the ESOP between 31 March and 22 May 2012.

KEY EXECUTIVE INCENTIVE PLAN AWARDS

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

	31 March 2012	Granted during year	Lapsed during year	Exercised during year	31 March 2011	Option price	Date granted
M Bennett	**—**	—	—	97,540	97,540	£1.922	28.6.05

The price of an ordinary share on 31 May 2011 when Mr Bennett exercised his option was £5.215.

DBP

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

	31 March 2012	Granted during year	Lapsed during year	Vested during year	31 March 2011	Date granted
R Harpin	**256,995**	—	—	—	256,995	2.8.05

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 until the tenth anniversary of grant.

2008 LTIP

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

	31 March 2012	Awarded during year	Lapsed during year	Vested during year	31 March 2011	Date granted	Type of Award
R D Harpin	**112,756** [1]	—	77,069	—	189,825	6.8.08	Performance
	87,096 [1]	—	55,919	—	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
	158,858	158,858	—	—	—	14.7.11	Performance
	154,213	154,213	—	—	—	14.7.11	Matching
M Bennett	**14,470** [1]	—	9,890	—	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
	101,393	101,393	—	—	—	14.7.11	Performance
	92,525	92,525	—	—	—	14.7.11	Matching
J King	**—**	—	56,501	82,664	139,165	6.8.08	Performance
	—	—	19,517	30,398	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
	111,907	111,907	—	—	—	14.7.11	Performance
	107,721	107,721	—	—	—	14.7.11	Matching
J Florsheim [2]	**—**	—	93,530	136,840	230,370	6.8.08	Performance
	—	—	60,865	94,800	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

[1] These awards were converted to nil cost options prior to the end of the performance period. The awards partially vested on 6 August 2011 but remained unexercised at 31 March 2012 and will lapse if not exercised by 6 August 2012.

[2] Jon Florsheim resigned as a Director on 29 July 2011 and left the Company on 12 August 2011. He was treated as a good leaver under the rules of the scheme. His awards may vest at the end of the three year performance period subject to the performance conditions and will be pro-rated for time.

REMUNERATION REPORT

The price of an ordinary share on 12 August 2011 when Mr King's awards vested was £4.625. The market price of the Company's shares on 14 July 2011, the date the awards were granted was £4.985.

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.

As at 31 March 2012 the status of all the outstanding awards subject to TSR was that performance was below the FTSE-250 Index. Therefore, if 31 March 2012 were the end of their performance periods, all the awards which are subject to TSR would lapse.

GENERAL

The market price of the Company's shares at 31 March 2012 was £2.335 (2011: £4.443). During the year the price ranged from £2.147 to £5.320.

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 2012 amounted to 6,136,630 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
22 May 2012

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
22 May 2012

Martin Bennett
Chief Operating Officer
22 May 2012

GROUP INDEPENDENT AUDITOR'S REPORT

We have audited the Group financial statements of HomeServe plc for the year ended 31 March 2012 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 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 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 2012 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 UK Corporate Governance 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 2012 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
22 May 2012

GROUP INCOME STATEMENT

Year ended 31 March 2012

	Notes	2012 £m	2011 £m
Continuing operations			
Revenue	4	**534.7**	467.1
Operating costs	7	**(452.4)**	(365.7)
Share of profit of joint ventures	18	**3.0**	5.5
Operating profit		**85.3**	106.9
Investment income	9	**0.1**	0.1
Finance costs	10	**(2.3)**	(2.2)
Gain on re-measurement of joint venture interest on acquisition of control	6	**54.9**	—
Profit before tax, exceptional expenditure, amortisation of acquisition intangibles, re-measurement gain and tax on joint ventures		**126.0**	117.1
Exceptional expenditure	6	**(31.1)**	—
Amortisation of acquisition intangibles	7	**(10.4)**	(9.3)
Gain on re-measurement of joint venture interest on acquisition of control	6	**54.9**	—
Tax on joint ventures		**(1.4)**	(3.0)
Profit before tax		**138.0**	104.8
Tax	11	**(23.7)**	(27.9)
Profit for the year, being attributable to equity holders of the parent		**114.3**	76.9
Dividends per share, paid and proposed	12	**11.3p**	10.3p
Earnings per share			
Basic	13	**35.4p**	24.0p
Diluted	13	**34.6p**	23.3p

GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2012

	Notes	**2012 £m**	2011 £m
Profit for the year		**114.3**	76.9
Exchange movements on translation of foreign operations	32	**(3.9)**	(0.9)
Actuarial (loss)/gain on defined benefit pension scheme	38	**(1.2)**	3.7
Tax credit/(charge) relating to components of other comprehensive income	22	**0.1**	(1.3)
Total comprehensive income for the year attributable to equity holders of the parent		**109.3**	78.4

GROUP BALANCE SHEET

31 March 2012

	Notes	**2012 £m**	2011 £m
Non-current assets			
Goodwill	14	**260.9**	192.1
Other intangible assets	15	**142.3**	65.6
Property, plant and equipment	16	**37.5**	38.5
Interests in joint ventures	18	**—**	7.6
Deferred tax assets	22	**3.7**	5.6
		444.4	309.4
Current assets			
Inventories	19	**1.5**	2.0
Trade and other receivables	20	**291.1**	247.5
Cash and cash equivalents	20	**52.8**	16.1
		345.4	265.6
Total assets		**789.8**	575.0
Current liabilities			
Trade and other payables	23	**(230.8)**	(222.9)
Current tax liabilities		**(8.8)**	(16.1)
Provisions	25	**(21.0)**	—
Obligations under finance leases	36	**(0.4)**	(0.3)
Bank and other loans	21	**—**	(27.9)
		(261.0)	(267.2)
Net current assets/(liabilities)		**84.4**	(1.6)
Non-current liabilities			
Bank and other loans	21	**(117.8)**	—
Other financial liabilities	24	**(15.8)**	(19.4)
Retirement benefit obligation	38	**(0.6)**	(0.1)
Deferred tax liabilities	22	**(27.6)**	—
Obligations under finance leases	36	**(0.6)**	(0.1)
		(162.4)	(19.6)
Total liabilities		**(423.4)**	(286.8)
Net assets		**366.4**	288.2
Equity			
Share capital	26	**8.2**	8.2
Share premium account	27	**38.1**	36.7
Merger reserve	28	**71.0**	71.0
Own shares reserve	29	**(19.1)**	(21.5)
Share incentive reserve	30	**8.6**	8.1
Capital redemption reserve	31	**1.2**	1.2
Currency translation reserve	32	**3.9**	7.8
Retained earnings		**254.5**	176.7
Total equity		**366.4**	288.2

The financial statements were approved by the Board of Directors and authorised for issue on 22 May 2012. They were signed on its behalf by:

Martin Bennett
Chief Operating Officer
22 May 2012

GROUP STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Currency translation reserve £m	Retained earnings £m	**Total equity £m**
Balance at 1 April 2011	8.2	36.7	71.0	(21.5)	8.1	1.2	7.8	176.7	**288.2**
Total comprehensive income	—	—	—	—	—	—	(3.9)	113.2	**109.3**
Dividends paid	—	—	—	—	—	—	—	(34.2)	**(34.2)**
Issue of share capital	—	1.4	—	—	—	—	—	—	**1.4**
Issue of trust shares	—	—	—	2.4	—	—	—	(1.6)	**0.8**
Share-based payments	—	—	—	—	1.7	—	—	—	**1.7**
Share options exercised	—	—	—	—	(1.2)	—	—	1.2	**—**
Tax on exercised share options	—	—	—	—	—	—	—	1.1	**1.1**
Deferred tax on share options	—	—	—	—	—	—	—	(1.9)	**(1.9)**
Balance at 31 March 2012	**8.2**	**38.1**	**71.0**	**(19.1)**	**8.6**	**1.2**	**3.9**	**254.5**	**366.4**

Year ended 31 March 2011

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Currency translation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2010	8.2	36.1	71.0	(24.9)	6.5	1.2	8.7	127.2	234.0
Total comprehensive income	—	—	—	—	—	—	(0.9)	79.3	78.4
Dividends paid	—	—	—	—	—	—	—	(31.3)	(31.3)
Issue of share capital	—	0.6	—	—	—	—	—	—	0.6
Issue of trust shares	—	—	—	3.4	—	—	—	(1.5)	1.9
Share-based payments	—	—	—	—	2.9	—	—	—	2.9
Share options exercised	—	—	—	—	(1.3)	—	—	1.3	—
Tax on exercised share options	—	—	—	—	—	—	—	1.7	1.7
Balance at 31 March 2011	8.2	36.7	71.0	(21.5)	8.1	1.2	7.8	176.7	288.2

GROUP CASH FLOW STATEMENT

Year ended 31 March 2012

	Notes	**2012 £m**	2011 £m
Net cash inflow from operating activities	34	**77.7**	93.8
Investing activities			
Interest received		**0.1**	0.1
Dividend from joint venture		**3.5**	3.7
Proceeds on disposal of property, plant and equipment		**0.7**	0.9
Purchases of intangible assets	15	**(12.8)**	(5.0)
Purchases of property, plant and equipment	16	**(4.8)**	(7.4)
Net cash outflow on acquisitions	33	**(87.8)**	(16.2)
Net cash used in investing activities		**(101.1)**	(23.9)
Financing activities			
Dividends paid	12	**(34.2)**	(31.3)
Issue of shares from the employee benefit trust		**0.8**	1.8
Proceeds on issue of share capital	26	**1.4**	0.6
Increase/(decrease) in bank and other loans	21	**92.7**	(50.4)
Net cash from/(used in) financing activities		**60.7**	(79.3)
Net increase/(decrease) in cash and cash equivalents		**37.3**	(9.4)
Cash and cash equivalents at beginning of year		**16.1**	25.4
Effect of foreign exchange rate changes		**(0.6)**	0.1
Cash and cash equivalents at end of year		**52.8**	16.1

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

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

IAS24 (2009) Related Party Disclosures, Amendments to IFRIC14 (2009), IFRIC19 and 'Improvements to IFRSs (2010)' have 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 (not all of which have been endorsed by the EU):

Amendments to IFRS1	Government Loans
Amendments to IFRS7	Disclosures – Transfers of Financial Assets and Financial Liabilities
IFRS9	Financial Instruments
IFRS10	Consolidated Financial Statements
IFRS11	Joint Arrangements
IFRS12	Disclosure of Interests in Other Entities
IFRS13	Fair Value Measurement
Amendments to IAS1	Presentation of other Items of Comprehensive Income
Amendments to IAS12	Deferred Tax: Recovery of Underlying Assets
IAS19 (revised)	Employee Benefits
IAS27 (revised)	Separate Financial Statements
IAS28 (revised)	Investments in Associates and Joint Ventures
Amendments to IAS32	Offsetting Financial Assets and Financial Liabilities
Improvements to IFRSs (2011)	

The implementation of IFRS9 which the Group expects to adopt for the year beginning on 1 April 2015 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements have been prepared on the historical cost basis and on a going concern basis as set out in the Corporate Governance statement.

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Computer software and the related licences are stated at cost and amortised over their useful lives of three to seven years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs comprise 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.

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 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 re-measured 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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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.

GAIN ON RE-MEASUREMENT

The Group acquired the remaining 51% equity interest in Doméo (and its subsidiary Doméo Assistance) from its joint venture partner on 7 December 2011. As required by IFRS3 (2008) Business Combinations, this acquisition has resulted in the joint venture interest being re-measured to its fair value at the acquisition date. The Group applied accounting judgements whilst re-measuring to fair value.

EXCEPTIONAL EXPENDITURE

Included in exceptional operating costs are amounts relating to addressing the issues identified in the UK business totalling £24.2m. These amounts include the expected cost and compensation associated with the remediation activities underway with regard to the sales, marketing and complaints handling issues previously identified.

There are a number of significant assumptions supporting the expected level of expenditure including the number of customers, the amount of compensation awarded, response rate and upheld rate. Moreover, these programmes of remediation are still in their early stages and hence there is limited comparable data available in the Group against which to assess these judgements.

As a result the exceptional expenditure recognised, whilst representing the Directors' best estimate at the time, is subject to uncertainty and the outcome may be different.

CONTINGENT LIABILITIES

There is currently no certainty as to the nature or extent of the action, if any, that the FSA may seek to take following the conclusion of its investigation and accordingly any related financial effect, which could include a fine, cannot be estimated reliably. As a result, no provisions have been made in this regard in the current year.

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 £260.9m (2011: £192.1m). The carrying value of acquisition intangibles is £111.4m (2011: £37.1m). Following the annual impairment review, no impairment charge has been recorded against acquisition intangibles in either year. As set out in note 6, an impairment charge of £3.9m (2011: £nil) was recorded against goodwill relating to the Group's Belgian operations which have been disposed of. 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. Management believes that it is unlikely that there will be any changes to the key assumptions in the forthcoming year.

4. REVENUE

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

	2012 £m	2011 £m
Provision of services	**534.7**	467.1
Investment income (note 9)	**0.1**	0.1
	534.8	467.2

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 Group Chief Executive, to allocate resources to the segments and to assess their performance.

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, gain on re-measurement and tax. This is the measure reported to the Group 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. Group cost allocations are deducted in arriving at segmental operating profit. In relation to the period 1 April 2011 to 7 December 2011 (and for the entire prior year) when Doméo in France was our joint venture, the following adjustments were made for segmental reporting purposes: (a) revenue was included in Total Revenue and (b) shareholder fees from Doméo were added back.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

2012	**UK £m**	**Doméo £m**	**Spain £m**	**USA £m**	**New Markets £m**	**Total £m**
Revenue						
Total revenue	**353.5**	**51.8**	**60.2**	**82.3**	**11.6**	**559.4**
Inter-segment	**(4.1)**	**—**	**—**	**—**	**—**	**(4.1)**
Joint venture revenue not recognisable for statutory reporting	**—**	**(20.6)**	**—**	**—**	**—**	**(20.6)**
External revenue	**349.4**	**31.2**	**60.2**	**82.3**	**11.6**	**534.7**
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles, exceptional expenditure and tax on joint ventures	**103.1**	**16.7**	**2.8**	**9.0**	**(3.4)**	**128.2**
Exceptional expenditure	**(24.2)**	**(3.0)**	**—**	**—**	**(3.9)**	**(31.1)**
Amortisation of acquisition intangibles	**(1.1)**	**(1.5)**	**(1.7)**	**(4.0)**	**(2.1)**	**(10.4)**
Tax on joint ventures	**—**	**(1.4)**	**—**	**—**	**—**	**(1.4)**
Operating profit/(loss)	**77.8**	**10.8**	**1.1**	**5.0**	**(9.4)**	**85.3**
Investment income						**0.1**
Finance costs						**(2.3)**
Gain on re-measurement of joint venture interest on acquisition of control						**54.9**
Profit before tax						**138.0**
Tax						**(23.7)**
Profit for the year						**114.3**

2011	UK £m	Doméo £m	Spain £m	USA £m	New Markets £m	Total £m
Revenue						
Total revenue	358.9	32.3	48.8	52.6	9.9	502.5
Inter-segment	(3.1)	—	—	—	—	(3.1)
Joint venture revenue not recognisable for statutory reporting	—	(32.3)	—	—	—	(32.3)
External revenue	355.8	—	48.8	52.6	9.9	467.1
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles and tax on joint ventures	104.3	8.2	1.7	6.1	(1.1)	119.2
Amortisation of acquisition intangibles	(1.4)	—	(1.7)	(2.6)	(3.6)	(9.3)
Tax on joint ventures	—	(3.0)	—	—	—	(3.0)
Operating profit/(loss)	102.9	5.2	—	3.5	(4.7)	106.9
Investment income						0.1
Finance costs						(2.2)
Profit before tax						104.8
Tax						(27.9)
Profit for the year						76.9

SEGMENT INFORMATION

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
UK	**418.5**	410.9	**276.8**	202.5	**13.5**	12.6	**15.7**	10.1
Doméo	**213.7**	7.4	**70.8**	—	**—**	—	**1.6**	—
Spain	**37.9**	36.9	**13.4**	12.8	**0.7**	0.6	**2.3**	2.2
USA	**81.0**	70.9	**42.2**	41.5	**2.7**	2.5	**5.5**	3.8
New Markets	**38.7**	48.9	**20.2**	30.0	**0.5**	0.4	**6.4**	3.8
Total	**789.8**	575.0	**423.4**	286.8	**17.4**	16.1	**31.5**	19.9

All assets and liabilities are allocated to reportable segments.

REVENUES FROM MAJOR PRODUCTS AND SERVICES

	2012 £m	2011 £m
Sale of home assistance and emergency policies	**407.1**	356.9
Provision of repair services	**127.6**	110.2
Consolidated revenue (excluding investment revenue)	**534.7**	467.1

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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
United Kingdom	**349.4**	355.8	**213.3**	216.4
Continental Europe	**103.0**	58.7	**194.5**	44.9
United States of America	**82.3**	52.6	**32.9**	34.9
	534.7	467.1	**440.7**	296.2

Information relating to Continental Europe in the table above includes Doméo (post acquisition), Spain and New Market segments.

INFORMATION ABOUT MAJOR CUSTOMERS

The Group invoiced £53.8m (2011: £63.3m) 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

6. EXCEPTIONAL ITEMS

GAIN ON RE-MEASUREMENT OF JOINT VENTURE INTEREST ON ACQUISITION OF CONTROL

The Group acquired the remaining 51% equity interest in Doméo (and its subsidiary Doméo Assistance) from its joint venture partner on 7 December 2011. As required by IFRS3 (2008) Business Combinations, this acquisition has resulted in the joint venture interest being re-measured to its fair value at the acquisition date. The deemed disposal of the former joint venture interest has generated a gain of £54.9m. The Group has shown the deemed disposal of the previously held joint venture interest in note 18 and the acquisition of control in note 33.

EXCEPTIONAL EXPENDITURE

Exceptional expenditure of £31.1m has been incurred and provided in the following three areas:

UK matters

As a result of the sales, marketing and customer complaints handling issues identified during the year, there are a number of one-off charges amounting to £24.2m, which include the following areas:

i. re-organisation and redundancy costs have been incurred and provided for as a result of the extensive change programme that is now being implemented in the UK business;
ii. additional third party support costs have been incurred and provided for in relation to reviewing scripts, policy documentation terms and conditions and call monitoring;
iii. costs in relation to the re-contacting of customers including, where appropriate, compensation payments, have been provided for; and
iv. the Ofcom regulatory fine imposed in April 2012 has been provided for.

The total costs settled in cash to date amount to £3.2m, the remainder is provided for as set out in note 25.

Disposal of Belgian businesses

During the year, a loss of £3.9m was incurred relating to the reduction in the carrying value of goodwill in the Group's Belgian operations. After recording this charge, the business disposal process completed at nil gain or loss.

Doméo acquisition costs

In respect of the acquisition of the Doméo business, there were costs of £3.0m relating to legal and financial advisory services and other related costs.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2012 £m	2011 £m
Included in operating costs:		
Staff costs	**138.9**	133.4
Cost of inventories recognised as expense	**4.5**	5.4
Depreciation of property, plant and equipment	**7.2**	4.9
Amortisation of acquisition intangible assets	**10.4**	9.3
Amortisation of other intangibles	**10.0**	5.7
Other impairment loss recognised on trade receivables	**1.0**	0.8
Exceptional operating items		
– UK matters	**24.2**	—
– Impairment of goodwill – Belgium	**3.9**	—
– Doméo acquisition costs	**3.0**	—

The analysis of auditor's remuneration is as follows:

	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**32**	32
The audit of the Company's subsidiaries pursuant to legislation	**177**	135
Total audit fees	**209**	167
Audit-related assurance services	**42**	41
Tax compliance services	**26**	26
Tax advisory services	**21**	130
Other assurance services	**—**	10
Other services	**580**	—
Total non-audit fees	**669**	207

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 are safeguarded when non-audit services are provided by the auditor.

Audit-related assurance services include fees in respect of the half year review of £42,000 (2011: £38,000).

The other services comprised a comprehensive review of the UK telephone sales operations and procedures.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

8. STAFF COSTS

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

	2012 number	2011 number
UK	**2,770**	2,922
Continental Europe (excluding joint ventures)	**679**	431
United States of America	**587**	413
	4,036	3,766

	2012 £m	2011 £m
Their aggregate remuneration comprised:		
Wages and salaries	**121.4**	116.9
Social security costs	**14.4**	13.7
Other pension costs (note 38)	**3.1**	2.8
	138.9	133.4

9. INVESTMENT INCOME

	2012 £m	2011 £m
Interest on bank deposits	**0.1**	0.1

10. FINANCE COSTS

	2012 £m	2011 £m
Interest on revolving credit facilities	**1.9**	1.4
Unwinding of discount on deferred and contingent consideration	**0.6**	0.4
Exchange movements	**(0.2)**	0.4
	2.3	2.2

11. TAX

	2012 £m	2011 £m
Current tax		
– Current year	**25.7**	30.8
– Adjustments in respect of prior years	**(2.6)**	1.3
Total current tax charge	**23.1**	32.1
Deferred tax (note 22)	**0.6**	(4.2)
Total tax charge	**23.7**	27.9

UK corporation tax is calculated at 26% (2011: 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:

	2012 £m	2011 £m
Profit before tax	**138.0**	104.8
Tax at the UK corporation tax rate of 26% (2011: 28%)	**35.9**	29.4
Tax effect of (income)/expenses that are not (chargeable)/deductible in determining taxable profit	**(10.9)**	0.5
Adjustments in respect of prior years – current tax	**(2.6)**	1.3
Decrease in estimate of deferred tax asset	**2.5**	0.5
Effect of overseas losses excluding joint ventures	**(0.4)**	(2.3)
Tax effect of share of results of joint venture	**(0.8)**	(1.5)
Tax expense for the year	**23.7**	27.9

In addition to the amount charged to the income statement, a deferred tax credit relating to retirement benefit obligations amounting to £0.1m (2011: charge £1.3m) has been recognised directly in other comprehensive income. In addition to the amounts charged/credited to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2012 £m	2011 £m
Current tax		
Excess tax deductions related to Share-based payments on exercised options	**1.1**	1.7
Deferred tax		
Change in estimated excess tax deductions related to Share-based payments	**(1.9)**	—
Total tax recognised directly in equity	**(0.8)**	1.7

A reduction in the main rate of corporation tax to 24% with effect from 1 April 2012 was substantively enacted on 26 March 2012 and as such deferred tax at the balance sheet date has been recognised at this rate. On 21 March 2012 the Government announced the main rate corporation tax would reduce to 23% with effect from 1 April 2013, with a subsequent 1% reduction to reach 22% with effect from 1 April 2014. As these future rate reductions had not been substantively enacted at the balance sheet date,they have not been reflected on these financial statements. The effect of these tax rate reductions will be accounted for in the period they are substantively enacted.

12. DIVIDENDS

	2012 £m	2011 £m
Amounts recognised as distributions to equity holders in the year:		
Second interim dividend for the year ended 31 March 2011 of nil (2010: 4.8p) per share	**—**	15.3
Final dividend for the year ended 31 March 2011 of 7.0p (2010: 1.7p) per share	**22.5**	5.4
Interim dividend for the year ended 31 March 2012 of 3.63p (2011: 3.3p) per share	**11.7**	10.6
	34.2	31.3

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

12. DIVIDENDS (CONTINUED)

The proposed final dividend for the year ended 31 March 2012 is 7.67p per share amounting to £24.8m (2011: 7.0p per share amounting to £22.5m). 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 PER SHARE

	2012 pence	2011 pence
Basic	**35.4**	24.0
Diluted	**34.6**	23.3
Adjusted basic	**28.0**	25.9
Adjusted diluted	**27.3**	25.2

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

NUMBER OF SHARES

	2012 m	2011 m
Weighted average number of shares		
Basic	**322.5**	320.8
Dilutive impact of share options	**7.5**	9.2
Diluted	**330.0**	330.0

EARNINGS

	2012 £m	2011 £m
Profit for the year	**114.3**	76.9
Exceptional expenditure (note 6)	**31.1**	—
Amortisation of acquisition intangibles	**10.4**	9.3
Gain on re-measurement of joint venture interest on acquisition of control (note 6)	**(54.9)**	—
Tax impact arising on amortisation of acquisition intangibles and exceptional costs	**(10.7)**	(3.0)
Adjusted profit for the year	**90.2**	83.2

The adjusted earnings per share has been calculated by using the adjusted profit figure set out in the table above. This is considered to be a better indicator of the performance of the Group.

14. GOODWILL

	£m
Cost	
At 1 April 2010	218.2
Recognised on acquisitions	4.4
Exchange movements	(0.7)
At 31 March 2011	221.9
Recognised on acquisitions	77.5
Derecognised on disposal of subsidiary	(4.7)
Exchange movements	(4.0)
At 31 March 2012	**290.7**
Accumulated impairment losses	
At 1 April 2010 and 31 March 2011	29.8
Impairments	3.9
Derecognised on disposal of subsidiary	(3.9)
31 March 2012	**29.8**
Carrying amount	
At 31 March 2012	**260.9**
At 31 March 2011	192.1

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:

	2012 £m	2011 £m
UK	**154.0**	154.6
Spain – Reparalia	**13.2**	13.9
Belgium – SPT	**—**	4.3
France – Doméo	**75.2**	—
France – SFG	**14.3**	15.1
United States of America	**4.2**	4.2
	260.9	192.1

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

Businesses disposed of during the year were ancillary within operating segments and hence did not meet the IFRS5 definition of a discontinued operation. For more detail refer to note 6.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

14. GOODWILL (CONTINUED)

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 estimates the Group discount rate using a pre-tax rate that reflects current market assessments of the time value of money and adjusts, if necessary, 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 for the next three years approved by the Directors and extrapolates the annual cash flow using estimated long-term growth rates of between 2% and 2.5% (2011: 2% and 2.5%) representing long-term growth rates based on respective country GDP rates. The pre-tax rate used to discount the forecast pre-tax cash flows for all CGUs is 15% (2011: 13%).

Management has conducted a sensitivity analysis on the impairment test of each CGU's carrying value, which also reflects the different risk profile of each CGU. 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, it takes account of the headroom in management's internal growth targets versus 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 and customer databases. Other intangibles include trademarks, access rights and software.

	Acquisition intangibles Customer relationships £m	Customer databases £m	**Total acquisition intangibles £m**	Trademarks & access rights £m	Software £m	**Total intangibles £m**
Cost						
At 1 April 2010	41.8	21.3	**63.1**	12.5	27.6	**103.2**
Additions	—	—	**—**	2.0	4.0	**6.0**
Acquisitions	7.1	12.5	**19.6**	—	0.2	**19.8**
Disposals	—	—	**—**	—	(1.4)	**(1.4)**
Exchange movements	(0.4)	(1.2)	**(1.6)**	(0.2)	(0.1)	**(1.9)**
At 1 April 2011	48.5	32.6	**81.1**	14.3	30.3	**125.7**
Additions	—	—	**—**	1.1	11.0	**12.1**
Acquisitions	11.7	75.9	**87.6**	—	0.6	**88.2**
Disposals	(2.6)	—	**(2.6)**	—	(4.3)	**(6.9)**
Exchange movements	(1.1)	(2.3)	**(3.4)**	(0.1)	(0.4)	**(3.9)**
At 31 March 2012	**56.5**	**106.2**	**162.7**	**15.3**	**37.2**	**215.2**
Accumulated amortisation and impairment						
At 1 April 2010	28.4	6.7	**35.1**	0.5	11.2	**46.8**
Charge for the year	6.2	3.1	**9.3**	1.5	4.2	**15.0**
Disposals	—	—	**—**	—	(1.2)	**(1.2)**
Exchange movements	—	(0.4)	**(0.4)**	—	(0.1)	**(0.5)**
At 1 April 2011	34.6	9.4	**44.0**	2.0	14.1	**60.1**
Charge for the year	5.1	5.3	**10.4**	2.7	7.3	**20.4**
Disposals	(2.6)	—	**(2.6)**	—	(4.3)	**(6.9)**
Exchange movements	(0.6)	0.1	**(0.5)**	—	(0.2)	**(0.7)**
At 31 March 2012	**36.5**	**14.8**	**51.3**	**4.7**	**16.9**	**72.9**
Carrying amount						
At 31 March 2012	**20.0**	**91.4**	**111.4**	**10.6**	**20.3**	**142.3**
At 31 March 2011	13.9	23.2	37.1	12.3	16.2	65.6

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings £m	Furniture, fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	**Total £m**
Cost					
At 1 April 2010	28.6	7.0	14.6	0.9	**51.1**
Additions	2.1	0.9	7.0	0.1	**10.1**
Acquisitions	0.1	0.1	0.2	0.7	**1.1**
Disposals	(0.4)	(1.1)	(3.1)	(0.5)	**(5.1)**
Exchange movements	(0.1)	—	(0.1)	—	**(0.2)**
At 1 April 2011	30.3	6.9	18.6	1.2	**57.0**
Additions	0.7	0.8	2.8	1.0	**5.3**
Acquisitions	—	1.3	0.5	—	**1.8**
Disposals	(0.5)	(1.9)	(2.5)	(0.4)	**(5.3)**
Exchange movements	(0.1)	—	(0.2)	—	**(0.3)**
At 31 March 2012	**30.4**	**7.1**	**19.2**	**1.8**	**58.5**
Accumulated depreciation and impairment					
At 1 April 2010	3.9	3.8	9.9	0.6	**18.2**
Charge for the year	1.1	1.0	2.5	0.3	**4.9**
Disposals	(0.1)	(1.0)	(2.9)	(0.5)	**(4.5)**
Exchange movements	—	—	(0.1)	—	**(0.1)**
At 1 April 2011	4.9	3.8	9.4	0.4	**18.5**
Charge for the year	2.3	1.1	3.5	0.3	**7.2**
Disposals	(0.4)	(1.7)	(2.3)	(0.2)	**(4.6)**
Exchange movements	—	—	(0.1)	—	**(0.1)**
At 31 March 2012	**6.8**	**3.2**	**10.5**	**0.5**	**21.0**
Carrying amount					
At 31 March 2012	**23.6**	**3.9**	**8.7**	**1.3**	**37.5**
At 31 March 2011	25.4	3.1	9.2	0.8	38.5

The carrying amount of the Group's motor vehicles includes an amount of £1.2m (2011: £0.6m) 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 (2011: £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

	2012 £m	2011 £m
Interests in joint ventures	—	7.6

On 7 December 2011 the Group acquired the remaining 51% interest in Doméo (including its subsidiary Doméo Assistance) that it did not already own. In accordance with IFRS3 (2008), the joint venture interest is deemed to have been disposed of and the subsidiary interest acquired at the fair value on the acquisition date. The fair value of the Doméo joint venture interest was estimated to be £61.7m at the acquisition date. Taking into account the joint venture interest held by the group at the time of the transaction of £6.8m, a re-measurement gain of £54.9m has been recognised in the income statement. Note 33 provides more details in relation to the acquisition of control of Doméo.

The amounts in the summary income statement below relate to the results of the interest in Doméo and Doméo Assistance for the period prior to 7 December 2011:

	2012 Doméo & Doméo Assistance £m	2011 Doméo & Doméo Assistance £m
Summary balance sheet		
Non-current assets	—	2.6
Current assets	—	51.1
Total assets	—	53.7
Current liabilities	—	(41.9)
Net assets	—	11.8
Group share, 49%	—	5.8
Goodwill	—	1.6
Carrying amount	—	7.4

	Period to 7 December 2011 Doméo & Doméo Assistance £m	Doméo & Doméo Assistance £m
Summary income statement		
Total revenue	**42.0**	65.9
Total profit after tax	**6.2**	11.3
Group's share of profit after tax	**3.0**	5.5

19. INVENTORIES

	2012 £m	2010 £m
Consumables	**1.5**	2.0

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

20. OTHER FINANCIAL ASSETS

TRADE AND OTHER RECEIVABLES

	2012 £m	2011 £m
Amounts receivable for the provision of services	**203.7**	165.6
Other receivables	**67.1**	61.2
Loans to joint ventures	**—**	0.9
Prepayments and accrued income	**20.3**	19.8
	291.1	247.5

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 that 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 £5.3m (2011: £6.8m) which are past due at the reporting date but 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 35 days (2011: 38 days). Trade debtors to be received from customers relating to instalments of policy premiums that are not yet due have been excluded from the average age calculation.

Ageing of past due but not impaired receivables:

	2012 £m	2011 £m
1–30 days	**3.2**	4.3
31–60 days	**1.1**	2.1
61–90 days	**0.5**	—
91 days +	**0.5**	0.4
Balance at 31 March past due but not impaired	**5.3**	6.8
Current/not yet due	**198.4**	158.8
Balance at 31 March	**203.7**	165.6

Movement in the allowance for doubtful debts:

	2012 £m	2011 £m
At 1 April	**1.3**	2.3
Impairment losses recognised	**1.0**	0.8
Amounts written off as uncollectible	**(0.3)**	(1.2)
Acquisitions	**0.3**	—
Amounts recovered during the year	**(0.3)**	(0.5)
Exchange movements	**—**	(0.1)
Balance at 31 March	**2.0**	1.3

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:

	2012 £m	2011 £m
1–30 days	**—**	—
31–60 days	**0.2**	0.1
61–90 days	**0.2**	0.2
91 days +	**1.6**	1.0
	2.0	1.3

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 £52.8m (2011: £16.1m) 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

21. BANK AND OTHER LOANS

	2012 £m	2011 £m
Revolving credit facilities (GBP equivalent)		
US dollar denominated	**34.4**	27.9
Euro denominated	**83.4**	—
	117.8	27.9

The borrowings are repayable as follows:		
On demand or within one year	**—**	27.9
After one year	**117.8**	—
	117.8	27.9

	2012 %	2011 %
The weighted average interest rates paid were as follows:		
Revolving credit facilities	**2.3**	1.1

All the Group's revolving credit facilities are unsecured. The carrying amount of the Group's borrowings approximates to their fair value, and the currencies in which they are denominated reflect the geographical segments for which they have been used.

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

- During the year the Group reviewed its funding requirements. The Group initiated a tender process and reviewed proposals made by a number of banks. On 22 July 2011 the Group renewed the access it has to debt finance through the inception of a new multi-currency £250m revolving credit facility with five banks, replacing the previous £150m facility held with three banks. This facility has a term of five years and provides the Group with sufficient funding to support its strategic objectives.
- The covenants associated with the credit facilities are 'net debt to EBITDA of less than 3.0 times' (2011: 3.5 times) and 'interest cover greater than 4.0 times EBITDA' (2011: 4.0 times). The Group has complied with all covenant requirements in the current and prior year.
- The Group's principal borrowings are currently at floating rates at margins of between 0.5% and 1.5% above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk.

At 31 March 2012, the Group had available £132.2m (2011: £122.1m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Information about liquidity risk is presented in note 40.

22. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements:

	Timing differences £m	Unremitted overseas profits £m	Elected goodwill deductions £m	Retirement benefit obligations £m	Share schemes £m	Acquired intangible assets £m	Unutilised losses £m	Acquired property £m	**Total £m**
At 1 April 2010	(0.5)	(0.7)	(0.1)	1.3	5.1	(3.9)	2.3	(0.5)	**3.0**
(Charge)/credit to income	(0.4)	0.7	—	—	0.6	1.8	1.5	—	**4.2**
Charge to Comprehensive Income	—	—	—	(1.3)	—	—	—	—	**(1.3)**
Exchange movements	—	—	—	—	—	(0.3)	—	—	**(0.3)**
At 1 April 2011	(0.9)	—	(0.1)	—	5.7	(2.4)	3.8	(0.5)	**5.6**
Credit/(charge) to income	0.8	—	—	—	(3.0)	1.7	(0.1)	—	**(0.6)**
Credit to Comprehensive Income	—	—	—	0.1	—	—	—	—	**0.1**
Exchange movements	—	—	—	—	—	0.9	—	—	**0.9**
Acquisitions	0.8	—	—	—	—	(28.8)	—	—	**(28.0)**
Charge to equity	—	—	—	—	(1.9)	—	—	—	**(1.9)**
At 31 March 2012	**0.7**	**—**	**(0.1)**	**0.1**	**0.8**	**(28.6)**	**3.7**	**(0.5)**	**(23.9)**

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	France	Spain	USA	**2012 £m**	2011 £m
Deferred tax assets	—	—	0.5	3.2	**3.7**	9.6
Deferred tax liabilities	(0.9)	(26.7)	—	—	**(27.6)**	(4.0)
Net deferred tax (liability)/asset	(0.9)	(26.7)	0.5	3.2	**(23.9)**	5.6

At the balance sheet date, the Group has unused tax losses of £21.9m (2011: £23.7m) available for offset against future profits. A deferred tax asset of £3.7m (2011: £3.8m) has been recognised in respect of these losses based on estimates of budgeted profits in the forthcoming years. 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.

23. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Trade creditors and accruals	**83.8**	93.8
Contingent consideration	**0.6**	1.6
Deferred consideration	**1.3**	2.3
Deferred income	**28.7**	21.3
Taxes and social security, excluding current tax	**8.1**	2.9
Other creditors	**108.3**	101.0
	230.8	222.9

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2011: 52 days).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

23. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES (CONTINUED)

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.

24. NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

	Deferred income £m	Contingent and deferred consideration £m	**Total £m**
At 1 April 2011	12.5	6.9	**19.4**
Movement in year	(1.8)	(1.8)	**(3.6)**
At 31 March 2012	**10.7**	**5.1**	**15.8**

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 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.

25. PROVISIONS AND CONTINGENT LIABILITIES

PROVISIONS

UK matters	£m
At 1 April 2011	—
Created in the year	24.2
Utilised	(3.2)
At 31 March 2012	**21.0**

The above provision represents management's best estimate of the Group's liability relating to the UK issues identified in the year. The provision is expected to be utilised within the next 12 – 18 months and is comprised of a number of one-off costs relating to re-organisation, redundancy, additional third party support, re-contacting of customers, compensation and the Ofcom fine. The provision has been based on management's forecasts which include initial pilot re-contact exercises. The assumptions used relating to the number of customers, level of compensation, response rate and upheld rate require the use of judgement and estimation.

CONTINGENT LIABILITIES

As set out in the Chairman's statement, Chief Executive's review and Financial review, we continue to develop our responses to the issues identified in our UK business, including being in regular dialogue with the FSA. There is currently no certainty as to the nature or extent of the action, if any, that the FSA may seek to take following the conclusion of its investigation and accordingly any related financial effect, which could include a fine, cannot be estimated reliably. As a result, no provisions have been made in this regard in the current year.

26. SHARE CAPITAL

	2012 £m	2011 £m
Issued and fully paid:		
329,873,000 ordinary shares of 2.5p each (31 March 2011: 328,975,000 ordinary shares of 2.5p each)	**8.2**	8.2

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 on all issued and fully paid shares.

During the year, the Company issued 898,000 shares with a nominal value of 2.5p creating share capital of £22,000 and share premium of £1,382,000. In the prior 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.

27. SHARE PREMIUM ACCOUNT

	£m
Balance at 1 April 2010	36.1
Premium arising on issue of equity shares	0.6
Balance at 1 April 2011	36.7
Premium arising on issue of equity shares	1.4
Balance at 31 March 2012	**38.1**

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

28. MERGER RESERVE

	£m
Balance at 1 April 2010, 1 April 2011 and 31 March 2012	**71.0**

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 624.5p per share.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

29. OWN SHARES RESERVE

	Number m	£m
Balance at 1 April 2010	9.1	24.9
Issued from the employee benefit trust	(1.8)	(3.4)
Balance at 1 April 2011	7.3	21.5
Issued from the employee benefit trust	(1.1)	(2.4)
Balance at 31 March 2012	**6.2**	**19.1**

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

	£m
Balance at 1 April 2010	6.5
Share-based payment charges in the year	2.9
Share options exercised in the year	(1.3)
Balance at 1 April 2011	8.1
Share-based payment charges in the year	1.7
Share options exercised in the year	(1.2)
Balance at 31 March 2012	**8.6**

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

	£m
Balance at 1 April 2010, 1 April 2011 and 31 March 2012	**1.2**

The capital redemption reserve arose on the redemption of 1.2m £1 redeemable preference shares on 1 July 2002.

32. CURRENCY TRANSLATION RESERVE

	£m
Balance at 1 April 2010	8.7
Movement in the year taken to comprehensive income	(0.9)
Balance at 1 April 2011	7.8
Movement in the year taken to comprehensive income	(3.9)
Balance at 31 March 2012	**3.9**

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.

33. BUSINESS COMBINATIONS

On 7 December 2011, the Group acquired 51% of the issued share capital of Doméo SA, formerly its joint venture interest in France of which the Group owned 49% prior to the acquisition date. As a result of the acquisition, Doméo SA and its subsidiary Doméo Assistance SA (together Doméo) are now 100% owned by the Group. Doméo is a leader in the provision of insured home emergency policies in France with 0.89m customers and 2.33m policies. The acquisition provides the Group with full control of Doméo and will enable it to develop Doméo's product range further and broaden the range of affinity partners in France. The disposal of the joint venture interest in Doméo is set out in note 18.

As part of the acquisition, Veolia agreed a long term marketing agreement providing Doméo with continued use of Veolia's brands in France.

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

	Doméo fair value £m
Net assets acquired:	
Intangible assets	**86.9**
Property, plant and equipment	**1.8**
Trade and other receivables	**42.7**
Cash and cash equivalents	**1.4**
Trade and other payables	**(32.7)**
Current tax liabilities	**(4.5)**
Deferred tax liabilities	**(28.0)**
Total identifiable net assets	**67.6**
Goodwill	**77.5**
Total consideration	**145.1**
Satisfied by:	
Cash	**83.4**
Fair value of joint venture interest previously owned	**61.7**
	145.1
Net cash outflow arising on acquisition:	
Cash consideration	**83.4**
Cash and cash equivalents acquired	**(1.4)**
	82.0

The accounting for this business combination has been prepared on a provisional basis as new information regarding the identifiable assets and liabilities as at the acquisition date may arise during the measurement period, being a period of not more than one year from the date of acquisition.

The provisional fair value adjustments recognised on the acquisition of Doméo relate to accelerated depreciation of accounting software and tax adjustments. Goodwill of £77.5m arose from the acquisition.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

33. BUSINESS COMBINATIONS (CONTINUED)

The goodwill arising on the excess of consideration over the fair value of the assets and liabilities acquired represents future cross-sell opportunities, efficiency savings and synergies.

Costs in respect of the acquisition of the business, relating to legal and financial advisory services and other related costs of £3.0m, were expensed to the operating results and presented as an exceptional item. Refer to note 6 for more details.

Doméo contributed £31.2m in revenue and a profit after tax of £7.1m since acquisition on 7 December 2011. If the acquisition had been completed on the first day of the financial year, group revenues for the period would have been £576.7m and group profit after tax for the year would have been £117.5m.

In addition to the Doméo acquisition set out above, the Group has also completed a number of smaller acquisitions for total consideration of £1.3m which resulted in an equal amount of acquisition intangibles being recognised. Contingent and deferred consideration of £4.5m was also paid during the year which related to prior period acquisitions, resulting in a total net cash outflow of £87.8m.

34. NOTES TO THE CASH FLOW STATEMENT

	2012 £m	2011 £m
Operating profit	**85.3**	106.9
Adjustments for:		
Depreciation of property, plant and equipment	**7.2**	4.9
Amortisation of intangible assets	**20.4**	15.0
Impairment	**3.9**	—
Share-based payments expense	**1.7**	2.8
Share of profit of joint ventures	**(3.0)**	(5.5)
Gain on disposal of property, plant and equipment and software	**—**	(0.1)
Operating cash flows before movements in working capital	**115.5**	124.0
Decrease/(increase) in inventories	**0.5**	(0.1)
Increase in receivables	**(0.4)**	(10.4)
(Decrease)/increase in payables	**(1.3)**	5.5
Cash generated by operations	**114.3**	119.0
Income taxes paid	**(33.3)**	(23.8)
Interest paid	**(3.3)**	(1.4)
Net cash inflow from operating activities	**77.7**	93.8

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.

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2012 £m	2011 £m
Minimum lease payments under operating leases recognised in income for the year	**7.1**	4.6

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:

	2012 £m	2011 £m
Within one year	**5.7**	4.4
In the second to fifth years inclusive	**9.7**	8.9
After five years	**2.0**	3.4
	17.4	16.7

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.

36. OBLIGATIONS UNDER FINANCE LEASES

	2012 £m	2011 £m
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	**0.4**	0.3
Amounts due for settlement after 12 months: in the second to fifth years inclusive	**0.6**	0.1
Present value of lease obligations	**1.0**	0.4
Minimum lease payments		
Within one year	**0.4**	0.3
In the second to fifth years inclusive	**0.6**	0.1
Less: future finance charges	**—**	—
Present value of lease obligations	**1.0**	0.4

Certain motor vehicles are held under finance leases. The average lease term is 5 years (2011: 5 years). For the year ended 31 March 2012, the average effective borrowing rate was 3% (2011: 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

37. SHARE-BASED PAYMENTS

During the year ended 31 March 2012, the Group had five (2011: five) share-based payment arrangements, which are described below:

I) EXECUTIVE SHARE OPTION PLAN ('ESOP')

The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. In addition, since 2006, vesting has also been 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 enabled 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[1]	SAYE
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	2	4	2
Weighted average fair value of options awarded in 2011	—	—	£3.17	—	£1.59

[1] The figures in the table relate to the number of deferred options only.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

37. SHARE-BASED PAYMENTS (CONTINUED)

	ESOP	KEIP	LTIP	DBP[1]	SAYE
2012					
Number					
Outstanding at 1 April 2011	1,803,765	282,865	5,917,635	256,995	2,100,872
Granted	—	—	1,843,014	—	2,875,565
Lapsed	—	—	(968,900)	—	—
Forfeited	—	—	(498,992)	—	(622,646)
Exercised	(272,270)	(169,260)	(617,405)	—	(908,513)
Outstanding at 31 March 2012	1,531,495	113,605	5,675,352	256,995	3,445,278
Exercisable at 31 March 2012	1,531,495	113,605	368,275	256,995	171,740
Weighted average exercise price (£)					
Outstanding at 1 April 2011	1.36	1.92	—	—	2.14
Granted	—	—	—	—	1.84
Lapsed	—	—	—	—	—
Forfeited	—	—	—	—	2.71
Exercised	1.10	1.92	—	—	1.56
Outstanding at 31 March 2012	1.40	1.92	—	—	1.94
Exercisable at 31 March 2012	1.40	1.92			1.76
Range of exercise price of options outstanding at 31 March 2012					
£0.01 to £0.99	300,000	—	—	—	—
£1.00 to £1.99	1,231,495	113,605	—	—	3,064,829
£2.00 to £2.99	—	—	—	—	238,530
£3.00 to £3.99	—	—	—	—	141,919
Weighted average remaining contractual life	2	3	2	3	4
Weighted average fair value of options awarded in 2012	—	—	£3.40	—	£0.66

[1] The figures in the table relate to the number of deferred options only.

The weighted average share price at the date of exercise for share options exercised during the year was £3.66 (2011: £4.59).

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	3.1% – 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 £1.7m (2011: £2.9m) related to equity-settled, share-based payment transactions and total expenses of £16,000 (2011: £45,000) related to cash-settled share-based payment transactions.

38. 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 £3.3m (2011: £2.7m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2012, contributions of £218,000 (2011: £249,000) 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 is administered by the Trustee and is independent of the Group's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuary.

The results of the actuarial valuation as at 31 March 2011 were updated to the accounting date by a qualified independent actuary in accordance with IAS19. As required by IAS19, the value of the defined benefit obligation and the current service cost has been measured using the projected unit credit method.

	Valuation at	
	2012	2011
Key assumptions used:		
Discount rate at 31 March	**4.8%**	5.6%
Consumer price inflation	**2.5%**	3.0%
Retail price inflation	**3.5%**	3.7%
Expected rate of salary increases	**4.5%**	5.2%
Future pension increases	**2.5%**	3.0%
Expected rate of return on scheme assets at 31 March	**7.4%**	7.8%
Life expectancy of male aged 60 at balance sheet date	**26.9yrs**	26.5yrs

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

38. RETIREMENT BENEFIT SCHEMES (CONTINUED)

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:

	2012 £m	2011 £m
Current service cost	**0.1**	0.2
Interest cost	**1.0**	1.1
Expected return on scheme assets	**(1.3)**	(1.2)
Past service cost	**—**	—
Recognised in operating costs	**(0.2)**	0.1

The actual return on scheme assets was a gain of £1.0m (2011: gain of £1.2m).

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

	2012 £m	2011 £m
Present value of defined benefit obligations	**(19.3)**	(17.9)
Fair value of scheme assets	**18.7**	17.8
Deficit in scheme recognised in the balance sheet in non-current liabilities	**(0.6)**	(0.1)

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

	2012 £m	2011 £m
At 1 April	**17.9**	20.4
Employer's part of the current service cost	**0.1**	0.2
Interest cost	**1.0**	1.1
Contributions from scheme members	**0.1**	0.1
Actuarial losses/(gains)	**0.8**	(3.7)
Benefits paid	**(0.6)**	(0.2)
At 31 March	**19.3**	17.9

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

	2012 £m	2011 £m
At 1 April	**17.8**	16.2
Expected return on scheme assets	**1.3**	1.2
Actuarial losses	**(0.4)**	(0.1)
Contributions from the employer	**0.5**	0.6
Contributions from scheme members	**0.1**	0.1
Benefits paid	**(0.6)**	(0.2)
At 31 March	**18.7**	17.8

The amount recognised outside the income statement in the statement of comprehensive income for 2012 is a loss of £1.2m (2011: gain of £3.7m). The cumulative amount recognised outside profit and loss at 31 March 2012 is a loss of £1.9m (2011: £0.7m).

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	
	2012 %	2011 %	**2012 £m**	2011 £m
Equity instruments	**7.3**	7.8	**12.8**	13.1
Diversified growth funds	**6.6**	7.3	**3.4**	3.2
Other assets	**3.3**	4.3	**2.5**	1.5
			18.7	17.8

The overall expected rate of return on assets for the financial year ending 31 March 2012 was 7.4% per annum (2011: 7.8% 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 2011.

The history of experience adjustments is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**(19.3)**	(17.9)	(20.4)	(12.3)	(13.3)
Fair value of scheme assets	**18.7**	17.8	16.2	10.4	13.5
(Deficit)/surplus in scheme	**(0.6)**	(0.1)	(4.2)	(1.9)	0.2
Experience adjustments on scheme liabilities					
Amount of (gain)/loss (£m)	**(0.4)**	(0.4)	(0.2)	0.8	(0.2)
Percentage of scheme liabilities (%)	**(2)**	(2)	(1)	7	(1)
Experience adjustments on scheme assets					
Amount of loss/(gain) (£m)	**0.4**	0.1	(4.0)	4.4	2.0
Percentage of scheme assets (%)	**2**	—	(25)	43	15

The estimated amounts of contributions expected to be paid to the scheme during the forthcoming financial year is £1.1m (2012: actual £0.5m) plus any Pension Protection Fund levy payable.

39. 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).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

39. RELATED PARTY TRANSACTIONS CONTINUED)

TRADING TRANSACTIONS

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

	Provision of services		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Harpin Limited	**—**	—	**0.2**	0.5	**—**	—	**—**	0.1
Joint ventures	**1.1**	1.7	**0.2**	0.9	**—**	0.4	**—**	0.4
Lexicon Partners (US) LLC	**—**	—	**—**	0.1	**—**	—	**—**	—

Harpin Limited is a related party of the Group because it is 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, a former Non-Executive Director, was a Senior Partner. Evercore Partners International Limited LLP acquired Lexicon Partners and Andrew Sibbald serves as a Senior Managing Director of the enlarged business.

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.

	2012 £m	2011 £m
Short-term employee benefits	**3.4**	4.3
Post-employment benefits	**0.4**	0.3
Termination benefits	**0.8**	—
Share-based payments	**(0.4)**	3.0
	4.2	7.6

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

The share-based payment credit in the current year has arisen as a result of a reduction in the associated employer's national insurance liability.

40. 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
- trade receivables
- other receivables
- bank overdrafts and revolving credit facilities
- other creditors
- trade payables

All principal financial instruments are stated at amortised cost.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, 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:

	2012 £m	2011 £m
Shareholders' funds	**366.4**	288.2
Revolving credit facilities	**117.8**	27.9

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

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's principal financial instruments comprise bank loans and overdrafts 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, trade payables 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

40. FINANCIAL INSTRUMENTS (CONTINUED)

CLASSIFICATION OF FINANCIAL INSTRUMENTS

In addition to the other financial assets and liabilities set out above in 'Principal financial instruments', the Group also has financial assets and liabilities disclosed in notes 20 and 23. The main risks arising from the Group's financial instruments are interest rate 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.

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 principally 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 £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	**Total £m**
2012					
Under 2 months	—	83.8	17.9	—	**101.7**
Between 2 and 6 months	—	—	32.3	0.1	**32.4**
Between 6 and 12 months	—	—	58.1	2.3	**60.4**
Between 1 and 2 years	—	—	—	1.6	**1.6**
Between 2 and 3 years	—	—	—	1.8	**1.8**
Between 3 and 4 years	—	—	—	0.9	**0.9**
Between 4 and 5 years	117.8	—	—	0.9	**118.7**
After 5 years	—	—	—	1.2	**1.2**
Total	**117.8**	**83.8**	**108.3**	**8.8**	**318.7**

	Bank overdrafts and revolving credit facilities £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Total £m
2011					
Under 2 months	27.9	93.8	39.2	0.1	161.0
Between 2 and 6 months	—	—	31.7	1.3	33.0
Between 6 and 12 months	—	—	30.1	2.7	32.8
Between 1 and 2 years	—	—	—	2.2	2.2
Between 2 and 3 years	—	—	—	1.5	1.5
Between 3 and 4 years	—	—	—	1.5	1.5
Between 4 and 5 years	—	—	—	0.9	0.9
After 5 years	—	—	—	2.0	2.0
Total	27.9	93.8	101.0	12.2	234.9

The revolving credit facility is drawn down and associated interest is settled on a monthly basis. The principal is included in the previous table when the facility is due to expire.

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).

	2012	2011
Increase in interest rate	**10%**	10%
Reduction in profit before tax (£m)	**0.2**	0.1

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, 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 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 21 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 and the bank overdrafts and the revolving credit facilities, 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 2012 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 41 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 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 2012;
- 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.

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 2012.

Christopher Robertson
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
22 May 2012

COMPANY STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2012

	Notes	**2012 £m**	2011 £m
Profit for the year		**72.1**	69.3
Actuarial (loss)/gain on defined benefit pension scheme	38	**(1.2)**	3.7
Tax credit/(charge) relating to components of other comprehensive income	50	**0.1**	(1.3)
Total comprehensive income for the year attributable to equity holders of the parent		**71.0**	71.7

COMPANY BALANCE SHEET

31 March 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Other intangible assets	44	**4.4**	1.7
Property, plant and equipment	45	**0.1**	—
Investment in subsidiaries	46	**194.6**	108.5
Deferred tax assets	50	**0.7**	3.2
		199.8	113.4
Current assets			
Trade and other receivables	47	**141.9**	47.1
Cash and cash equivalents	47	**44.8**	107.3
		186.7	154.4
Total assets		**386.5**	267.8
Current liabilities			
Trade and other payables	48	**(18.7)**	(26.4)
Current tax liabilities		**(0.4)**	(0.2)
Bank loans	49	**—**	(27.9)
		(19.1)	(54.5)
Net current assets		**167.6**	99.9
Non-current liabilities			
Retirement benefit obligation	38	**(0.6)**	(0.1)
Bank loans	49	**(117.8)**	—
		(118.4)	(0.1)
Total liabilities		**(137.5)**	(54.6)
Net assets		**249.0**	213.2
Equity			
Share capital	26	**8.2**	8.2
Share premium account	27	**38.1**	36.7
Merger reserve	28	**71.0**	71.0
Share incentive reserve	55	**2.7**	2.4
Capital redemption reserve	31	**1.2**	1.2
Retained earnings		**127.8**	93.7
Total equity		**249.0**	213.2

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 22 May 2012. They were signed on its behalf by:

Martin Bennett
Chief Operating Officer
22 May 2012

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	**Total equity £m**
Balance at 1 April 2011	8.2	36.7	71.0	2.4	1.2	93.7	**213.2**
Total comprehensive income	—	—	—	—	—	71.0	**71.0**
Dividends paid	—	—	—	—	—	(34.2)	**(34.2)**
Issue of share capital	—	1.4	—	—	—	—	**1.4**
Issue of trust shares	—	—	—	—	—	(1.6)	**(1.6)**
Share-based payments	—	—	—	0.7	—	—	**0.7**
Share options exercised	—	—	—	(0.4)	—	0.4	**—**
Prior year tax adjustment	—	—	—	—	—	(0.4)	**(0.4)**
Tax on exercised share options	—	—	—	—	—	0.6	**0.6**
Deferred tax on share options	—	—	—	—	—	(1.7)	**(1.7)**
Balance at 31 March 2012	**8.2**	**38.1**	**71.0**	**2.7**	**1.2**	**127.8**	**249.0**

Year ended 31 March 2011

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2010	8.2	36.1	71.0	2.2	1.2	52.7	171.4
Total comprehensive income	—	—	—	—	—	71.7	71.7
Dividends paid	—	—	—	—	—	(31.3)	(31.3)
Issue of share capital	—	0.6	—	—	—	—	0.6
Issue of trust shares	—	—	—	—	—	(1.5)	(1.5)
Share-based payments	—	—	—	1.0	—	—	1.0
Share options exercised	—	—	—	(0.8)	—	0.8	—
Tax on exercised share options	—	—	—	—	—	1.4	1.4
Deferred tax on share options	—	—	—	—	—	(0.1)	(0.1)
Balance at 31 March 2011	8.2	36.7	71.0	2.4	1.2	93.7	213.2

COMPANY CASH FLOW STATEMENT

Year ended 31 March 2012

	Notes	2012 £m	2011 £m
Net cash (outflow)/inflow from operating activities	42	**(111.6)**	57.0
Investing activities			
Interest received		**0.4**	—
Dividends received from subsidiary undertakings		**77.5**	78.7
Purchases of intangible assets		**(2.9)**	(0.1)
Purchases of property, plant and equipment		**(0.3)**	—
Investments in subsidiary undertakings		**(86.1)**	—
Issue of shares from the employee benefit trust		**0.8**	1.8
Net cash (used in)/from investing activities		**(10.6)**	80.4
Financing activities			
Dividends paid		**(34.2)**	(31.3)
Share capital issued		**1.4**	0.6
Increase/(decrease) in bank loans		**92.7**	(50.1)
Net cash from/(used in) financing activities		**59.9**	(80.8)
Net movement in cash and cash equivalents		**(62.3)**	56.6
Cash and cash equivalents at beginning of year		**107.3**	50.7
Effect of foreign exchange rate changes		**(0.2)**	—
Cash and cash equivalents at end of year		**44.8**	107.3

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

COMPANY ONLY

The following notes 41 to 56 relate to the Company only position for the year ended 31 March 2012.

41. 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 £72.1m (2011: £69.3m).

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. 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.

42. NOTES TO THE CASH FLOW STATEMENT

	2012 £m	2011 £m
Operating loss	**(8.7)**	(11.4)
Adjustments for:		
Depreciation of property, plant and equipment	**0.2**	—
Amortisation of intangible assets	**0.2**	0.1
Share-based payment expense	**0.7**	1.1
Operating cash flows before movements in working capital	**(7.6)**	(10.2)
(Increase)/decrease in receivables	**(96.2)**	126.6
Decrease in payables	**(8.0)**	(64.4)
Cash (used in)/generated from operations	**(111.8)**	52.0
Income taxes received	**3.9**	5.3
Interest paid	**(3.7)**	(0.3)
Net cash (outflow)/inflow from operating activities	**(111.6)**	57.0

43. OTHER INFORMATION

	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**32**	32
Total audit fees	**32**	32

44. OTHER INTANGIBLE ASSETS

	Trademarks & access Rights £m	Software £m	**Total intangibles £m**
Cost			
At 1 April 2010	1.7	—	**1.7**
Additions	0.1	—	**0.1**
At 1 April 2011	1.8	—	**1.8**
Additions	—	2.6	**2.6**
Transfer from fellow Group undertaking	—	0.3	**0.3**
At 31 March 2012	**1.8**	**2.9**	**4.7**
Accumulated amortisation and impairment			
At 1 April 2010	—	—	**—**
Charge for the year	(0.1)	—	**(0.1)**
At 1 April 2011	(0.1)	—	**(0.1)**
Charge for the year	(0.1)	(0.1)	**(0.2)**
At 31 March 2012	**(0.2)**	**(0.1)**	**(0.3)**
Carrying amount			
At 31 March 2012	**1.6**	**2.8**	**4.4**
At 31 March 2011	1.7	—	1.7

45. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment £m
Cost	
At 1 April 2010 and 1 April 2011	**—**
Transfer from fellow Group undertaking	**0.3**
At 31 March 2012	**0.3**
Accumulated depreciation and impairment	
At 1 April 2010 and 1 April 2011	**—**
Charge for the year	**(0.2)**
At 31 March 2012	**(0.2)**
Carrying amount	
At 31 March 2012	**0.1**
At 31 March 2011	—

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

46. SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 March 2012 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 Membership Limited	England	100	100
001 Reactfast Solutions Limited	England	100	100
Continental Europe			
Doméo SA	France	100	100
Doméo Assistance SA	France	100	100
Reparalia Direct SL	Spain	100	100
Reparalia SA	Spain	100	100
Homeserve NV	Belgium	100	100
Société Française de Garantie S.A.	France	100	100
Assistenza Casa Srl	Italy	100	100
Homeserve GmbH	Germany	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 shown in the table below. The addition in the year relates to a further investment made in HomeServe Enterprises Limited.

	£m
Cost and net book value	
1 April 2010 and 1 April 2011	108.5
Additions	86.1
At 31 March 2012	**194.6**

47. FINANCIAL ASSETS

TRADE AND OTHER RECEIVABLES

	2012 £m	2011 £m
Accounts receivable from Group companies	**138.7**	45.5
Other receivables	**0.9**	0.8
Prepayments and accrued income	**2.3**	0.8
	141.9	47.1

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.

Included in the Company's trade receivable balance are debtors with a carrying amount of £nil (2011: £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 (2011: 30 days).

AGEING OF PAST DUE BUT NOT IMPAIRED RECEIVABLES:

	2012 £m	2011 £m
1–30 days	**—**	—
31–60 days	**—**	—
61–90 days	**—**	—
91 days +	**—**	—
Balance at 31 March past due but not impaired	**—**	—
Current	**138.7**	45.5
Balance at 31 March	**138.7**	45.5

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 mitigated through the close management and regular review of performance of the subsidiary companies.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

CASH BALANCES AND CASH EQUIVALENTS

Cash balances and cash equivalents of £44.8m (2011: £107.3m) 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.

48. FINANCIAL LIABILITIES

TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Trade creditors and accruals	**5.8**	6.9
Amounts payable to Group companies	**11.7**	15.0
Taxes and social security, excluding corporation tax	**0.1**	0.3
Other creditors	**1.1**	4.2
	18.7	26.4

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 28 days (2011: 21 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 21 to the financial statements.

50. DEFERRED TAX

The following are the major deferred tax assets recognised by the Company and movements thereon:

	Retirement benefit obligations £m	Share schemes £m	**Total £m**
At 1 April 2010	1.3	3.0	**4.3**
Credit to income	—	0.3	**0.3**
Charge to comprehensive income	(1.3)	—	**(1.3)**
Charge to equity	—	(0.1)	**(0.1)**
At 1 April 2011	—	3.2	**3.2**
Charge to income	—	(0.9)	**(0.9)**
Credit to comprehensive income	0.1	—	**0.1**
Charge to equity	—	(1.7)	**(1.7)**
At 31 March 2012	**0.1**	**0.6**	**0.7**

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	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Harpin Limited	**—**	—	**0.2**	0.5	**—**	—	**—**	0.1
Joint ventures	**1.1**	1.7	**0.2**	0.9	**—**	0.4	**—**	0.4
Subsidiary Companies	**6.3**	3.0	**—**	—	**138.7**	45.5	**11.7**	15.0

Harpin Limited is a related party of the Company because it is 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.

	2012 £m	2011 £m
Short-term employee benefits	**2.2**	2.1
Post-employment benefits	**0.2**	0.1
Share-based payment	**(0.2)**	1.5
	2.2	3.7

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

The share-based payment credit in the current year has arisen as a result of a reduction in the associated employer's national insurance liability.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

53. SHARE-BASED PAYMENTS

During the year ended 31 March 2012, the Company had five (2011: five) share-based payment arrangements, which are described in note 37.

	ESOP	KEIP	LTIP	DBP[1]	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	2	4	2
Weighted average fair value of options awarded in 2011	—	—	£3.17	—	£1.62

[1] The figures in the table relate to the number of deferred options only.

53. SHARE-BASED PAYMENTS (CONTINUED)

	ESOP	KEIP	LTIP	DBP[1]	SAYE
2012					
Number					
Outstanding at 1 April 2011	1,747,270	241,555	2,674,405	256,995	242,403
Transfer	—	—	(18,065)	—	28,895
Granted	—	—	1,081,234	—	172,097
Lapsed	—	—	(429,155)	—	—
Forfeited	—	—	(28,337)	—	(63,830)
Exercised	(272,270)	(169,260)	(154,818)	—	(176,840)
Outstanding at 31 March 2012	1,475,000	72,295	3,125,264	256,995	202,725
Exercisable at 31 March 2012	1,475,000	72,295	362,093	256,995	1,635
Weighted average exercise price (£)					
Outstanding at 1 April 2011	1.34	1.92	—	—	2.02
Transfer	—	—	—	—	1.57
Granted	—	—	—	—	1.84
Lapsed	—	—	—	—	—
Forfeited	—	—	—	—	2.84
Exercised	1.10	1.92	—	—	1.54
Outstanding at 31 March 2012	1.38	1.92	—	—	1.97
Exercisable at 31 March 2012	1.38	1.92	—	—	2.47
Range of exercise price of options outstanding at 31 March 2012					
£0.01 to £0.99	300,000	—	—	—	—
£1.00 to £1.99	1,175,000	72,295	—	—	177,002
£2.00 to £2.99	—	—	—	—	17,070
£3.00 to £3.99	—	—	—	—	8,653
Weighted average remaining contractual life	2	3	2	3	4
Weighted average fair value of options awarded in 2012	—	—	£3.33	—	£0.61

[1] The figures in the table relate to the number of deferred options only.

The weighted average share price at the date of exercise for share options exercised during the year was £4.25 (2011: £4.68).

The estimated fair values are calculated by applying a Black-Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP, LTIP and Deferred Bonus Plan. The assumptions used in the models are set out in note 37.

The Company recognised total expenses of £0.7m (2011: £1.0m) related to equity-settled share-based payment transactions and total expenses of £16,000 (2011: £45,000) 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 38.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

55. SHARE INCENTIVE RESERVE

	£m
Balance at 1 April 2010	2.2
Share-based payment charges in the year	1.0
Share options exercised in year	(0.8)
Balance at 1 April 2011	2.4
Share-based payment charges in the year	0.7
Share options exercised in year	(0.4)
Balance at 31 March 2012	**2.7**

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:

	2012 £m	2011 £m
Shareholders' funds	**249.0**	213.2
Revolving credit facilities	**117.8**	27.9

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, foreign currency risk, credit risk and liquidity risk.

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.

The maturity profile of the Company's financial liabilities is provided in the table below. The revolving credit facility is drawn down and associated interest is settled on a monthly basis. The principal is included in the table below when the facility is due to expire.

	Bank overdrafts and revolving credit facilities £m	Trade, other and group payables £m	**Total £m**
2012			
Under 2 months	—	18.6	**18.6**
Between 4 and 5 years	117.8	—	**117.8**
Total	**117.8**	**18.6**	**136.4**

	Bank overdrafts and revolving credit facilities £m	Trade, other and group payables £m	Total £m
2011			
Under 2 months	27.9	26.1	54.0
Total	27.9	26.1	54.0

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).

	2012	2011
Increase in interest rate	**10%**	10%
Increase in profit before tax (£m)	**—**	—

FOREIGN CURRENCY RISK

The Company has exposure to fluctuations in foreign currencies due to borrowings made to fund investments in its overseas subsidiaries which are affected by foreign exchange movements.

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

	Assets		Liabilities	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Euro	**0.6**	1.1	**(88.7)**	(5.5)
US dollar	**2.9**	0.2	**(34.6)**	(17.9)

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

56. FINANCIAL INSTRUMENTS (CONTINUED)

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 Company's profit before tax and equity.

	2012	2011
Increase in £:$ exchange rate:	**10%**	10%
Effect on profit before tax (£m)	**2.9**	2.6
Effect on equity (£m)	**—**	—
Increase in £:€ exchange rate:	**10%**	10%
Effect on profit before tax (£m)	**8.1**	0.5
Effect on equity (£m)	**—**	—

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 21 are details of the undrawn facilities that are available to the Company and the Group to further reduce liquidity risk.

With the exception of deferred and contingent consideration and the bank overdrafts and the revolving credit facilities, all of the Group's financial liabilities are due for payment within two years, based on contractual payment terms.

FIVE YEAR SUMMARY

2008-2012

CONTINUING OPERATIONS

Unaudited	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
External revenue					
UK	**349.4**	355.8	286.7	246.6	236.4
Doméo	**31.2**	—	—	—	—
Spain	**60.2**	48.8	46.9	—	—
New Markets	**11.6**	9.9	9.7	—	—
Continental Europe (excluding joint ventures)	**—**	—	—	40.3	19.0
United States of America	**82.3**	52.6	25.7	17.9	8.1
Eliminations	**—**	—	—	(0.5)	(0.3)
External sales	**534.7**	467.1	369.0	304.3	263.2
Profit/(loss) pre amortisation of acquisition intangibles and exceptional items					
UK	**103.1**	104.3	95.8	87.2	76.3
Doméo	**15.3**	5.2	3.6	—	—
Spain	**2.8**	1.7	0.4	—	—
New Markets	**(3.4)**	(1.1)	1.1	—	—
Continental Europe	**—**	—	—	3.4	0.8
United States of America	**9.0**	6.1	1.5	(0.3)	(2.3)
	126.8	116.2	102.4	90.3	74.8
Amortisation of acquisition intangibles	**(10.4)**	(9.3)	(6.5)	(3.7)	(2.2)
Exceptional items	**(31.1)**	—	10.2	(2.3)	(2.2)
Operating profit	**85.3**	106.9	106.1	84.3	70.4
Net interest	**(2.2)**	(2.1)	(3.9)	(3.5)	(5.2)
Gain on re-measurement of joint venture interest on acquisition of control	**54.9**	—	—	—	—
Profit before tax	**138.0**	104.8	102.2	80.8	65.2

Revenue in respect of 2012, 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.

The internal financial reporting of the Group changed during the prior year such that established businesses are reviewed individually, and all other new operations are reviewed collectively as 'New Markets'. Revenue and profit in respect of 2012, 2011 and 2010 has been shown on the new basis. It is not practicable to re-present this information for 2009 and 2008.

Revenue in respect of Doméo in 2012 represents the turnover since the Group's acquisition of control of Doméo on 7 December 2011. Doméo profit pre amortisation of acquisition intangibles and exceptional items in 2012, represents the full profit since acquisition of control and the Group's share of joint venture profit up to 7 December 2011.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

2012

20 July	Annual General Meeting
1 August	Final dividend for the year ended 31 March 2012 to be paid
20 November	Interim results for the six months ending 30 September 2012 to be announced

2013

January	Interim dividend for the year ending 31 March 2013 to be paid
May	Preliminary announcement of results for the year ending 31 March 2013
June	2013 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

VISIT US ONLINE

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.

To view our Annual Report online, go to: homeserveplc.com

HomeServe

HomeServe plc
Registered Office:
Cable Drive, Walsall, WS2 7BN
Registered in England No. 2648297
Tel: 01922 426262
www.homeserveplc.com