

HomeServe

Annual Report & Accounts

2013

HomeServe at a glance

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

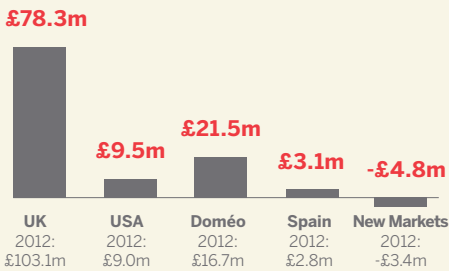
Our business is built on developing long-term affinity relationships with utility companies and appliance manufacturers.

Overview

£107.6m

Adjusted operating profit¹

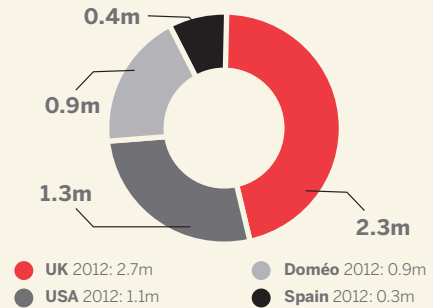
2012: £128.2m



4.9m

Customers worldwide

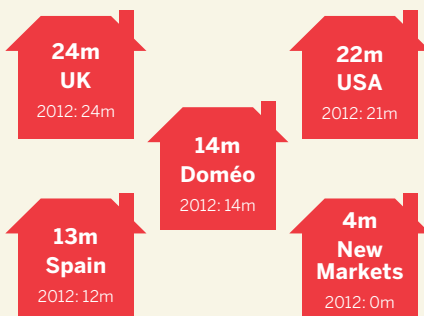
2012: 4.9m



77m

Affinity partner households

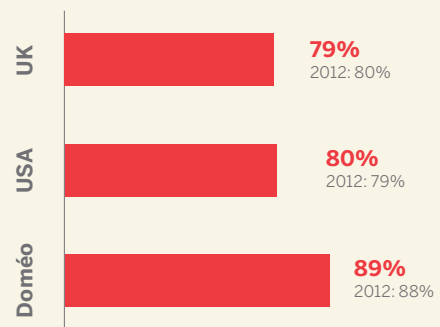
2012: 71m



81%

Worldwide retention rate

2012: 81%



¹ Excluding amortisation of acquisition intangibles and exceptional expenditure and, in the prior period, joint venture taxation, see Financial review and note 5.

² Excluding amortisation of acquisition intangibles, exceptional expenditure and, in the prior period, joint venture taxation and the re-measurement of joint venture interest on acquisition of control, see Financial review.

£105.0m

- ▶ **Adjusted profit before tax²**
2012: £126.0m

£66.5m

- ▶ **Statutory profit before tax**
2012: £138.0m

£547m

- ▶ **Revenue**
2012: £535m

10.4m

- ▶ **Total policies worldwide**
2012: 11.0m

1.6m

- ▶ **Repairs completed worldwide**
2012: 1.6m

4,062

- ▶ **Employees worldwide**
2012: 4,036



For financial information or to view this report online, go to: homeserveplc.com

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2013 summary

Financial summary

- ▶ Revenue £547m (2012: £535m)
- ▶ Adjusted operating profit¹ £108m (2012: £128m):
 - UK adjusted operating profit¹ down £25m to £78m
 - Established International businesses adjusted operating profit¹ up 20% to £34m
- ▶ Free cash flow⁴ of £69m with net debt of £43m at 31 March 2013 (31 March 2012: £66m)
- ▶ Statutory profit before tax of £67m (2012: £138m) includes exceptional expenditure of:
 - £4m relating to UK reorganisation costs
 - £6m relating to the costs of the Financial Conduct Authority investigation, including a potential fine
 - £15m write down of the carrying value of Société Française de Garantie

UK business is a more customer focused operation

- ▶ 2.3m customers in line with our target
- ▶ Retention has been improving in the second half of the year. The full year rate was 79%
- ▶ Improved customer satisfaction and service
- ▶ Improving sales and marketing effectiveness
- ▶ Financial Conduct Authority investigation progressing

International businesses now account for 53% of total customers

- ▶ Strong growth with customer numbers up 19% to 2.6m:
 - USA customer numbers up 25% to 1.3m
 - Spain customer numbers up 50% to 0.4m
- ▶ Retention rate remains strong at 83%:
 - USA retention has increased from 79% to 80%
 - Doméo in France has increased its retention rate from 88% to 89%
- ▶ Increasing number of International affinity partners:
 - 10 new utility affinity partners in the USA across 10 states
 - Long-term affinity partner agreement with Enel Energia enabling us to market to over 3.5m households in Italy

¹ Excluding amortisation of acquisition intangibles and exceptional expenditure and, in the prior period, joint venture taxation, see Financial review and note 5.

² Excluding amortisation of acquisition intangibles, exceptional expenditure and, in the prior period, joint venture taxation and the re-measurement of joint venture interest on acquisition of control, see Financial review.

³ Excluding amortisation of acquisition intangibles, exceptional expenditure and, in the prior period, re-measurement of joint venture interest on acquisition of control, see Financial review and note 13.

⁴ See Cash flow statement in the Financial review.

Chairman's statement



JM Barry Gibson

Chairman, HomeServe plc

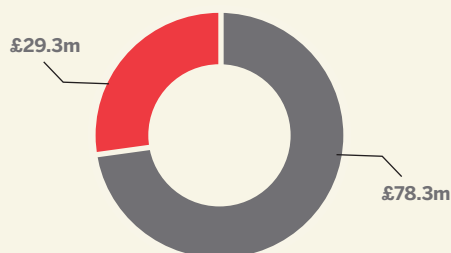
Over the past twelve months HomeServe has made progress in transitioning its UK business to a more customer focused operation and has grown its International businesses.

In the UK, having significantly improved our customer service over the past year, we are focusing on the effectiveness of our sales and marketing as we increase activity and enhance our existing sales channels. Our International businesses have delivered strong growth over the past year with customer numbers up 19% to 2.6m, and these now represent 53% of the Group's total 4.9m customers.

HomeServe's policies and services continue to free customers from the worry and inconvenience of home emergencies and repairs, with over 1.6m repairs carried out over the past twelve months.

£107.6m

► **Adjusted operating profit¹**
2012: £128.2m



● UK 2012: £103.1m
● International 2012: £25.1m

Results

In the year, revenue was up 2% to £547m (2012: £535m) and adjusted profit before tax² was £105.0m (2012: £126.0m). Lower profit in our UK business was partially offset by a £6m increase from our established International businesses. Adjusted earnings per share³ was 23.0p (2012: 28.0p). The Group continues to generate high levels of free cash flow⁴ with net debt at 31 March 2013 reduced to £43m (2012: £66m).

On a statutory basis, revenue was £547m (2012: £535m), profit before tax was £67m (2012: £138m) and earnings per share was 12.9p (2012: 35.4p). The reduction in profit before tax is principally due to lower UK earnings in FY2013 and the prior year £54.9m gain recognised on the re-measurement of joint venture interest following the acquisition of full control of Doméo. The FY2013 statutory result includes exceptional expenditure of £25m relating to our UK business (£10m) and our French warranty business, Société Française de Garantie (SFG), (£15m). In the UK, the exceptional expenditure includes an estimate of a fine arising from the Financial Conduct Authority (FCA) investigation and associated costs amounting to £6m, together with the costs relating to the reduction in the UK headcount announced in March 2013 of £4m. There remains uncertainty as to the nature or extent of the action that the FCA may seek to take following the conclusion of its investigation and accordingly any related financial effect. In respect of SFG, we have recorded a £15m charge related to the reduction in the carrying value of that business, reflecting the challenging conditions in the electrical retail market in France.

UK

In the UK we have strengthened our controls and governance, enhanced our focus on the customer and have made good progress improving customer service and customer satisfaction, with 40% fewer complaints received over the financial year compared to the previous period. The UK business is now focusing on the effectiveness of its sales and marketing activity and we are starting to see better results.

We have also identified areas for improved operational efficiency and are redesigning processes and systems, as well as ensuring that our resources are aligned with our customer numbers.

The UK management team maintains a positive and constructive day-to-day relationship with the FCA. We are making good progress in completing the business improvement initiatives; with our customer re-contact exercise on track and in line with our expectations. The FCA's investigation into our past issues is making progress and as a result we have now recorded exceptional expenditure of £6m, which is our estimate for the costs and fine arising from this investigation. We still expect the investigation to take a number of months to complete.

International business development

We have continued to achieve strong growth in our established International businesses. HomeServe USA has increased its customer numbers by 25% over the past 12 months and now has 1.3m customers with over 2m policies. In Spain, Reparalia increased its customer numbers by 50% and policy numbers were up 43%, while in France, Doméo has increased its retention rate to 89%.

We are also continuing to invest in the development of new overseas businesses. In Italy, we are pleased to have signed long-term affinity partner agreements with Enel Energia and Veritas and are planning to significantly increase our marketing activity in FY2014. In Germany, we are focusing on developing affinity partnerships.

Dividend

The Board is proposing a final dividend of 7.67p per share bringing the total dividend for the year to 11.3p (2012: 11.3p).

Board changes

I would formally like to welcome Johnathan Ford to the Board. Johnathan joined the Group as Chief Financial Officer in September 2012 and was previously the Group Finance Director of NWF Group plc, an AIM listed specialist distribution group. He is already making a strong contribution to the business.

People

On behalf of the Board, I would like to thank all our employees for their contribution over the past year.

I would like to particularly note our UK employees' professionalism and commitment during a period of significant change, whilst in our International businesses our teams have again delivered strong growth.

Summary and outlook

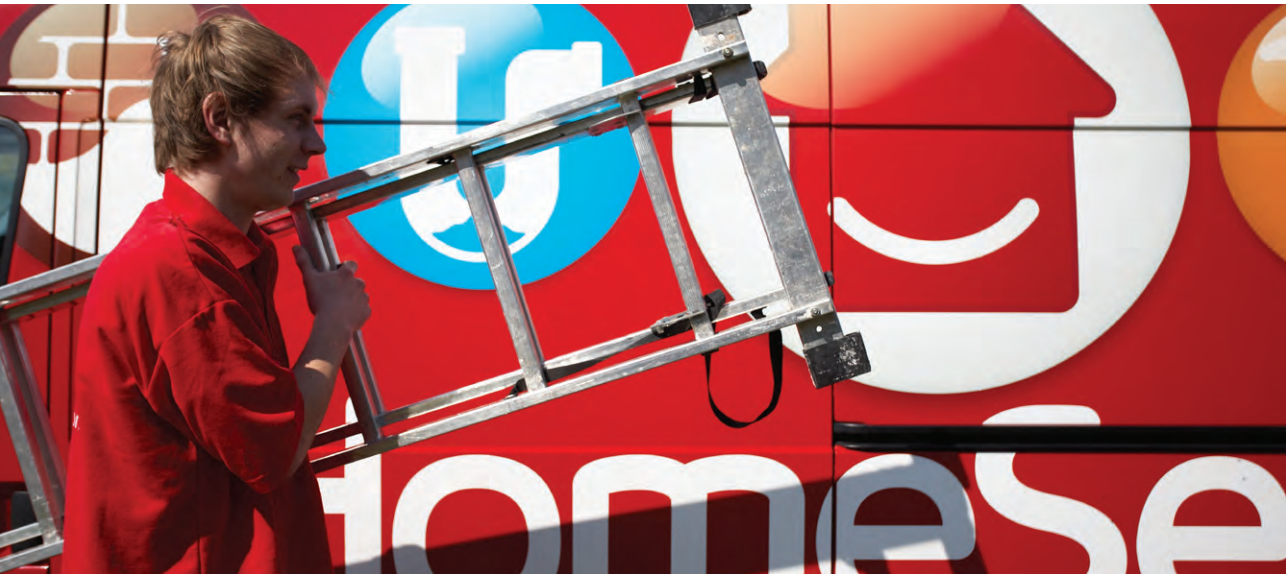
HomeServe's products continue to meet clear customer needs and our business model continues to deliver long-term value. Our financial results in FY2013 are in line with expectations. While it remains a challenging time for HomeServe in the UK, we are confident that the actions we are implementing will deliver long-term value to all our stakeholders.

HomeServe continues to be a profitable business with a strong balance sheet and a cash generative business model. We expect to stabilise UK customer numbers at around 1.9m by the end of FY2014 and are planning for continued strong growth in our International businesses. While our performance in FY2014 is expected to reflect the impact of lower UK customer numbers, we remain confident that the plans we are implementing will allow the Group to return to modest growth in FY2015.

JM Barry Gibson

Chairman
21 May 2013

Our business model



Our business is built on developing long-term affinity relationships with utility companies and appliance manufacturers. We fix our customers' household emergencies through the use of our directly employed, franchised and sub-contract networks of engineers.

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.

We deliver policies under our affinity partners' 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.

Our products cover plumbing and drains, central heating, ventilation and air conditioning, electrics and household appliances such as showers and boilers.

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.

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.

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.



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.

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.

The products that we market and administer are individually underwritten by third party underwriters, independent of HomeServe. We act as an insurance intermediary and do not take on any material insurance risk.

Customer loyalty

We have a customer focused culture across all our operations and monitor customer satisfaction on an ongoing basis. We have customer charters which set out our commitment to delivering a high standard of service.

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.

Chief Executive's review

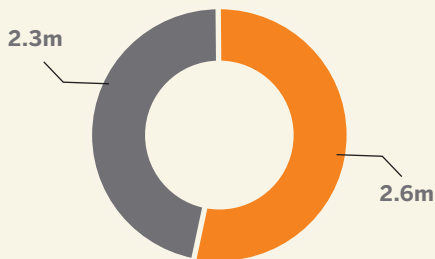


Richard Harpin
Chief Executive Officer

HomeServe is an International business committed to providing a membership service which frees its customers from the worry and inconvenience of home emergencies and repairs.

4.9m

▶ **Customers worldwide**
2012: 4.9m



● **UK customers** 2012: 2.7m
● **International customers** 2012: 2.2m

We have 4.9m members across our operations in the UK, USA, France, Spain, Italy and Germany. Our International businesses now account for over half of our customers, with 2.6m customers based in these markets.

In the UK we have continued to transition to a more customer focused business. Customer numbers have reduced, as expected, to 2.3m at 31 March 2013 and UK adjusted operating profit¹ was £78m, down from £103m in FY2012.

Our International businesses' results have shown continued strong growth with customer numbers up 19% to 2.6m and profits¹ from our established International businesses, in the USA, France and Spain, 20% higher at £34m (including the benefit of owning 100% of Doméo for the full reporting period).

The reduction in UK customer numbers and earnings has more than offset the strong growth in our International businesses with adjusted profit before tax² for the Group reducing from £126.0m to £105.0m.

The table below shows our performance metrics on a global basis as at 31 March 2013:

We have reinforced a customer focused culture across all our operations. In particular, in the UK, customer satisfaction has increased and the number of complaints has reduced by 40%. We are also improving our cost efficiency by reducing complexity, sharing best practice and investing in new systems and technology. In the UK, for example, we have focused our affinity partnerships on utilities, manufacturers of installed appliances and financial services companies and we announced in March that we are going to invest in a new packaged IT system which will be implemented across the entire Group.

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

Global membership business metrics

	UK		International		Total		Change
	2013	2012	2013	2012	2013	2012	
Affinity partner households (m)	24	24	53	47	77	71	+7%
Customers (m)	2.3	2.7	2.6	2.2	4.9	4.9	—
Income per customer (£)	106	99	67	71	85	86	-2%
Policies (m)	5.5	6.7	4.9	4.3	10.4	11.0	-5%
Retention rate (%)	79	80	83	83	81	81	—
Operating profit ⁴ (£m)	78.3	103.1	29.3	25.1	107.6	128.2	-16%

Income per customer is defined as policy revenue net of sales taxes and underwriting divided by the total number of customers.

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United Kingdom



- ▶ Full year retention rate 79%, and was over 80% in the final quarter
- ▶ Plans to stabilise customer numbers at around 1.9m customers from March 2014
- ▶ Improving our operational efficiency and sales and marketing effectiveness

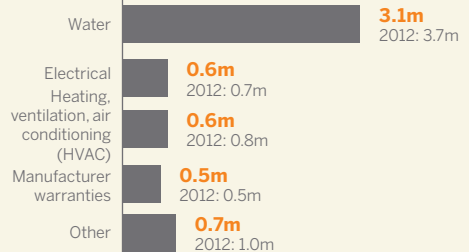
UK customers 2.3m

2012: 2.7m

▶ 5.5m policies

2012: 6.7m

Policies split by type



UK

UK revenue reduced by £45m to £309m (2012: £354m) reflecting the reduction in customer numbers and related repair income. Adjusted operating profit¹ in the UK was £78m (2012: £103m) with the reduction in revenue being partially offset by lower costs. The lower costs are a result of a reduced headcount and lower marketing expenditure, partially offset by increased governance and control costs. UK statutory operating profit was £68m (2012: £78m) including exceptional expenditure of £10m, of which £6m is our estimate for the costs and fine arising from the FCA investigation, and the remaining £4m relates to the reduction of around 300 roles announced in March 2013.

Customer numbers in the UK have fallen to 2.3m, in line with our expectations (2012: 2.7m). The reduction is a result of the low level of marketing activity in FY2013, which was insufficient to replace those customers that did not renew in the ordinary course. As we increase our marketing activity we expect the number of new customers acquired to at least equal the number not renewing, which should enable us to stabilise the UK customer base at around 1.9m customers from March 2014.

Our UK gross new policy sales, and customer and policy numbers have all reduced during the year as a result of lower marketing activity whilst we focused on the development

and testing of new marketing materials, sales channel enhancements, new product development, the restructuring of our call centre operations and the implementation of improved governance and controls. Gross new customers in FY2013 were 0.1m (2012: 0.3m) and gross new policy sales were 0.2m (2012: 0.7m). Total policies at the end of March 2013 were 5.5m, a reduction of 18% on the prior year (2012: 6.7m), similar to the reduction in customer numbers.

Income per customer increased to £106 (2012: £99), reflecting the benefit from price rises and the mix of policies.

The policy retention rate increased from 78% in the first half of the year to 79% for the full year (2012: 80%) and was above 80% in the final quarter. The increase in the second half of the year is a result of the high levels of customer satisfaction across all our touch points and the implementation of a number of ongoing retention initiatives as well as a reduction in the number of first year policies, which have a lower retention rate.

During the year, our network of 289 directly employed engineers and over 450 sub-contractors completed 0.7m repairs. 80% of our plumbing and drains repairs were completed by our directly employed engineers, who typically received the highest levels of customer satisfaction.

Performance metrics

	2013	2012	Change
Affinity partner households (m)	24	24	—
Customers (m)	2.3	2.7	-16%
Income per customer (£)	106	99	+7%
Total policies (m)	5.5	6.7	-18%
Policy retention rate (%)	79	80	-1ppts

Our affinity partners continue to remain supportive of our plans and actions and we are pleased to confirm that two of our larger water utilities have signed new long-term agreements.

During the second half of FY2013, the UK business saw improvements in the effectiveness of its sales and marketing activity. We are now planning to significantly increase the scale of our marketing activity in FY2014 as we aim to double the number of new customers to around 0.2m, up from 0.1m in FY2013, but compared to 0.6m in FY2011.

Direct mail marketing activity is expected to more than double in FY2014 and we are also planning to increase sales through our partner call centres and continue the development of our internet and digital sales channels. We have, during FY2013, recommenced policy sales through our partner call centres and during FY2014 we expect to increase the number of partners who operate this sales channel and to build on the call conversion rates achieved during the final quarter of FY2013.

We are increasing our investment in internet and digital channels. We have already recruited and have in place a new team who have significant experience and expertise in internet and digital marketing activity. During FY2014, we will be refocusing our internet site on customer acquisition, improving our search engine optimisation and enhancing the HomeServe pages within our affinity partners' websites. We will continue to use the outbound telephony channel primarily for selling to existing customers.

The planned increase in new customer acquisition volumes and retention will also be supported by the roll-out of new products, including an improved Plumbing and Drainage product, which includes cover for non-emergency items such as dripping taps and leaking overflows.

As customer numbers have reduced in the UK we have taken action to reduce our operating costs and improve our operating efficiency. The average number of UK employees has reduced by 377 over the past year and we announced a further reduction of 300 roles in March 2013 reflecting the expected reduction in customer numbers from 3m in September 2011 to around 1.9m by March 2014. We have also started a number of process re-engineering projects to simplify processes to further improve the customer experience and improve efficiency.

In November 2011, we commenced a number of business improvement initiatives, which were consistent with the feedback received from our Supervisory team at the FCA. These initiatives focused on our sales and marketing, controls and governance and complaints handling issues. Our customer re-contact exercise is the only initiative still to be completed and this is progressing as planned.

We are now close to completing the review of the complaints that were received during winter 2010 and we are also making progress in contacting customers who may have suffered detriment as a result of the way in which they were sold their policy. This exercise is expected to be completed by March 2014.

The FCA investigation into our past issues in the UK business is ongoing and is expected to take a number of months to complete.

United States of America



- ▶ 25% increase in customer numbers to 1.3m
- ▶ 10 new affinity partnerships across 10 states
- ▶ Step change in marketing activity with the number of mailings more than doubled

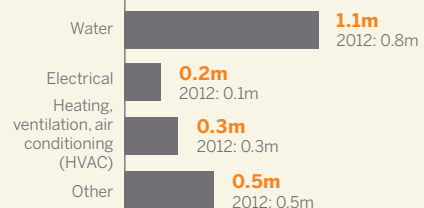
USA customers 1.3m

2012: 1.1m

▶ 2.1m policies

2012: 1.7m

Policies split by type (m)



USA

Revenue in the USA was £101m (2012: £82m), 22% higher than a year ago driven by a 25% increase in customer numbers. Adjusted operating profit¹ was £9.5m (2012: £9.0m).

We are a national business working with 35 partners in the USA and Canada. Over the past year we have signed ten new utility affinity partnerships in ten states with a mix of gas, electric and water utilities across both public and municipality ownership.

The new partnerships include a long-term marketing agreement with Montana Dakota Utilities (MDU), which serves 260k households in the states of North and South Dakota, Montana and Wyoming. This agreement was part of the acquisition of MDU's policy book, which was completed in March 2013. MDU's 52k home assistance policies, which provided protection for a property's primary heating appliance and water heater across 26k customers, have now transferred to HomeServe.



We hit 2m US policies

- ▶ Mr Peter Gardella of Hamden, Connecticut purchased the two millionth US policy on 20 March 2013. To celebrate this significant milestone, he will receive 10 years of free HomeServe coverage for the exterior water and sewer lines at his home.

Gross new policy sales (excluding acquired policies) during the year were 0.7m (2012: 0.6m). This growth, together with a good retention performance, has resulted in customer numbers increasing by 25% to 1.3m (2012: 1.1m) and policy numbers also increasing by 25% to 2.1m (2012: 1.7m).

We are making good progress in broadening the range of sales channels used in North America. Direct mail remains the main channel for new customer acquisition although during the year we have significantly increased the number of partners who either use their call centres to sell our policies or transfer potential sales calls to our agents. We have also commenced online policy sales via our HomeServe USA website. We expect to increase sales through our partners' call centres in the future as well as significantly grow sales via our USA internet and digital channels.

Over the past 12 months we have more than doubled the number of marketing mailings as a result of the increase in the number of affinity partners and our own brand marketing activity. Despite the significant growth in direct mail activity, our response rates and payback periods have continued to be attractive and in line with our expectations.

Raising the awareness of homeowners' responsibilities for the pipes and wires in and around their home is key to the continued strong growth in customer numbers. We were therefore pleased to announce in February 2013 an association with Giuliani Partners and former New York City Mayor, Rudy Giuliani. Giuliani Partners and Mayor Giuliani will advise us on increasing awareness of the need for water and sewer infrastructure investment and consumer protection across the USA.

Performance metrics

	2013	2012	Change
Affinity partner households (m)	22	21	+3%
Customers (m)	1.3	1.1	+25%
Income per customer (\$)	112	113	-1%
Total policies (m)	2.1	1.7	+25%
Policy retention rate (%)	80	79	+1ppt

The USA retention rate has increased to 80% (2012: 79%). In the USA, we continue to achieve retention rates of around 90% where we bill the customer via their utility bill and therefore we are planning to increase the number of partners who use 'on bill' payment collection for our products in FY2014. A key benefit from the system improvements being planned across the Group will be the ability to more quickly integrate our billing processes with those of utilities in the future.

There remain significant opportunities for growth in North America and we are therefore continuing to invest in people and infrastructure as well as additional marketing activity. Over the past year, we have strengthened our business development team, increased our IT and digital expertise as well as enhanced our senior management team with a number of new positions.

As we grow the number of customers and policies, we also need to ensure we maintain and improve our operational efficiency and have, for example, outsourced the processing of postal policy applications to a specialist and have recently announced the closure of our Miami administration centre. The work currently undertaken in Miami will be transferred to our other USA locations, in Stamford and Chattanooga, and a third party specialist outsourcer.

Our 134 directly employed technicians and network of around 700 high quality sub-contractors completed 0.27m jobs during FY2013.

Doméo



- ▶ Retention rate up to 89%
- ▶ Launched a new range of water policies with positive customer feedback
- ▶ Increased focus on signing new affinity partnerships

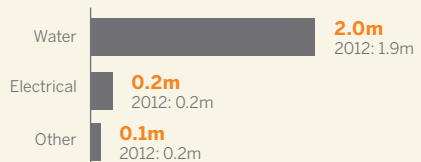
Doméo customers 0.9m

2012: 0.9m

▶ 2.3m policies

2012: 2.3m

Policies split by type (m)



Doméo

In its first full year of 100% HomeServe ownership, Doméo contributed revenue of £74m in FY2013 compared to £52m in the previous year (when it was 49% owned by HomeServe for the first 8 months of the year and 100% for the final 4 months). Adjusted operating profit¹ was £22m (2012: £17m). On a like-for-like basis, revenues increased by 1% and adjusted operating profit¹ by 8% reflecting good cost control and less outbound marketing activity.

French customers continue to remain very loyal, with the policy retention rate increasing to 89% (2012: 88%). This high rate reflects the proportion of customers using a monthly continuous payment method to pay for their policy, a consistently high level of customer satisfaction and a low level of customer complaints.

Doméo achieved gross new policy sales of 0.3m (2012: 0.4m) with total customer numbers increasing by 2% to 0.91m (2012: 0.89m) during the year. Policy numbers grew 0.01m to 2.34m (2012: 2.33m).

Income per customer increased by 2% to €98 (2012: €96), reflecting the mix and price of policies held by customers.

The majority of our new customers in France are acquired through direct mail marketing. We are however developing new sales channels in Doméo to enable us to increase customer growth in the future. Over the past year we have increased the proportion of sales generated through Veolia's call centres as a result of improving the call conversion rate as well as increasing the number of Veolia call centres transferring calls to our sales teams.

During the second half of FY2013, we developed and tested new plumbing emergency and drainage products in France with favourable customer feedback. We are therefore planning to focus our new customer acquisition campaigns on these products in FY2014. We are also developing a revised water loss product in France, which will be principally used in cross-sell activity.

Acquiring 100% control of Doméo in December 2011 has given us an opportunity to broaden our range of affinity partners in France and we have reorganised the business to increase the focus and resource allocated to new partner development. We have, over the past year, started early stage discussions with a number of energy and water utilities.

All of our repairs in France are managed through our network of 950 sub-contractors who completed a similar number of repairs compared to the previous year.

Performance metrics

	2013	2012	Change
Affinity partner households (excluding apartments) (m)	14	14	—
Customers (m)	0.9	0.9	+2%
Income per customer (€)	98	96	+2%
Total policies (m)	2.3	2.3	+1%
Policy retention rate (%)	89	88	+1ppts

Spain



- ▶ Customer numbers up 50% to 0.4m, policy numbers up 43% to 0.5m
- ▶ Over 50% of gross new customers acquired through Endesa's sales channels
- ▶ Started charging Endesa's customers via their utility bill

Spain customers 0.4m

2012: 0.3m

▶ 0.5m policies

2012: 0.3m

Policies split by type (m)



Spain

In Spain, revenue was £61m (2012: £60m) and adjusted operating profit¹ was £3.1m (2012: £2.8m). The growth in adjusted operating profit¹ reflects the increase in customer and policy numbers and the benefit of higher claims handling volumes and margins, partially offset by increased sales and marketing activity in the membership business.

Customer and policy numbers continue to show strong growth. Customer numbers increased by 50% to 0.4m (2012: 0.3m) and policy numbers were up 43% to 0.5m (2012: 0.3m).

Gross new policy sales were 0.3m, up from 0.2m in FY2012, as we increased our marketing activity with both our affinity partners; Endesa and Agbar.

During FY2013, we continued to increase the proportion of sales generated through our partners' call centres and the outbound telephony channel. Sales through our partners' call centres accounted for 56% of gross new policy sales (2012: 14%).

Sales of our Electrical Assistance policy by Endesa's call centre agents have proven very successful over the past 12 months. Over 68% of new customers in FY2013 were acquired through this sales channel and we expect this to increase in FY2014. Our Electrical Assistance product covers the cost of the call out for any electrical emergency

and two hours of labour together with two electrical handyman services per annum, each of two hours. The product, which is offered at a 50% discount in the first year, is sold by Endesa to customers when they switch their electricity tariff and is billed via the utility bill.

Our claims handling business in Spain continues to perform well with continued growth in the number of claims managed and a higher margin. Our network of 2,100 sub-contractors and the 147 Reparalia franchised engineers completed 0.5m repairs over the past twelve months.

New Markets

- ▶ Long-term agreement with Enel Energia enabling us to market to 3.5m households in Italy
- ▶ Focusing on the development of affinity partnerships in Germany

Our New Markets segment includes our developing businesses in Italy and Germany as well as Société Française de Garantie (SFG), our French warranty business.

The New Markets businesses reported revenue of £9.4m, lower than the £11.6m in the prior year, primarily as a result of the sale of our Belgian businesses in March 2012. The increased adjusted operating loss¹ of £4.8m (2012: £3.4m) reflects the additional investment in Italy and Germany over the past 12 months as well as lower earnings from SFG.

Performance metrics

	2013	2012	Change
Affinity partner households (m)	13	12	+9%
Customers (m)	0.4	0.3	+50%
Total policies (m)	0.5	0.3	+43%

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

In Italy, we have signed a long-term agreement with the energy utility Enel Energia, enabling us to market to 3.5m households and have recently completed the systems development to enable us to bill Italian customers on their utility bill. During FY2014, we will be significantly increasing our marketing activity to Enel Energia customers and our Italian water utility partner Veritas, as well as targeting the development of other affinity partnerships.

In Germany, we completed a test marketing campaign with BS Energy (part of the Veolia group) and will be focusing on developing additional affinity partnerships in FY2014.

Earnings from our SFG retail warranty business have been impacted by the reduction in retail sales of electrical goods in France together with the full year impact of the loss of one of our larger retailers following a take-over by a retailer who manages warranties in-house.

Outlook

Our business model continues to deliver value for customers, affinity partners and shareholders, and remains very cash generative. We expect to stabilise our UK customer numbers at around 1.9m by 31 March 2014, and are confident that we can continue to grow our International businesses, enabling the Group overall to return to modest growth from FY2015.

UK

In FY2014 we are planning to recruit around 0.2m new customers in the UK, double the number recruited in FY2013, as we develop and increase the scale of our marketing activity. By FY2015 we are planning to recruit around 0.3m new customers a year enabling us to stabilise the UK customer base at around 1.9m customers. The planned increase in new customer acquisition volumes will be supported by the roll-out of new products as well as more support from our water affinity partners, with an increasing proportion of sales coming from their call centres, and the development of our internet and digital sales channels.

We continue to expect the full year UK underlying retention rate (excluding losses from the run-off of non-core manufacturer warranties and customer re-contact exercise) to increase to around 80% in FY2014 and would expect it to increase further in future years as we benefit from the roll-out of new products and increasing customer satisfaction.

In FY2014, the reduction in the number of customers renewing will result in around £35m of lower contribution (compared to FY2013), which is expected to be partially offset by headcount savings of around £10m.

UK revenue in FY2015 is expected to reduce further by around £20m (compared to FY2014) as a result of a lower number of renewing customers and the continued marketing and roll-out of new enhanced products.

This reduction will be partially offset by full year savings in direct costs and further operating efficiencies.

International

In our International businesses we are confident that we will continue to deliver strong and sustainable growth in customers and earnings. As a result, we expect our established International businesses to deliver over 50% of the Group's operating profit in FY2015.

Our USA business provides our most significant growth opportunity and in FY2014 we expect it to significantly benefit from the 25% increase in customer numbers in FY2013 and to continue to deliver a high customer growth rate in the future. In France, we expect customer numbers to increase although the rate of customer and profit growth is likely to be modest until we sign another major utility affinity partner. In Spain, we are planning for continued strong growth in customer and policy numbers in our membership business as we continue to invest in our marketing activity and grow our renewal revenue. As our businesses in Italy and Germany invest in growing their customer numbers we expect our New Markets segment to report an operating loss of around £6m per annum.

System developments

To support our growth plans and improve our operational efficiency, we are investing in a new packaged IT system which will be implemented across the entire Group. This investment, amounting to around £30m over the next three years (FY2014 - FY2016), will start to deliver operational benefits in FY2015 with financial benefits starting to accrue from FY2016.

In the UK, the new system will improve our marketing effectiveness, reduce our costs and improve our compliance and control processes. In our US business, it will enable us to on-board affinity partners and integrate our charging processes into their billing systems more quickly. Across the Group, the system will provide call centre agents in all parts of the business with a single view of the customer.

Summary

The financial impact of the reduction in UK customer numbers has unfortunately more than offset the strong growth in our International businesses in FY2013. We are however implementing plans to stabilise UK customer numbers at around 1.9m by the end of March 2014, which will then enable customer numbers across the Group to grow again. UK earnings are expected to be negatively impacted in both FY2014 and FY2015, but we expect the growth in our International business to enable the Group overall to return to modest growth in FY2015.

We are confident that we can stabilise UK customer numbers as well as grow our established overseas businesses. We are therefore continuing to invest in the development of our new businesses in Italy and Germany as well as implementing a new group-wide IT system.

Our products and services continue to meet clear customer needs and we are confident that our business model can continue to deliver long-term value for all stakeholders.

Richard Harpin

Chief Executive Officer
21 May 2013

Financial review



Johnathan Ford

Chief Financial Officer

These financial results have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the accounting policies used are consistent with those at 31 March 2012.

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 Italy, Germany and SFG in France. The revenue and adjusted operating profit¹ for each of these segments are set out in the table below.

Group revenue has increased by 2% to £546.5m (2012: £534.7m), with growth in our established International businesses offsetting a reduction in the UK. Adjusted operating profit¹ reduced to £107.6m (2012: £128.2m) with lower profits in the UK partially offset by growth in our established International businesses.

UK revenue has reduced by £44.5m to £309.0m, due principally to the 16% reduction in customer numbers.

Financial performance by operating segment

	Revenue £m		Adjusted operating profit/(loss) ¹ £m		Adjusted operating margin %	
	2013	2012	2013	2012	2013	2012
UK	309.0	353.5	78.3	103.1	25.3%	29.2%
USA	100.8	82.3	9.5	9.0	9.5%	11.0%
Doméo	73.8	51.8	21.5	16.7	29.2%	32.2%
Spain	60.5	60.2	3.1	2.8	5.0%	4.7%
New Markets	9.4	11.6	(4.8)	(3.4)	-51.3%	-29.8%
JV/inter-division	(7.0)	(24.7)	—	—	—	—
Group	546.5	534.7	107.6	128.2	19.7%	24.0%

UK financial performance

£million	2013	2012	Change
Revenue			
Net income	240.9	267.5	(26.6)
Repair network	55.1	70.9	(15.8)
Other	13.0	15.1	(2.1)
Total revenue	309.0	353.5	(44.5)
Operating costs	(230.7)	(250.4)	19.7
Adjusted operating profit¹	78.3	103.1	(24.8)
Adjusted operating margin	25.3%	29.2%	

Net income is calculated as the income per customer multiplied by the number of customers.

The growth in our International revenues and profits reflects higher customer numbers together with the benefit of owning 100% of Doméo for the full reporting period.

The Group adjusted operating margin (adjusted operating profit/(loss)¹ divided by revenue) has reduced from 24.0% to 19.7% principally as a result of the reduction in the UK operating margin and the increased investment in our New Markets businesses.

UK

Our UK business reported revenue of £309.0m (2012: £353.5m), a reduction of £44.5m and adjusted operating profit¹ of £78.3m (2012: £103.1m), a reduction of £24.8m compared to the prior year. The lower revenue and profit¹ is principally a result of the reduction in customer numbers from 2.7m at 31 March 2012 to 2.3m at 31 March 2013.

Revenue in the UK business can be analysed as 'net income' (income per customer multiplied by the number of customers) of £240.9m (2012: £267.5m), with the remaining income of £68.1m (2012: £86.0m) representing £55.1m of repair network

revenue (2012: £70.9m) and other income of £13.0m (2012: £15.1m), which includes third party claims handling revenue as well as revenue from transactions with other Group companies.

Income per customer has increased to £106 (2012: £99), principally reflecting the benefit from price rises and the mix of policies.

Operating costs within the UK business reduced by £19.7m compared to the previous year. This reduction was driven by lower staff numbers following the redundancy programmes in February and May 2012, lower repair network costs reflecting the reduction in customer numbers and reduced marketing expenditure as we focused on testing new sales and marketing initiatives. These savings were partially offset by the increased costs of additional compliance and quality checking and improved governance and control processes.

The UK adjusted operating margin was 25.3% (2012: 29.2%).

¹ Excluding amortisation of acquisition intangibles and exceptional expenditure and, in the prior period, joint venture taxation, see Financial review and note 5.

² Excluding amortisation of acquisition intangibles, exceptional expenditure and, in the prior period, joint venture taxation and the re-measurement of joint venture interest on acquisition of control, see Financial review.

³ Excluding amortisation of acquisition intangibles, exceptional expenditure and, in the prior period, re-measurement of joint venture interest on acquisition of control, see Financial review and note 13.

⁴ See Cash flow statement in the Financial review.

USA

In the USA, revenue has increased by 22% to £100.8m (2012: £82.3m) driven by the 25% growth in customer and policy numbers. Adjusted operating profit¹ increased from £9.0m to £9.5m. The growth in profit is slower than the growth in revenue as a result of an 84% increase in marketing expenditure during the year as well as the ongoing investment in people and infrastructure.

We expect the strong growth in customer numbers in FY2013 to benefit our performance in FY2014 as these customers' policies renew and the rate of growth in marketing and sales costs is reduced.

The increased investment in marketing has resulted in the adjusted operating margin reducing from 11.0% to 9.5%. As we continue to target strong growth in customer numbers, we expect the USA adjusted operating margin to remain in the 10% to 15% range.

Doméo

Doméo contributed revenue of £73.8m compared to £51.8m in the previous year (when it was 49% owned by HomeServe for the first 8 months of the year and 100% for the final 4 months). Adjusted operating profit¹ was £21.5m (2012: £16.7m).

On a like for like basis, revenue was 1% higher compared to the prior period whilst adjusted operating profit¹ increased by 8%, reflecting good cost control and less outbound marketing activity.

The adjusted operating margin was 29.2% (2012: 32.2%). On a like for like basis, the margin increased by 2ppts as a result of improved efficiency.

Spain

In Spain, revenue was £60.5m, £0.3m higher than in the prior year.

Membership revenue increased by 16% to £10.0m (2012: £8.6m) as a result of the strong growth in customer and policy numbers.

Total adjusted operating profit¹ was £3.1m, £0.3m higher than in the previous year (2012: £2.8m).

Increased sales and marketing costs within the Membership business were more than offset by improved operational efficiency in the Claims Handling business.

Spain has reported an adjusted operating margin of 5.0% up from 4.7% in the prior year reflecting the improved efficiency in the claims business.

Spain financial performance

£million	2013	2012	Change
Revenue			
Membership	10.0	8.6	1.4
Claims handling	50.5	51.6	(1.1)
Total revenue	60.5	60.2	0.3
Adjusted operating profit¹	3.1	2.8	0.3

New Markets

Our New Markets businesses reported revenue of £9.4m (2012: £11.6m) and an adjusted operating loss¹ of £4.8m (2012: £3.4m).

Revenue from our New Markets businesses reduced by £2.2m over the past 12 months principally due to the sale of our Belgian businesses in March 2012 and lower revenues from SFG. The Belgian businesses contributed £1.9m of revenue in FY2012.

The higher adjusted operating loss¹ reflects increased investment in Italy and Germany, lower earnings from SFG and the impact of the sale of our Belgian businesses which contributed £0.5m of adjusted operating profit¹ in FY2012.

Cash flow and financing

Our business model continues to be highly cash generative with cash generated by operations in FY2013 amounting to £128.2m (2012: £114.3m), representing a cash conversion ratio against adjusted operating profit¹ of 119% (2012: 89%).

Working capital decreased by £7.8m in FY2013, compared to an increase of £1.2m in FY2012. Working capital increased in the UK as a result of the expenditure related to addressing the sales and marketing issues provided for in March 2012 and also in our International businesses as a result of the strong growth in customer and policy numbers. These increases were however more than offset by a reduction in working capital as a result of the lower number of UK customers and policies and the FY2013 exceptional expenditure of £10m.

Cash flow

£million	2013	2012
Adjusted operating profit ¹	107.6	128.2
Exceptional items, tax on joint venture and amortisation of acquisition tangibles	(38.5)	(42.9)
Operating profit	69.1	85.3
Depreciation, amortisation and other non-cash items	51.3	30.2
Decrease/(increase) in working capital	7.8	(1.2)
Cash generated by operations	128.2	114.3
Net interest	(2.4)	(3.2)
Taxation	(26.3)	(33.3)
Capital expenditure	(29.9)	(16.9)
Repayment of finance leases	(0.6)	—
Doméo dividend received	—	3.5
Free cash flow	69.0	64.4
Acquisitions/disposals	(5.8)	(87.8)
Equity dividends paid	(36.6)	(34.2)
Issue of shares	0.6	2.2
Net movement in cash and bank borrowings	27.2	(55.4)
Impact of foreign exchange	(3.2)	2.2
Finance leases	(0.9)	(1.0)
Opening net debt	(66.0)	(11.8)
Closing net debt	(42.9)	(66.0)

During the year, we incurred net capital expenditure of £29.9m (2012: £16.9m). This expenditure related to the implementation of a new group-wide financial management system, completing work on the network transformation project in the UK with a new contractor appointment booking system as well as the costs of re-engineering processes in our UK business. Capital expenditure also includes payments made to affinity partners for the long-term provision of exclusive database access and branding rights.

We expect to maintain a higher than usual level of capital expenditure over the next 3 years (FY2014 - FY2016) as we implement a new packaged IT system across the entire Group. The new system which will support both our growth plans and improve our operational efficiency, will start to deliver operational benefits in FY2015 with financial benefits starting to accrue from FY2016. Free cash flow during the period was £69.0m (2012: £64.4m).

At 31 March 2012, we had a balance sheet provision of £21.0m in respect of expenditure related to addressing the issues in the UK, including, where appropriate compensating customers. Over the past 12 months we have incurred £9.5m of actual expenditure and the balance sheet provision at 31 March 2013 has reduced to £11.5m and is expected to be spent over the next 12 months. The expected cost of re-contacting customers and the extent of any compensation due is based on our experience to date and represents our estimate. It is possible that our assumptions regarding the number of customers, level of compensation payable, response rate and the upheld rate could be different to those currently assumed.

At this stage, however, we believe that the provision is sufficient to cover the costs of the remaining customer re-contact exercise, including customer compensation.

In FY2013 we incurred exceptional expenditure of £10.0m relating to the reorganisation of the UK business, announced in March 2013, and the FCA investigation. At the end of FY2013, we had incurred £1.7m of actual expenditure and had a balance sheet provision of £8.3m.

Despite a reduction in operating profit, the cash generative nature of the business resulted in net debt reducing by £23.1m over the 12 month period. Net debt at 31 March 2013 was £42.9m (2012: £66.0m), significantly within our facility limit of £250m, which is committed through to July 2016.

Group statutory results

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

Statutory profit before tax was £66.5m, £71.5m lower than in FY2012 (2012: £138.0m). Statutory profit before tax is after the amortisation of acquisition intangibles and exceptional expenditure and in the prior period, a 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.

Amortisation of acquisition intangibles

The amortisation of acquisition intangibles of £13.4m (2012: £10.4m) principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The £3m increase in the amortisation charge principally reflects a full 12 month impact from the acquisition of the 51% shareholding in Doméo in December 2011.

Exceptional expenditure

The exceptional expenditure of £25.1m includes costs related to reorganising the UK business and the FCA investigation, as well as a reduction in the carrying value of the assets of our French warranty business, SFG. In the prior year there was exceptional expenditure of £31.1m as detailed in note 6.

FY2013 UK exceptional expenditure

The £10m charge relates to the reorganisation of the UK business announced in March 2013 and the FCA investigation.

In March 2013 we announced plans to reduce the number of roles in our UK business by around 300, reflecting the planned reduction in customer numbers over the next 12 months. This reorganisation will incur costs of £4m and generate savings of around £10m in FY2014.

The FCA investigation has progressed, and having taken advice and reviewed internal and external available information, the Board has decided to record exceptional expenditure of £6m in relation to the anticipated costs of managing the investigation and a fine which represents our estimate. There remains uncertainty as to the nature or extent of the action that the FCA may seek to take following the conclusion of its investigation and accordingly any related financial effect.

Société Française de Garantie (SFG) asset values

The exceptional expenditure also includes a £15.1m charge related to the write down of the carrying value of SFG, our French warranty business. This write down reflects the challenging conditions in the electrical retail market in France.

Statutory results

£million	2013	2012
Total revenue	546.5	534.7
Operating profit	69.1	85.3
Net finance costs	(2.6)	(2.2)
Gain on re-measurement of joint venture interest on acquisition of control	—	54.9
Adjusted profit before tax²	105.0	126.0
Amortisation of acquisition intangibles	(13.4)	(10.4)
Exceptional expenditure	(25.1)	(31.1)
Gain on re-measurement of joint venture interest on acquisition of control	—	54.9
Tax on JV	—	(1.4)
Statutory profit before tax	66.5	138.0
Tax	(24.6)	(23.7)
Profit for the year, being attributable to equity holders of the parent	41.9	114.3

Finance costs

The Group's net finance costs were £2.6m, £0.4m higher than in FY2012 reflecting a higher level of net debt in the first six months of the year compared to the prior period.

Taxation

The tax charge in the financial year was £24.6m (2012: £23.7m). In order to calculate an effective tax rate that reflects the ongoing tax burden of the Group, it is necessary to exclude the £15.1m exceptional expenditure relating to the write-down of the carrying value of SFG, which is not tax deductible and the £6m of exceptional expenditure in the UK related to the FCA investigation. Excluding these items the adjusted effective tax rate is 28.8%, which is comparable to the underlying joint venture adjusted tax rate of 28.4% in FY2012.

We expect the tax 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.

Earnings per share

Adjusted earnings per share³ for the period decreased from 28.0p to 23.0p. The average number of shares in issue increased from 322m to 324m.

On a statutory basis, earnings per share decreased from 35.4p to 12.9p.

Dividend

The proposed final dividend of 7.67p per share together with the payment of the interim dividend of 3.63p per share brings the total dividend for the year to 11.3p (2012: 11.3p). The final dividend, subject to shareholder approval, will be paid on 1 August 2013 to shareholders on the register on 5 July 2013.

Acquisitions

Acquisition spend during the year totalled £5.8m (2012: £87.8m). This expenditure relates to a number of individually small acquisitions including Montana Dakota Utilities' Combined Gas & Electrical Contract Business in the USA, which completed in March 2013, acquisitions to support the continued development of our directly employed network of plumbers in the UK and deferred consideration relating to acquisitions completed in prior periods.

Foreign exchange impact

The impact of changes in the € and \$ exchange rates between FY2013 and FY2012 has resulted in the reported revenue of our International businesses reducing by £5.7m and adjusted operating profit¹ reducing by £0.1m. The impact of foreign exchange rate movements on the individual businesses is summarised in the table below.

£million	Average exchange rate			Effect on (£m)	
	2013	2012	Change	Revenue 2013	Adjusted operating profit ¹ 2013
USA(\$)	1.58	1.59	-0.01	0.9	0.3
Doméo (€)	1.23	1.16	+0.07	(2.7)	(0.6)
Spain (€)	1.23	1.16	+0.07	(3.3)	—
New Markets (€)	1.23	1.16	+0.07	(0.6)	0.2
Total International				(5.7)	(0.1)

Statutory and pro-forma reconciliations

The Group believes that adjusted operating profit¹ and adjusted profit before tax², which exclude the amortisation of acquisition intangibles, exceptional expenditure and in the prior period, tax on joint ventures and the gain on the re-measurement of the joint venture interest on acquisition of control, 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.

Statutory and pro-forma reconciliations		
£million	2013	2012
Operating profit (statutory)	69.1	85.3
Amortisation of acquisition intangibles	13.4	10.4
Tax on joint ventures	—	1.4
Exceptional expenditure	25.1	31.1
Adjusted operating profit¹	107.6	128.2
Profit before tax (statutory)	66.5	138.0
Amortisation of acquisition intangibles	13.4	10.4
Tax on joint ventures	—	1.4
Exceptional expenditure	25.1	31.1
Gain on re-measurement of joint venture interest on acquisition of control	—	(54.9)
Adjusted profit before tax²	105.0	126.0
Pence per share		
Earnings per share (statutory)	12.9	35.4
Amortisation of acquisition intangibles	2.7	2.2
Exceptional expenditure	6.0	7.4
Gain on re-measurement of joint venture interest on acquisition of control	—	(17.0)
Adjusted earnings per share³	23.0	28.0

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 strategy, business performance and financial condition and a formal risk mitigation plan is agreed with clear ownership and accountability. 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 not significant may also adversely affect our strategy, business performance or financial condition in the future.

Risk – Description/Impact	Mitigation	Change since 2012 Annual Report
<p>Ability to implement an updated strategy successfully within the UK business</p> <p>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.</p> <p>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.</p> <p>There is no certainty as to the scope and cost of the additional activities that we may need to undertake to achieve our desired culture.</p>	<p>We have strengthened the UK management team and have a number of new developments that we are testing and implementing.</p> <p>The UK business has a detailed project plan for improving its sales and marketing effectiveness, its governance and controls and customer service. These actions are being carefully monitored and updated as we complete initiatives.</p> <p>The Business has the financial strength to incur additional costs if necessary.</p>	<p>During FY2013 we have made good progress in restoring our customer focused culture in the UK, with improved customer satisfaction and a significantly reduced number of customer complaints.</p> <p>It has taken longer than initially planned to test and improve our sales and marketing effectiveness, which is expected to result in a continued reduction in UK earnings in FY2014 and FY2015. Customer numbers are expected to stabilise at around 1.9m from the end of March 2014.</p>

Risk – Description/Impact	Mitigation	Change since 2012 Annual Report
<p>Commercial relationships</p> <p>Underpinning the success in our chosen markets are close commercial relationships (affinity partner relationships) with utility companies, household appliance manufacturers and financial institutions. The loss of one of these relationships could impact our future customer and policy growth plans and retention rates.</p> <p>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 certain circumstances.</p>	<p>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.</p> <p>There are a number of partnerships across our markets that mitigate, in part, the impact of losing any single relationship.</p>	<p>We have continued to sign and renew affinity partnerships with utilities in the UK, USA and Italy.</p> <p>In the UK, we have renewed two of our larger water utility partnerships during the year.</p> <p>In the USA, we have signed new agreements with 10 utilities.</p> <p>In Italy, we have signed long term agreements with Enel Energia and Veritas.</p> <p>In Spain, we are planning for continued strong growth in customer and policy numbers in FY2014.</p>
<p>Competition</p> <p>There are a number of businesses that provide services that are similar to those of the Group and could therefore compete in one or more of our chosen markets. Increased competition could affect our ability to meet our expectations and objectives for the Business in terms of the number of customers, policies or the financial returns achieved.</p>	<p>The market and the activities of other participants are regularly reviewed to ensure that the strategies and offerings of current and potential competitors are fully understood.</p> <p>Both qualitative and quantitative research is undertaken to ensure that our products and services continue to meet the needs of our customers whilst retaining a competitive position in the market.</p> <p>We believe we have a compelling proposition for customers, providing them with real value. This helps reduce the impact of increased competition.</p>	<p>There has been no significant change in the competitive landscape in any of the countries in which we operate.</p> <p>In the UK, we have seen increased media advertising by our main competitor but this has not had an impact on our ability to achieve our targets.</p> <p>In the USA, we continue to acquire policy books from utilities who run their own programmes. During FY2013 we have acquired 52k policies from Montana Dakota Utilities.</p> <p>In France and Spain, there has been no significant change in the competitive landscape.</p>
<p>Customer loyalty/retention</p> <p>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.</p>	<p>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.</p> <p>We have a wide range of tools available to manage retention rates including specific retention propositions.</p> <p>There are also dedicated retention call centre agents who are trained and experienced in talking to customers who are considering not renewing their policy.</p>	<p>Retention remains high in all our countries.</p> <p>In the UK, the rate has fallen to 79% compared to 80% in the previous year. The rate has been increasing during the second half of the year as the number of first year renewing customers reduced and we implemented a number of new retention tools for our call centre agents. The new product propositions that we have been testing in the UK should also contribute to an improved retention rate in future years.</p> <p>We remain confident that the UK retention rate can increase to over 80%.</p> <p>In the USA, the rate has increased from 79% to 80%.</p> <p>In France, Doméo has increased its retention rate from 88% to 89%.</p>

Risk – Description/Impact	Mitigation	Change since 2012 Annual Report
<p>Marketing effectiveness</p> <p>A significant reduction in the response rates on direct marketing or telesales campaigns could have a significant impact on customer and policy numbers.</p>	<p>The performance of each marketing campaign and channel is regularly reviewed, with any significant deviation to the expected response rate quickly identified and remedial action taken for subsequent campaigns.</p>	<p>We are continuing to test different product and pricing propositions in our direct mail marketing in the UK.</p> <p>In the UK, we are planning to develop the internet channel and sales through our partner call centres to reduce our reliance on direct mail.</p> <p>In the USA and Spain, we continue to see strong customer growth with good results from our direct mail marketing in the USA and telesales activity in Spain.</p>
<p>Exposure to legislation or regulatory requirements</p> <p>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.</p> <p>Failure to comply with the regulatory requirements in any of our countries could result in us having to suspend, either temporarily or permanently, certain activities.</p> <p>In addition, legislative changes related to our partners may change their obligations with regard to the infrastructure they currently manage and hence the products and services we can offer to customers. It is possible such legislative changes could reduce, or even remove, the need for certain of our products and services.</p>	<p>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.</p> <p>Specifically in the UK, we are maintaining a regular dialogue with the FCA, ensuring our actions are in line with their feedback.</p> <p>We keep up to date with changes in government and regulatory policy, which ensures that our products and services are designed, marketed and sold in accordance with all relevant legal and regulatory requirements and that their terms and conditions remain appropriate and meet the customer need.</p>	<p>During FY2013 we have strengthened our regulatory and compliance teams across all our businesses.</p> <p>In the UK, we have completed the implementation of the majority of our business improvement initiatives which were in line with the feedback from our FCA supervisory team.</p> <p>The FCA investigation into our historic UK issues is ongoing and is expected to take a number of months to complete.</p> <p>In the USA, we have been proactively working with local attorney generals and media commentators to ensure they understand the service offered by HomeServe and to minimise the risk of any negative media commentary when we launch 'own brand' campaigns into new states.</p>
<p>Financial cost of customer re-contact exercises</p> <p>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 estimates. It is possible that the actual number of customers, response rates and level of compensation could be different.</p>	<p>Our original provision has to date been sufficient to cover the cost of these exercises. Our assumptions for the remainder of the exercise remain in line with our expectations.</p> <p>The UK business is a cash generative, profitable business which, if necessary, could set aside additional funds to meet higher costs.</p>	<p>During FY2013 we began to re-contact all customers whose complaints may not have been appropriately managed during the winter of 2010 and to roll out the process for re-contacting customers who may have suffered detriment as a result of the way in which they were sold their policy.</p> <p>At 31 March 2013 we have £11.5m of the original provision remaining which we believe will be sufficient to cover the remaining costs.</p>

Risk – Description/Impact	Mitigation	Change since 2012 Annual Report
<p>Availability of underwriters</p> <p>The policies that we market and administer with customers are each individually underwritten by third party underwriters, independent of HomeServe.</p> <p>We act as an insurance intermediary and do not take on any material insurance risk.</p> <p>If these underwriters were unable/unwilling to underwrite these risks it would require us to insure these risks directly, thereby exposing the business to material insurance risk, which is contrary to our preferred operating model.</p>	<p>We use a number of underwriters, with the main provider in the UK being separate to those in the rest of Europe and the USA.</p> <p>We have regular contact and reviews with the senior management of the underwriters to ensure that claims frequencies, repair costs and service standards are in line with their expectations.</p> <p>The principal underwriters are subject to medium-term agreements, with the rates subject to regular review.</p> <p>In addition, we maintain relationships with a number of underwriters and regularly review the market to ensure we understand current market conditions, how these apply to our policies and how we can mitigate the loss of an existing underwriter.</p>	<p>We continue to review our underwriting relationships on a regular basis to ensure they provide the best returns for customers and shareholders.</p>
<p>Quality of customer service</p> <p>Our reputation is heavily dependent on the quality of our customer service.</p> <p>Any failure to meet our service standards or negative media coverage of poor service could have a detrimental impact on customer and policy numbers.</p>	<p>We monitor customer service standards at a number of different customer contact points in each of our operations using both internal data and an independent third party company.</p> <p>The results of these are reviewed on a regular basis and action plans produced to address the key issues.</p> <p>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.</p>	<p>In FY2013 we have implemented a new process for monitoring customer satisfaction across all our operations at a number of different customer contact points.</p> <p>In the UK, our focus on improving customer service has been particularly successful with the number of complaints received reduced by 40%.</p>
<p>Dependence on recruitment and retention of skilled personnel</p> <p>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.</p>	<p>Our employment policies, remuneration and benefits packages and long-term incentives are regularly reviewed and designed to be competitive with other companies.</p> <p>Employee surveys, performance reviews and regular communication of business activities are just some of the methods used to understand and respond to employees' views and needs.</p> <p>Processes are in place to identify high performing individuals and to ensure that they not only have fulfilling careers, but we are managing succession planning.</p>	<p>We have continued to strengthen our management teams across all our operations – particularly in the areas of compliance, project management and IT.</p> <p>We have significantly strengthened the UK management team and board during the year including the appointment of a new Marketing Director, HR Director and Non-Executive Chairman.</p>

Risk – Description/Impact	Mitigation	Change since 2012 Annual Report
<p>Exposure to country and regional risk</p> <p>As a result of our growing international footprint we are subject to increased economic, political and other risks associated with operating in overseas territories.</p> <p>A variety of factors, including changes in a specific country's political, economic or regulatory requirements, as well as the potential for geographical turmoil including terrorism and war, could result in the loss of service.</p>	<p>The criteria for entering a new country 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.</p> <p>When entering a new country, we generally do so on a small scale test basis. This low risk entry strategy minimises the likelihood of any significant loss.</p>	<p>During FY2013 we completed a test marketing campaign in Germany.</p> <p>We have also signed long-term affinity partner deals in Italy, having tested marketing activity over the past 2 years.</p> <p>Our Spanish business continues to see strong growth in its customer and policy numbers despite the country having difficult economic conditions.</p>
<p>Our IT systems become a constraint to growth and drive inefficiency instead of efficiency improvements</p> <p>The Group's core IT system 'Ensura' is used in each of our businesses. The system is now around 20 years old and has had a number of 'in house' developments. The system is dependent on internal development resource and knowledge.</p>	<p>The Group reviews its systems and processes on a regular basis. As part of these reviews it looks at the future plans of each of the businesses in terms of customer and policy growth, product and process design and development requirements and the potential impact on IT systems.</p> <p>All system developments and enhancements undergo a rigorous financial review and the proposed benefits are monitored and subject to post implementation reviews.</p> <p>Our IT developments are subject to a prioritisation process which takes into account the availability of both internal and external resource and the proposed benefits of the project.</p>	<p>During FY2013 we used external consultants to review our core operational system, 'Ensura'.</p> <p>As a result of their recommendations we are planning to implement a new packaged IT system across the entire business over the next 3 years.</p> <p>The updated system will reduce our reliance on in house expertise and will also enable us to implement new developments more quickly and more effectively than in the past.</p>
<p>Financial strategy and treasury risk</p> <p>The main financial risks are the availability of short and long-term funding to meet business needs, the risk of suppliers and policyholders not paying monies owed and fluctuations in interest rates.</p>	<p>Interest rate risk</p> <p>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 we agree 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.</p>	<p>As a result of our relatively low level of bank borrowings and a stable interest environment we have not entered into any swaps during FY2013.</p> <p>There has been no significant change in the level of mid-term policy cancellations.</p> <p>Our banking facility is not due for renewal until FY2017. Our net debt at 31 March 2013 was £42.9m, significantly within the facility limit of £250m.</p>

Risk – Description/Impact	Mitigation	Change since 2012 Annual Report
Financial strategy and treasury risk (continued)	<p>Credit risk The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions.</p> <p>The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.</p> <p>Liquidity risk HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.</p>	

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.

The Directors have reviewed the Group's budgets, 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 carrying value of goodwill and other assets in the UK business and have concluded that there is no impairment of these assets.

Johnathan Ford

Chief Financial Officer

21 May 2013

Corporate responsibility



We are committed to developing and implementing a successful corporate responsibility programme that benefits key stakeholders and utilises our core skills to make a sustainable difference to the communities we operate in. We believe that a successful business must also be a responsible business.

We aim to:

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

Our corporate responsibility objectives support our vision and values, with our key focus being on the following four areas:

1. Customers

- ▶ Implement and maintain ethical, sustainable and responsible principles throughout the supply chain
- ▶ Ensure that the customer remains at the heart of everything we do
- ▶ Treat customers fairly throughout the customer experience.

2. Employees

- ▶ Embed customer values and behaviours
- ▶ Hire, develop and retain talented people to ensure that our customers enjoy a consistently good experience
- ▶ Provide a safe, healthy and inclusive environment for our people.

3. Community

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

4. Environment

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

These corporate responsibility principles are part of the way we operate on a daily basis and reflect in the way we deal with customers, employees, partners and the community.

Customers

In 2012, our UK business introduced a Customer Charter which outlined 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. Similar charters are now being developed in our other established businesses.

Employees

Our values and behavioural characteristics continue to underpin our focus on delivering consistently good customer service and are embedded in our recruitment, selection, development and reward arrangements. Using our behavioural characteristics effectively has ensured that individuals hired or promoted possess the right attitude and core behaviours, as well as the necessary commercial and technical skills. We continue to review both performance and potential against the characteristics as a key part of our annual performance management, career development and succession planning processes.

Our Group Leadership Development Programme, delivered in conjunction with Cranfield University, has run throughout the year and received strong endorsements from both participants and senior management. In addition, our operating businesses have continued to provide focused management and customer service training and development to colleagues, supporting the delivery of consistently good customer service across the Group.

We attach considerable importance to ensuring that all our employees benefit from effective communications and engagement, using regular business updates, senior management lunches and "surgeries", question and answer opportunities and constructive relationships with employee representatives. A group-wide employee survey is run each year, with results reported to the Board and action plans devised and implemented locally. Employees are actively involved in the creation and delivery of these plans.

It is our 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.

We 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 the fair application of relevant job criteria and by personal ability and competence.

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. Our training and development policies also make it clear that we will take all practicable steps to ensure that if an employee becomes disabled during the time they are employed, their employment can continue.

Charity

In September 2012, our UK business reached its target of donating £1 million to its national charity partner, Marie Curie Cancer Care. The three year target was reached six months early, an incredible achievement. The partnership has been extended for another year, until March 2014.

To date £1,268,000 has been raised in total. £475,000 has been raised through employee fundraising, business donations and sponsorship of Walk Ten. We have also provided free home emergency cover to Marie Curie patients, to provide practical support at home (from fixing a boiler to unblocking a toilet) through our network of engineers. This cover, along with other gift in kind activities has raised a further £793,000.

Since reaching the fundraising milestone, employees have been encouraged to visit Marie Curie hospices to see for themselves the genuine difference their fundraising has made.



Noddy Holder helps celebrate raising £1m

- ▶ Slade legend Noddy Holder made a welcome appearance in Walsall to help us celebrate raising £1m for Marie Curie Cancer Care.

Noddy commented:

“ I'm delighted to be here to represent Marie Curie Cancer Care and help HomeServe celebrate such an incredible achievement. ”

The partnership has been recognised by two prestigious industry bodies; it has been short-listed in the Third Sector Business Charity Awards in the category of 'Employee Engagement' and the Institute of Fundraising has nominated it for 'Best Business Charity Partnership'.

In March 2013, our UK business also supported the Comic Relief media appeal for the ninth consecutive year by taking calls in our Walsall call centre. 250 volunteers answered over 4,000 donation calls while the live show was broadcast by the BBC and £130,000 was raised to help vulnerable people in the UK and in Africa.

In the USA, we have continued to work with Habitat for Humanity which seeks to eliminate poverty housing and homelessness by building houses in partnership with families in need. In addition, a Hurricane Sandy Relief Fund was established using social media sites and employees also raised \$10,000 for colleagues who had sustained significant damage to their homes as a result of the hurricane.

In France and Spain, we have continued to support local charities both by fund raising and volunteering. Activities have included cooking Christmas lunch for disadvantaged people, painting walls in a school for disabled children and toy and food collections.

Health & Safety

We are committed to health and safety excellence through a process of continual health and safety improvement for all employees, contractors and the communities in which we operate. We actively focus on providing a safe working environment for our office and mobile workforces. We recognise that everyone must play their part in the achievement of health and safety excellence and we promote and support staff in their efforts to achieve zero work related injuries and illnesses.

Risks

We have a variety of physical and psychological health and safety risks to manage. All our businesses have suitable and proportionate health and safety management systems, 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 health and safety performance across the Group. There has been a reduction in the number of accidents reported and there were no regulatory interventions following accidents anywhere in the Group. Martin Bennett, Chief Operating Officer, continues to be the Board Champion for health and safety.

We have redeveloped our Group Health & Safety Policy Statement to provide 10 key guiding principles to underpin our arrangements.

In the UK, our employed network was successful in achieving RoSPA's Gold Award for occupational health and safety performance for the third year running. This prestigious award follows a rigorous self-assessment and submission of a portfolio of evidence against the judging criteria. This third Gold Award follows a previous Silver Award.

Our US business has a firmly embedded health and safety management structure with consultative committees providing oversight of the delivery of their health and safety improvement plan. The plan has progressed in the face of a very challenging winter and serious adverse weather events in the North East with Hurricane Sandy. With a strong focus on incident reduction, a comprehensive driver safety scheme was successfully introduced.

Reparalia in Spain continues to utilise specialist third party auditors to undertake inspections and make recommendations to local management in respect of health and safety improvements.

In France, Doméo and SFG received favourable reports from the three Government Inspectors (the Medecins du Travail) who are statutorily obligated to visit each business multiple times each year. Each business also invites the relevant inspector to their joint management and consultative committee meetings. French performance is strong; particularly as they have to record employee accidents that occur from the minute they step out of their homes (commuting to/from their place of work is considered a work activity) and report all accidents to the safety regulator.

The German and Italian businesses continue to be accident free.

Accidents/incidents

Reporting of accidents and incidents has continued to improve allowing us to monitor trends, anticipate issues and cascade knowledge across the Group.

	2013	2012	2011
No of accidents	141	148	144
Accident incidence rate	3,471	3,496	3,531

The accident incidence rate is the number of accidents divided by the number of employees, multiplied by 100,000.

There have been no prosecutions or other enforcement actions taken in respect of our businesses by any of the national health and safety regulators for breaches of health and safety laws.

Environment

We take our environmental responsibilities seriously and recognise that sustainable and responsible performance is important to the future growth of our business.

Performance

During the year we strengthened our environmental performance and there were no regulatory interventions anywhere in the Group.

We have launched a Group Environmental Policy Statement to provide 10 key guiding principles for all of our businesses. We have audited direct and indirect greenhouse gas emissions in preparation for formal reporting in the UK from FY2014.

In the UK, our employed network continues to monitor MPG and aspects of driver behaviour through telematics in each vehicle. A car share scheme was successfully launched in our Walsall head office and to reduce our energy consumption further, LED lighting is under live trial in one of the call centres.

Our US business has established a project team to drive forward third party Energy Star accreditation. Energy Star is a voluntary programme that helps businesses and individuals save money and protect the climate through superior energy efficiency.

In France, an innovative recycling programme has been launched for office paper. Working in conjunction with 'La Poste', the national mail carrier, waste paper is collected by postal workers when they deliver the mail (reducing empty vehicle journeys) and is sorted by offenders as part of a community service scheme.

Throughout the year we have given our customers tips and hints on how they can reduce costs whilst reducing their impact on the environment.

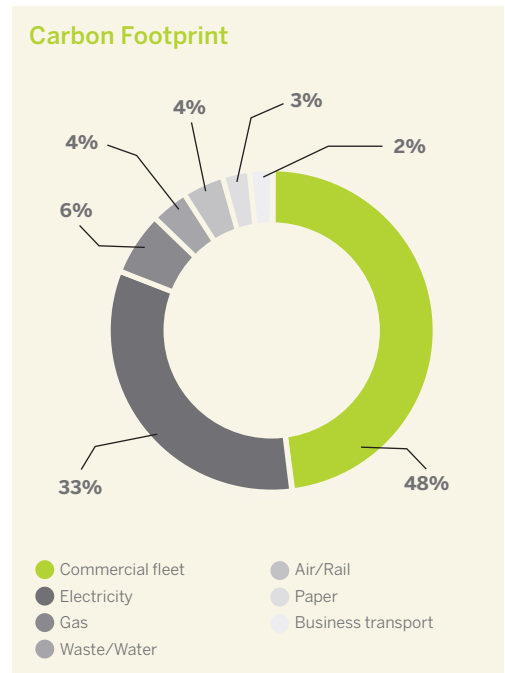
UK waste reduction

We have reduced the volumes of general waste leaving our UK sites, reducing the amount of waste that ends up in landfill:

	2013	2012	2011
UK recycling rate	95%	94%	83%

Carbon Footprint

The carbon footprint for our UK operation in FY2013 was 9,364 tco2e.



Directors



JM Barry Gibson (61)¹³⁴

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

Johnathan Ford (43)

Appointed as Chief Financial Officer in September 2012. Previously the Group Finance Director of NWF Group plc, an AIM listed specialist agricultural and distribution group. Prior to joining NWF in March 2009 he spent four years at HomeServe, firstly as Group Commercial Director and later as Finance Director of the Emergency Services Division. Before joining HomeServe he was Head of Corporate Finance at Kidde plc. He qualified as a chartered accountant at PwC.

Richard Harpin (48)

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

Jonathan King (52)

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.

Martin Bennett (44)

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.

Ian Chippendale (64)¹²³⁴

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 (50)¹³⁴

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.

Tom Rusin (42)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.

Ben Mingay (48)¹²³

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.

Rachael Hughes (42)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.

Mark Morris (53)¹²³⁴

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

Anna Maughan (43)

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 & Risk Committee (Chairman: Mark Morris).
- ³ Nomination Committee (Chairman: Barry Gibson).
- ⁴ Remuneration Committee (Chairman: Ian Chippendale).
- ⁵ Member of Executive Committee only.

Directors' report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 March 2013.

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 2013 of a final dividend of 7.67p per ordinary share to shareholders on the register at the close of business on 5 July 2013 which, together with the net interim dividend of 3.63p per ordinary share paid on 3 January 2013, results in a total net dividend for the year of 11.3p per share (2012: 11.3p). 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 25. 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 36. 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 2012 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 2013 AGM.

Authority to purchase shares

The Company was authorised at the 2012 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 2013 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. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors and employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Annual General Meeting

The 2013 Annual General Meeting of the Company is to be held on 26 July 2013. The notice of the meeting accompanies this report.

Disclosure of information to auditor

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 £6.2m (2012: £5.3m) during the year.

Donations

Charitable donations of £126,000 (2012: £70,000) were made during the year. No political contributions were made in either year. Further details of the Company's charitable activities are available in the Corporate responsibility report.

Payment of creditors

The Group's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. Trade creditors at 31 March 2013 represented 61 days of purchases during the year (2012: 39) for the Group and 20 for the Company (2012: 28).

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 31 March and 10 May 2013, except for the following:

Name	As at 10 May 2013		As at 31 March 2013	
	Ordinary shares	%	Ordinary shares	%
Invesco Ltd	93,202,881	28.24	95,279,342	28.87
Richard Harpin ¹	39,972,087	12.11	39,972,087	12.11
M&G Ltd	31,794,647	9.63	31,153,676	9.44
Marathon Asset Management Ltd	23,206,123	7.03	23,209,548	7.03

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
21 May 2013

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.

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 & Risk, 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

Johnathan Richard Ford (appointed on 27 September 2012)

Jonathan Charles King

Ian Chippendale

Stella Julie David

Benjamin Edward Mingay

Mark Christopher Morris

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, four independent Non-Executive Directors (Messrs Chippendale, Mingay and Morris 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 can be found on page 42.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2013 and 21 May 2013 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 across the Group. Each business and corporate function prepares and maintains succession plans with the support of local and Group HR. The Executive Committee reviews the plans in detail twice a year and the Board reviews the high level plan at least annually. There is a clear need to ensure that there is an appropriate pool of talented and capable individuals to fill senior roles and the identification and development of this group remains a key focus.

Diversity

Although no target has been set in respect of the percentage of women on the Board, we are committed to ensuring that the Board has relevant experience and appropriate diversity. When seeking to recruit for Board positions we ensure that 'long lists' include women candidates and in respect of non-executive positions we ensure that candidates from a wider pool are considered, including those with little or no listed company board experience.

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 & Risk Committee	Remuneration Committee
Number of meetings held	10	4	2
Meetings attended			
R Harpin	10		
M Bennett	10		
J Ford ¹	6		
J King	10		
J M B Gibson	10		2
I Chippendale	10	3	2
S David	9		2
B Mingay	10	4	
M Morris	10	4	2

¹ Johnathan Ford was appointed on 27 September 2012 and attended all meetings from that date.

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 Johnathan Ford undertook an induction programme.

Board evaluation

The Board has implemented a formal process for reviewing its own effectiveness, that of its Remuneration and Audit & Risk 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 2011/12 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.

During 2012/13 Directors again completed evaluation questionnaires and these were used by Lintstock to compile a further report which was considered by the Board in February 2013. The Board concluded that it was operating effectively, although a number of recommendations for further improvement were approved.

Committees

The Board operates a number of committees to which it has delegated certain specific responsibilities, each of which has formally adopted terms of reference. These comprise the Nomination, Audit & Risk 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 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 Johnathan Ford to the position of CFO. Following these informal meetings, a recommendation was made to the Board and the final decision was taken by the Board as a whole.

The Committee draws on the advice of such professional advisers as it considers necessary and did so during the year in respect of the appointment made.

Audit & Risk 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 accounting and internal control systems
- agree audit strategy
- monitor the scope and results of the 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 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 auditor, the approval of their remuneration and their terms of engagement
- advise the Board on the Group's overall risk appetite, tolerance and strategy
- advise the Board on current risk exposures and future risk strategy
- review and approve the means by which the Group and its regulated subsidiary undertakings seek to comply with their respective regulatory obligations
- review the adequacy and security of the arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit & Risk 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 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.

During the year and following the issues identified in the UK in 2011, the decision was taken to extend the remit of the Committee to include risk. The name of the Committee was changed to the Audit & Risk Committee and the terms of reference were amended to reflect the extended scope of the Committee's activities.

Specifically, the following duties were added:

- advising the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment
- advising the Board on the current risk exposures and future risk strategy of the Group and its material subsidiary undertakings
- reviewing and approving the means by which the Group and its regulated subsidiary undertakings seek to comply with their respective regulatory obligations and periodically reviewing the effectiveness of the regulatory compliance policies of the Company.

The Committee receives regular reports from the Group Director of Risk, the Non-Executive Chair of the UK business's Risk Committee and those responsible for risk and compliance matters across the Group.

During the year, the Committee reviewed the Group's risk appetite and a revised statement and supporting policy was recommended to the Board for approval.

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.

The fees payable to the auditor for non-audit related work (excluding compliance services) totalled £193,000 and the fees payable in respect of audit and compliance services totalled £282,000. 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, Johnathan Ford, Jonathan King, Rachael Hughes, Chief Executive of HomeServe Europe and Tom Rusin, Chief Executive of HomeServe USA. 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 Johnathan Ford. Its terms of reference have been approved by the Board and its purpose is to advise the Audit & Risk Committee in respect of the Group's risk appetite, to evaluate the risk registers compiled by each of its businesses, to monitor the effectiveness of action plans for the mitigation of those risks, and to report thereon to the Audit & Risk Committee and thereafter 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 they may have in relation to the running of the Company and who met with the top three shareholders during the year.

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 the website or by telephone.

The Board 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 receives 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.

The issues identified in the UK business in 2011/12 indicated that there had been a breakdown in certain internal controls which gave rise to exceptional expenditure. As reported last year, 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 agreed a number of specific actions. In addition to the general internal review, a number of specific reviews of the UK business were undertaken by external advisers. A business improvement programme was established in 2011/12 consisting of a number of focused workstreams. These workstreams were largely completed during 2012/13.

The Board remains committed to ensuring that the Company learns from the experiences in the UK business and has sought to ensure that the learnings are shared and policies and procedures strengthened across all territories. A review of regulatory compliance outside the UK has commenced and it is expected that action plans to address any issues identified will be developed and delivered during 2013/14.

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 and the Audit & 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 Audit & Risk Committee and the Board.
- The Audit & Risk Committee meets four times a year and reviews the risk register in order to advise the Board on current risk exposures and future risk strategy.
- 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 & Risk Committee which makes a recommendation in respect of their approval to the Board. The Board then reviews and approves 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 & Risk 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 & Risk 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 & Risk Committee.
- At each meeting, the Audit & Risk 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 & Risk 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 and to evaluate, in detail, risk registers compiled by the Group's businesses.
- The Audit & Risk Committee considers the Group's overall risk appetite, tolerance and strategy and provides advice to the Board.
- At least twice a year, the Audit & Risk Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit & Risk Committee Chairman reports the outcome of all Audit & Risk Committee meetings to the Board, which also receives minutes of all such meetings.

By Order of the Board

JM Barry Gibson

Chairman

21 May 2013

Remuneration report

The Remuneration Committee (the 'Committee') works hard to ensure that the remuneration policy for the Executive Directors supports the business strategy and that the level of remuneration received is reflective of the overall business performance and the returns received by shareholders. A significant proportion of the remuneration package comes from variable pay (>60% at target performance), with careful consideration given to the choice of performance metrics to ensure that the executives are not encouraged to take inappropriate risks.

The transition to a more customer focused culture across all our businesses is reflected in the use of customer service metrics in the annual bonus scheme. In the UK, our focus on improving customer service has been particularly successful with the number of complaints received reduced by 40%. Bonus payments for the year ended 31st March 2013 range from 75% to 89% of salary (no bonuses were paid for the prior year), reflecting the significant progress made in improving the customer experience, the commercial performance of the business and the achievement of individual objectives.

The share-based long-term incentive awards (performance and matching awards) are based on relative total shareholder return and, for the 2010 and 2011 awards, an earnings per share growth target. HomeServe's share price underperformed the FTSE 250 during the period to June 2012 and the 2009 awards lapsed accordingly. The 2010 awards (due to vest in June 2013) are currently below the minimum vesting threshold.

The salary review date for all employees has been moved from 1 April to 1 July. Martin Bennett was the only Executive Director to receive a salary increase last year reflecting his promotion. In setting the salary levels for the Executive Directors, the Committee is mindful of the pay and employment conditions for all our employees across the Group. An increase of 2.5% has been agreed for 2013 which reflects the average pay increase expected to be given to HomeServe's employees in the UK.

The Remuneration Committee is satisfied that the current policy supports the needs of the business, drives the right behaviours and appropriately rewards executives. Accordingly no changes to the remuneration policy are proposed for 2013/14.

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 and describes how the Board has applied the principles within the 2010 UK Corporate Governance Code (the 'Code') relating to Directors' remuneration. An advisory resolution to approve this report will be proposed at the Annual General Meeting. The Act requires the external auditors to report on certain parts of this report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with it. The report has therefore been divided into separate sections for audited and unaudited information.

The Remuneration Committee is aware of the proposed changes to the reporting and approval of directors' remuneration that have been put forward by the Department for Business, Innovation and Skills. The proposed change will take effect for the Company from 1 April 2014. As the new disclosure requirements are still to be finalised at the time of drafting this report, the Committee has chosen not to early adopt any of the proposals. Notwithstanding this, the Committee believes that the Remuneration report, in its current format, provides a clear and transparent account of the policy for Directors' remuneration and its application during the year under review.

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 account of the fact 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. He takes no part in discussions relating to his own remuneration.

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 it periodically 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. 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 plc. 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, Group Chief Executive, 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 policy

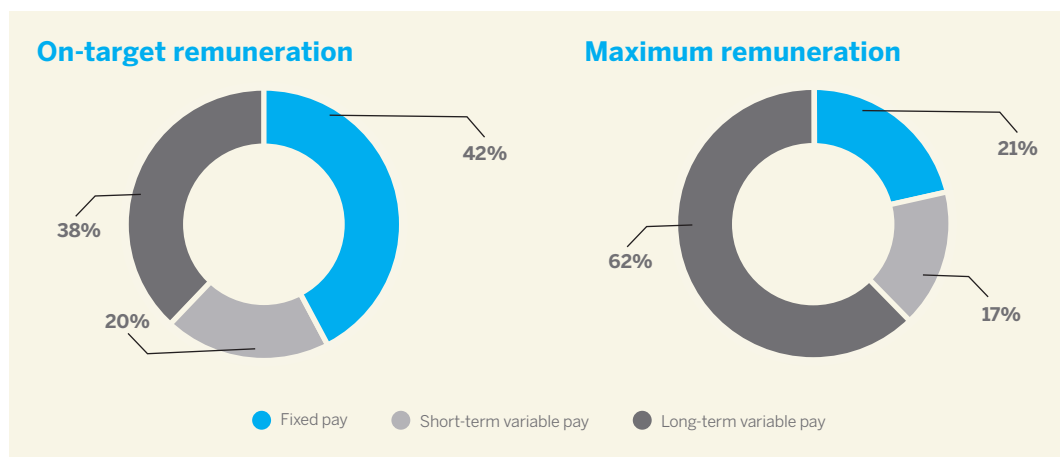
The Committee's remuneration policy for the remuneration of Executive Directors and other senior executives is based on the following principles:

- 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 is satisfied that neither the structure of the remuneration packages, with the high weighting on variable pay, nor the performance measures targeted under the annual bonus and long-term incentive arrangements, 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.

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 was 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 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.

Summary of components of Executive Directors' remuneration

Element	Purpose and link to strategy	Performance Period	Operation
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 July)	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.
Performance related bonus	To incentivise and reward the delivery of Group and individual performance-related objectives.	Annual (determined after the year end)	<p>The maximum potential quantum is 100% of salary and is set so as to incentivise stretch performance and provide a competitive level of reward if all the targets are achieved.</p> <p>For 2012/13, bonus payments were determined according to performance in respect of commercial (40%), customer (40%) and personal targets (20%). This policy is to be maintained in 2013/14.</p> <p>Bonuses are payable in cash but may be deferred into shares under the matching element of the LTIP.</p>
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.	Three years	<p>Awards of performance and matching shares are granted under the LTIP. Both award types are subject to the same performance conditions.</p> <p>The maximum limit is 200% of salary for performance share awards (the normal policy limit is 150% of salary) and a maximum 2:1 match on investment of up to 75% of bonus earned.</p> <p>Awards granted under the LTIP in June 2012 are subject to a relative TSR performance condition and satisfactory underlying earnings performance. This will also apply in 2013.</p>
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	<p>Richard Harpin and Jonathan King participate in the Water Companies Pension Scheme (a defined benefit scheme which is closed to new members). The other Executive Directors receive a 20% contribution to the HomeServe Money Plan (a defined contribution scheme).</p> <p>Retirement benefits under both schemes are restricted by a notional earnings cap (£127,628 for 2012/13). An unapproved pension contribution equal to 20% of the amount by which basic salary exceeds the notional cap is paid annually.</p>
Other benefits	Provides a competitive package of benefits to assist with recruitment and retention of staff.	N/A	Other benefits comprise a fully expensed car (or cash alternative), private health and (for Mr Bennett and Mr Ford) long-term sickness cover.

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. Salary levels are determined taking into account pay and employment conditions of employees elsewhere in the Company and market data on salary levels for similar positions at comparable companies in the FTSE 250.

Historically, salaries were reviewed annually in April (unless responsibilities changed) but the decision has been taken to move the review date to July to allow performance development reviews to be completed and the results to be taken into account when determining any salary increases. As a transitional measure, in 2013 any increase will be retrospectively applied to salary earned from 1 April 2013.

No salary increases were awarded to the Executive Directors in April 2012.

Martin Bennett was appointed to the new role of Group Chief Operating Officer (from the role of CFO) in January 2012. Given the difficulties facing the business and the newness of the role, the Remuneration Committee felt that it was not appropriate to review his salary at that time. In November 2012, by which time Martin Bennett was established in the COO role and performing well, the Committee agreed to review his salary. It was agreed that in light of the change in scope of his position, his personal performance and criticality to the business an increase should be awarded. A 13.4% increase was applied from October 2012, bringing his salary to £375,000.

For 2013, an increase of 2.5% has been agreed in respect of Messrs Harpin, Ford and King. This reflects the general increase being given to HomeServe employees in the UK.

The current salaries for the Executive Directors are therefore as follows:

Name of Director	
R Harpin	£535,819
M Bennett	£375,000
J Ford	£281,875
J King	£377,456

Annual bonus

The annual bonus is designed to drive and reward excellent short-term operating performance of the Company and encourage the delivery of consistently good customer outcomes and 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 vests after three years subject to a comparative Total Shareholder Return ('TSR') performance condition.

2012/13

The bonus potential was 100% of salary. As reported last year, the Remuneration Committee undertook a detailed review of the bonus objectives and some significant changes were introduced with a view to ensuring that customer outcomes were of equal importance to commercial outcomes. Bonus objectives were as follows:

Customer objectives (40% of bonus)	Commercial objectives (40% of bonus)	Personal objectives (20% of bonus ¹)
<ul style="list-style-type: none"> A reduction in customer complaints An increase in customer satisfaction 	<ul style="list-style-type: none"> Profit before tax Core renewable customers 	<ul style="list-style-type: none"> An improvement in employee engagement Up to four other stretching personal objectives

¹ Johnathan Ford joined part way through the year. His bonus entitlement was pro rated accordingly and a higher weighting on personal objectives was applied (40% of the total).

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

Stringent bonus gates were applied with the customer objectives being considered first. If an agreed percentage of the customer objectives was not achieved, no bonus would be payable. If customer objectives were achieved, the level of profit (and therefore affordability) would be considered.

Strong performance was achieved in respect of the customer objectives with customer complaints reducing in all territories (exceeding the stretch target set at the start of the year) and improvements in customer satisfaction levels, particularly in the UK and USA. On the commercial objectives, the Group exceeded its target in respect of profit before tax whilst narrowly missing the target in respect of core renewable customers (except in the USA where the target was achieved). The Committee reviewed the achievement against the personal objectives (which had been set for each of the Directors at the start of the year based on their area of responsibility) and payments for this element ranged from 80% to 90% of the maximum. Total bonuses payable in respect of 2012/13 were between 75% and 89% of salary (pro-rated for Johnathan Ford who joined part way through the year).

2013/14

Bonus potential will remain at 100% of salary and the bonus objectives will follow the model introduced in 2012/13.

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 'LTIP').

The maximum individual award limit under the 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 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.

2012 awards

Details of the LTIP awards granted in June 2012 are set out later in this report. As set out in last year's Remuneration report, the awards are subject to a relative TSR performance condition. It should be noted that in relation to the matching awards, bonuses for 2011/12 were zero, so no bonus deferral was possible. However, as permitted under the Rules, Richard Harpin chose to invest the equivalent of 25% of his salary, from his own money, in shares thereby receiving a corresponding matching award.

2013 awards

It is the Committee's intention to grant performance awards in 2013 in line with the normal grant policy of 150% of salary. The awards will be subject to the same relative TSR performance condition as applied to the 2012 awards.

Matching awards will also continue to be granted where executives choose to invest in accordance with the Rules. The performance condition for the matching awards will be same as for the performance awards.

Save As You Earn Scheme

Executive Directors may 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, 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.

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 later in this report.

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 2012
J Ford	1 October 2012
J King	21 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 Messrs Bennett, Ford and King). Notice periods and payments are not extendable in takeover situations.

Pensions

Executive Directors currently participate in one of two pension schemes (with benefits limited to their notional capped salary). An unapproved pension contribution is paid in respect of basic salary above the cap.

The Water Companies Pension Scheme	A funded, Inland Revenue approved occupational defined benefit scheme
Members	Richard Harpin Jonathan King
Main features	<ul style="list-style-type: none"> • 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; • 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 scheme
Members	Martin Bennett Johnathan Ford
Main features	<ul style="list-style-type: none"> • 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	<p>A notional earnings cap restricts the benefits provided to members of the Water Companies Pension Scheme and the HomeServe Money Plan. An unapproved pension contribution, equal to 20% of the amount by which basic salary exceeds the notional cap is paid annually. Executives may choose to have this amount paid directly into their pension or may receive it as cash.</p> <p>The notional cap is indexed in line with earnings inflation. For 2012/13 the notional cap was £127,628.</p>

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 2013
I Chippendale	1 January 2013
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 & Risk and Remuneration Committees of £8,500. Ian Chippendale received an additional fee of £5,000 for his role as Senior Independent Director. Barry Gibson received £200,000 for his role as Chairman.

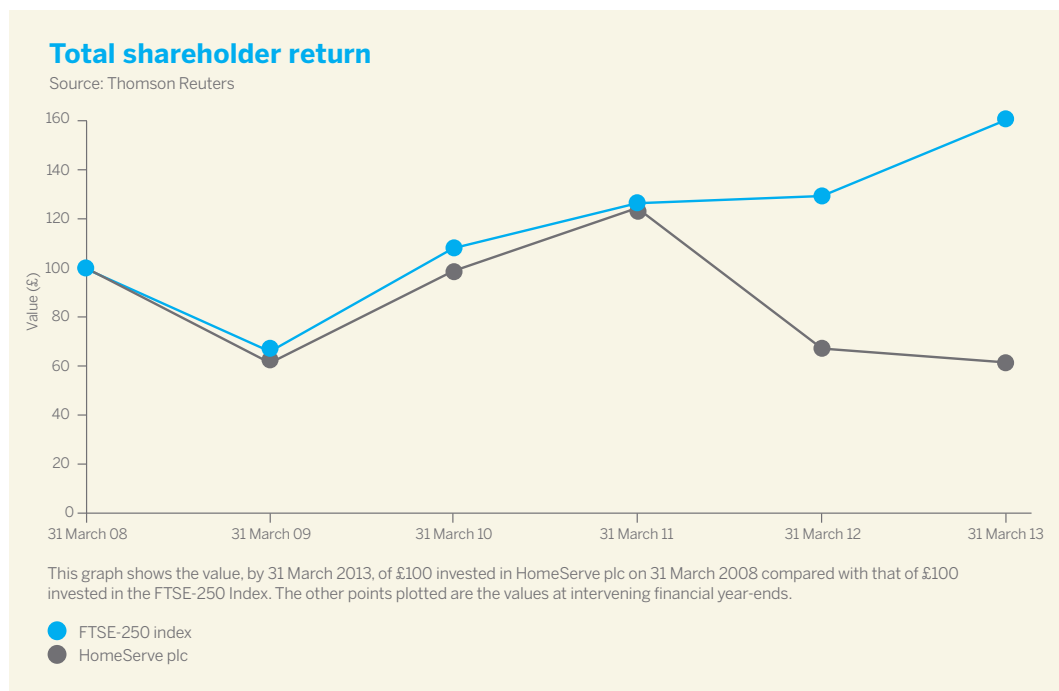
Executive Committee

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 2013.

Base salary range	Number of employees
£250,001 - £300,000	1
£300,001 - £350,000	1

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-250 Index (also measured by TSR) for the five years ended 31 March 2013. 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 LTIP.



Audited information

Directors' emoluments

	Basic salary £000	Benefits £000	Bonus £000	Compensation for loss of office £000	Total emoluments and compensation 2013 £000	2012 £000
Executive						
R Harpin	523	38	392	—	953	559
M Bennett	355	22	295	—	672	352
J Ford ¹	140	10	122	—	272	—
J King ²	368	66	312	—	746	661
J Florsheim ³	—	—	—	—	—	850
Non Executive						
J M B Gibson	200	—	—	—	200	200
I Chippendale	58	—	—	—	58	58
S David	44	—	—	—	44	44
B Mingay ⁴	44	—	—	—	44	11
M Morris	53	—	—	—	53	53
A Sibbald ⁵	—	—	—	—	—	24
Total 2013	1,785	136	1,121	—	3,042	
Total 2012	1,816	364	1,368	632		2,812

¹ Johnathan Ford was appointed on 27 September 2012.

² Jonathan King relocated from the US to the UK with effect from 1 September 2011. His benefits include a living allowance of £44,000 per annum (payable for two years from 1 September 2011). In the prior year, his benefits also included relocation expenses of £246,000.

³ Jon Florsheim resigned as a Director on 29 July 2011 and left the Company on 12 August 2011.

⁴ Ben Mingay was appointed on 1 January 2012.

⁵ 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, later in this report.

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2013 £000	2012 £000
Emoluments	3,042	2,812
Compensation for loss of office	—	632
Gains on exercise of share options	453	1,772
Money purchase pension contributions	226	250
	3,721	5,466

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 2013 £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 2012 £000	Transfer value of increase £000
R Harpin	48	3	1	45	28
J King	57	5	3	52	79

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 2013 £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 2012 £000
R Harpin	983	285	285	698
J King	1,293	322	333	960

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.

Two Directors were members of the Company's money purchase pension scheme. Contributions paid by the Company were as follows:

	2013 £000	2012 £000
M Bennett	26	25
J Florsheim ¹	—	55
J Ford ²	13	—

In addition, the following unapproved pension contributions were paid:

	2013 £000	2012 £000
R Harpin	79	79
M Bennett	45	41
J Ford ²	15	—
J King	48	49

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 Johnathan Ford was appointed on 27 September 2012.

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 2013	31 March 2012
R Harpin ¹	39,972,087	39,512,980
M Bennett	80,151	80,151
J Ford ²	—	—
J King	262,404	251,483
J M B Gibson	75,000	75,000
I Chippendale	20,000	20,000
S David	17,688	17,688
B Mingay	20,000	20,000
M Morris	17,500	17,500

¹ Includes an indirect interest of 28,500.

² Johnathan Ford was appointed on 27 September 2012.

There were no changes in the Directors' interests in shares between 31 March and 21 May 2013.

Directors' share options and long-term incentives

Save as you earn (SAYE) schemes

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

	31 March 2013	Granted during year	Lapsed during year	Exercised during year	31 March 2012	Option price	Date granted	Date exercisable from
R Harpin	8,152	—	—	—	8,152	£1.84	19.12.11	1.3.17
M Bennett	8,152	—	—	—	8,152	£1.84	19.12.11	1.3.17
J Ford	4,591	4,591	—	—	—	£1.96	17.12.12	1.3.16
J King	4,891	—	—	—	4,891	£1.84	19.12.11	1.3.15

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 21 May 2013.

ESOP

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

	31 March 2013	Granted during year	Lapsed during year	Exercised during year	31 March 2012	Option price	Date granted
R Harpin	—	—	—	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 5 July 2012 when Mr Harpin exercised his option was £1.64.

There were no changes in the options held under the ESOP between 31 March and 21 May 2013.

DBP

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

	31 March 2013	Granted during year	Lapsed during year	Vested during year	31 March 2012	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). The awards vested in 2008. Mr Harpin elected to convert his vested award into a nil cost option at the end of the performance period. The option can be exercised at any time up until the tenth anniversary of grant.

LTIP

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

	31 March 2013	Awarded during year	Lapsed during year	Vested during year	31 March 2012	Date granted	Type of Award
R Harpin	—	—	—	112,756	112,756 ¹	6.8.08	Performance
	—	—	—	87,096	87,096 ¹	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
	344,822	344,822	—	—	—	27.6.12	Performance
	163,563	163,563	—	—	—	27.6.12	Matching
M Bennett	—	—	—	14,470	14,470 ¹	6.8.08	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
	293,448	293,448	—	—	—	27.6.12	Performance
J King	—	—	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
	323,879	323,879	—	—	—	27.6.12	Performance

¹ These awards vested on 6 August 2011 and were converted into nil cost options. The price of an ordinary share on 5 July 2012 when the options were exercised was £1.64.

The market price of the Company's shares on 27 June 2012, the date the 2012 LTIP awards were granted was £1.509.

The performance conditions in respect of the LTIP awards granted in 2009 and 2012 are based exclusively on a TSR performance condition, an EPS target was added in 2010 and 2011.

The performance period for the TSR condition runs for three years from the date of grant and requires 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 required out-performance of the Index by 15% per annum.

The performance period for the EPS condition (applicable to 50% of the 2010 and 2011 awards) is three financial years, starting with the year in which the award is granted. 25% of the EPS awards will vest for average annual EPS growth of RPI + 4%, increasing in a straight line basis to 100% vesting where average EPS growth is RPI + 10%.

For the 2009 awards (which are subject to a single TSR condition), HomeServe's TSR was below that of the FTSE 250 Index at the end of the performance period and the awards lapsed accordingly.

As at 31 March 2013, for the 2010 and 2011 awards HomeServe's TSR performance was below the FTSE 250 Index. Therefore, if 31 March 2012 were the end of their performance periods, the awards which are subject to TSR performance condition would lapse. For the 2012 awards, HomeServe's TSR is currently tracking above that of the FTSE 250 Index.

General

The market price of the Company's shares at 31 March 2013 was £2.005 (2012: £2.335). During the year the price ranged from £1.375 to £2.525.

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 2013 amounted to 5,458,335 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
21 May 2013

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

21 May 2013

Johnathan Ford

Chief Financial Officer

21 May 2013

Group independent auditor's report

We have audited the Group financial statements of HomeServe plc for the year ended 31 March 2013 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 39. 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 2013 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 2013 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

21 May 2013

Group income statement

Year ended 31 March 2013

	Notes	2013 £m	2012 £m
Continuing operations			
Revenue	4	546.5	534.7
Operating costs	7	(477.4)	(452.4)
Share of profit of joint ventures	17	—	3.0
Operating profit		69.1	85.3
Investment income	9	0.1	0.1
Finance costs	10	(2.7)	(2.3)
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		105.0	126.0
Exceptional expenditure	6	(25.1)	(31.1)
Amortisation of acquisition intangibles	7	(13.4)	(10.4)
Gain on re-measurement of joint venture interest on acquisition of control	6	—	54.9
Tax on joint ventures		—	(1.4)
Profit before tax		66.5	138.0
Tax	11	(24.6)	(23.7)
Profit for the year, being attributable to equity holders of the parent		41.9	114.3
Dividends per share, paid and proposed	12	11.3p	11.3p
Earnings per share			
Basic	13	12.9p	35.4p
Diluted	13	12.7p	34.6p

Group statement of comprehensive income

Year ended 31 March 2013

	Notes	2013 £m	2012 £m
Profit for the year		41.9	114.3
Exchange movements on translation of foreign operations	31	0.6	(3.9)
Actuarial loss on defined benefit pension scheme	37	(0.7)	(1.2)
Tax (charge)/credit relating to components of other comprehensive income	21	(0.1)	0.1
Total comprehensive income for the year attributable to equity holders of the parent		41.7	109.3

Group balance sheet

31 March 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Goodwill	14	248.4	260.9
Other intangible assets	15	148.8	142.3
Property, plant and equipment	16	33.3	37.5
Deferred tax assets	21	3.1	3.7
		433.6	444.4
Current assets			
Inventories	18	1.1	1.5
Trade and other receivables	19	293.5	291.1
Cash and cash equivalents	19	88.6	52.8
		383.2	345.4
Total assets		816.8	789.8
Current liabilities			
Trade and other payables	22	(243.8)	(230.8)
Current tax liabilities		(9.7)	(8.8)
Provisions	24	(20.1)	(21.0)
Obligations under finance leases	35	(0.5)	(0.4)
		(274.1)	(261.0)
Net current assets		109.1	84.4
Non-current liabilities			
Bank and other loans	20	(129.6)	(117.8)
Other financial liabilities	23	(11.7)	(15.8)
Retirement benefit obligation	37	—	(0.6)
Deferred tax liabilities	21	(24.8)	(27.6)
Obligations under finance leases	35	(1.4)	(0.6)
		(167.5)	(162.4)
Total liabilities		(441.6)	(423.4)
Net assets		375.2	366.4
Equity			
Share capital	25	8.2	8.2
Share premium account	26	38.3	38.1
Merger reserve	27	71.0	71.0
Own shares reserve	28	(17.7)	(19.1)
Share incentive reserve	29	11.1	8.6
Capital redemption reserve	30	1.2	1.2
Currency translation reserve	31	4.5	3.9
Retained earnings		258.6	254.5
Total equity		375.2	366.4

The financial statements were approved by the Board of Directors and authorised for issue on 21 May 2013. They were signed on its behalf by:

Johnathan Ford
Chief Financial Officer
21 May 2013

Group statement of changes in equity

Year ended 31 March 2013

	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 2012	8.2	38.1	71.0	(19.1)	8.6	1.2	3.9	254.5	366.4
Total comprehensive income	—	—	—	—	—	—	0.6	41.1	41.7
Dividends paid	—	—	—	—	—	—	—	(36.6)	(36.6)
Issue of share capital	—	0.2	—	—	—	—	—	—	0.2
Issue of trust shares	—	—	—	1.4	—	—	—	(1.0)	0.4
Share-based payments	—	—	—	—	3.0	—	—	—	3.0
Share options exercised	—	—	—	—	(0.5)	—	—	0.5	—
Tax on exercised share options	—	—	—	—	—	—	—	0.1	0.1
Balance at 31 March 2013	8.2	38.3	71.0	(17.7)	11.1	1.2	4.5	258.6	375.2

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

Group cash flow statement

Year ended 31 March 2013

	Notes	2013 £m	2012 £m
Net cash inflow from operating activities	33	99.2	77.7
Investing activities			
Interest received		0.3	0.1
Dividend from joint venture		—	3.5
Proceeds on disposal of property, plant and equipment		1.4	0.7
Purchases of intangible assets	15	(27.3)	(12.8)
Purchases of property, plant and equipment	16	(4.0)	(4.8)
Net cash outflow on acquisitions	32	(5.8)	(87.8)
Net cash used in investing activities		(35.4)	(101.1)
Financing activities			
Dividends paid	12	(36.6)	(34.2)
Repayment of finance leases		(0.6)	—
Issue of shares from the employee benefit trust		0.4	0.8
Proceeds on issue of share capital	25	0.2	1.4
Increase in bank and other loans	20	8.5	92.7
Net cash (used in)/from financing activities		(28.1)	60.7
Net increase in cash and cash equivalents		35.7	37.3
Cash and cash equivalents at beginning of year		52.8	16.1
Effect of foreign exchange rate changes		0.1	(0.6)
Cash and cash equivalents at end of year		88.6	52.8

Notes to financial statements

Year ended 31 March 2013

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

'Improvements to IFRSs (2011)' 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 (2012)	

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 the future periods.

Notes to financial statements

Year ended 31 March 2013

2. Significant accounting policies (continued)

Standards in issue but not yet effective (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 (see below) adjustments. 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

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

Notes to financial statements

Year ended 31 March 2013

2. Significant accounting policies (continued)

Revenue recognition

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

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

Where a contractual arrangement consists of two or more separate arrangements that can be provided to customers either on a stand-alone basis or as an optional extra, revenue is recognised for each element as if it were an individual contract. Accordingly, revenue is recognised on the sale of a policy except where an obligation exists to provide future services, typically claims handling and policy administration services. In these situations, a proportion of revenue, sufficient to cover future claims handling costs and margin, is deferred over the life of the policy, as deferred income. The assessment of future claims handling takes account of the expected numbers of claims and the estimated cost of handling those claims, which are validated through experience of historical actual costs.

The deferred revenue is released over the expected profile of anticipated claims over the policy period. The deferral also includes a profit element to recognise the performance of these services in the future.

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

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

Marketing expenses

Costs incurred in respect of marketing activity, including for example, direct mail and inbound/outbound telephone costs, which is undertaken to acquire or renew a policy, are charged to the income statement in the period in which the related marketing campaign is performed.

Marketing expenses also include payments made to Affinity Partners in recognition of their support in selling and renewing policies. The terms of their support and related payments are included in contractual agreements with each Affinity Partner. Amounts incurred upon the sale and renewal of an individual policy, referred to as Affinity Partner Commissions, are recognised as an operating expense when individual policies incept or renew. Commissions are payable to Affinity Partners only when HomeServe has collected the premium due on behalf of the third party underwriter from the policy holder.

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.

Borrowings in foreign currencies are treated as monetary liabilities and are translated at the rates prevailing on the balance sheet date. Exchange rate movements on foreign currency borrowings are recognised immediately in the income statement. Foreign currency borrowings are not treated as hedges of net investments.

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.

Notes to financial statements

Year ended 31 March 2013

2. Significant accounting policies (continued)

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.

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

Taxation

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

Any 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, 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

Acquisition intangible assets

Acquired access rights relate to the contractual agreements entered into with the former owners of businesses acquired as part of business combinations. These agreements set out the contractual terms of the Affinity Partnership and provide the contractual framework within which the Group will develop and build relationships with the individual customers of the Affinity Partner. Acquired access rights are recorded at fair value by using the estimated and discounted incremental future cash flows resulting from the relationship. Acquired access rights are amortised on a straight line basis over their estimated useful lives, which are in the range of 3 - 15 years.

Acquired customer databases represent the value attributable to the portfolios of renewable customer policies that are acquired as part of business combinations. Acquired customer databases are recorded at fair value using the estimated and discounted incremental future cash flows resulting from the portfolio of acquired policies over their estimated residual life. Acquired customer databases are amortised on a straight line basis over their estimated useful lives, which are in the range of 3 - 15 years.

Notes to financial statements

Year ended 31 March 2013

2. Significant accounting policies (continued)

Other intangible assets

Access rights arise from the contractual agreements with Affinity Partners which provide the opportunity to develop and build relationships with the individual customers of the Affinity Partners. Access rights are valued at the discounted present value of the contractually committed payments, where such payments are not related to the success or otherwise of activity under the contractual agreements and are amortised on a straight-line basis over the length of the contractual agreement, up to a maximum of 20 years.

Trademarks represent costs incurred to legally protect the established brand names of the Business. Trademarks are stated at cost and amortised on a straight line basis over their useful economic lives, up to a maximum of 20 years.

Computer software and the related licences are stated at cost and amortised on a straight line basis over their useful lives of 3 - 7 years.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Notes to financial statements

Year ended 31 March 2013

2. Significant accounting policies (continued)

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.

Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Revenue recognition

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

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

Valuation of acquisition intangible assets

Acquisitions may result in acquired access rights and acquired 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.

FCA investigation

Having taken advice and reviewed internal and external available information, the Board has decided to record exceptional expenditure in relation to the anticipated costs of managing the investigation and a fine. Whilst there remains uncertainty as to the nature or extent of the action that the FCA may seek to take, this represents management's estimate.

Customer re-contact programme

Over the past 12 months we have been addressing the issues identified in the UK, and where appropriate compensating customers. The expected cost of re-contacting customers and the extent of any compensation due is based on our experience to date and represents our best estimate. It is possible that our assumptions regarding the number of customers, level of compensation payable, response rate and the upheld rate could be different to those currently assumed. At this stage however, we believe that the provision is sufficient to cover the remaining costs of the customer re-contact exercise including customer compensation.

Notes to financial statements

Year ended 31 March 2013

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

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 £248.4m (2012: £260.9m). The carrying value of acquisition intangibles is £103.3m (2012: £111.4m). 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 £14.8m has been recognised in relation to Société Française de Garantie SA, relating to goodwill. This write down reflects the challenging conditions in the electrical retail market in France and lower than expected levels of new partner business.

During the prior year, an impairment charge of £3.9m was recorded against goodwill relating to the Group's Belgian operations which were 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:

	2013 £m	2012 £m
Provision of services	546.5	534.7
Investment income (note 9)	0.1	0.1
	546.6	534.8

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.

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. Inter-segment revenue is charged at prevailing market prices.

2013	UK £m	USA £m	Doméo £m	Spain £m	New Markets £m	Total £m
Revenue						
Total revenue	309.0	100.8	73.8	60.5	9.4	553.5
Inter-segment	(7.0)	—	—	—	—	(7.0)
External revenue	302.0	100.8	73.8	60.5	9.4	546.5
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles and exceptional expenditure	78.3	9.5	21.5	3.1	(4.8)	107.6
Exceptional expenditure	(10.0)	—	—	—	(15.1)	(25.1)
Amortisation of acquisition intangibles	(0.7)	(4.0)	(5.8)	(1.7)	(1.2)	(13.4)
Operating profit/(loss)	67.6	5.5	15.7	1.4	(21.1)	69.1
Investment income						0.1
Finance costs						(2.7)
Profit before tax						66.5
Tax						(24.6)
Profit for the year						41.9
2012	UK £m	USA £m	Doméo £m	Spain £m	New Markets £m	Total £m
Revenue						
Total revenue	353.5	82.3	51.8	60.2	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	82.3	31.2	60.2	11.6	534.7
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles, exceptional expenditure and tax on joint ventures	103.1	9.0	16.7	2.8	(3.4)	128.2
Exceptional expenditure	(24.2)	—	(3.0)	—	(3.9)	(31.1)
Amortisation of acquisition intangibles	(1.1)	(4.0)	(1.5)	(1.7)	(2.1)	(10.4)
Tax on joint ventures	—	—	(1.4)	—	—	(1.4)
Operating profit/(loss)	77.8	5.0	10.8	1.1	(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

Revenue in respect of Doméo in FY2012 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 the prior year represents the full profit since acquisition of control and the Group's share of joint venture profit up to 7 December 2011.

Notes to financial statements

Year ended 31 March 2013

5. Business and geographical segments (continued)

Segment information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
UK	442.1	418.5	282.5	276.8	19.3	13.5	16.4	15.7
USA	99.8	81.0	51.8	42.2	6.3	2.7	5.9	5.5
Doméo	213.8	213.7	66.0	70.8	1.6	—	6.8	1.6
Spain	43.9	37.9	20.0	13.4	5.5	0.7	2.4	2.3
New Markets	17.2	38.7	21.3	20.2	0.4	0.5	16.2	6.4
Total	816.8	789.8	441.6	423.4	33.1	17.4	47.7	31.5

All assets and liabilities are allocated to reportable segments.

Revenue from major products and services

	2013 £m	2012 £m
Sale of home assistance and emergency policies	431.3	407.1
Provision of repair services	115.2	127.6
Consolidated revenue (excluding investment revenue)	546.5	534.7

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 deferred tax) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2013 £m	2012 £m	2013 £m	2012 £m
United Kingdom	302.0	349.4	214.7	213.3
United States of America	100.8	82.3	38.4	32.9
Continental Europe	143.7	103.0	177.4	194.5
	546.5	534.7	430.5	440.7

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

Information about major customers

There are no customers in the current year from which the Group earns more than 10% of its revenues. In the prior year, the Group earned more than 10% of its revenue from Inter Partner Assistance. The UK invoiced £53.8m in respect of repair services performed on policy claims, including both employed and sub-contract engineers.

6. Exceptional items

Year ended 31 March 2013

Exceptional expenditure of £25.1m has been incurred in the following areas:

UK

As a result of the lower customer numbers in the UK and the change programme which is being implemented, a charge of £4.0m has been provided for redundancy and reorganisation costs.

The FCA investigation has progressed, and having taken advice and reviewed internal and external available information, the Board has decided to record exceptional expenditure of £6.0m in relation to the anticipated costs of managing the investigation and a fine. There remains uncertainty as to the nature or extent of the action that the FCA may seek to take following the conclusion of its investigation and accordingly any related financial effect.

New Markets

A charge of £15.1m has been recorded of which £14.8m is in relation to an impairment of goodwill in respect of Société Française de Garantie S.A. This write down reflects the challenging conditions in the electrical retail market in France and lower than expected levels of new partner business.

Year ended 31 March 2012

The Group recognised a gain of £54.9m, which related to the deemed disposal of the former joint venture interest, as a result of the acquisition of the remaining 51% equity interest in Doméo (and its subsidiary Doméo Assistance) in December 2011.

The Group also recognised exceptional expenditure of £31.1m:

- £24.2m in the UK related to the re-organisation and redundancy costs as a result of the extensive change programme that was implemented in the UK business; additional third party support costs in relation to reviewing scripts, policy documentation terms and conditions and call monitoring; costs in relation to the re-contacting of customers including, where appropriate, compensation payments; and the Ofcom regulatory fine imposed in April 2012.
- £3.9m related to the loss incurred on the disposal of the Belgian operations; and
- £3.0m related to the acquisition costs of the Doméo business.

7. Profit for the year

Profit for the year has been arrived at after charging:

	2013 £m	2012 £m
Included in operating costs:		
Staff costs	163.7	138.9
Cost of inventories recognised as an expense	4.2	4.5
Depreciation of property, plant and equipment	7.8	7.2
Amortisation of acquisition intangible assets	13.4	10.4
Amortisation of other intangibles	11.7	10.0
Other impairment loss recognised on trade receivables	1.3	1.0
Exceptional operating items		
– Cost of addressing UK matters	–	24.2
– FCA investigation	6.0	–
– Re-organisation costs	4.0	–
– New Markets – including impairment of goodwill of £14.8m (2012: £3.9m)	15.1	3.9
– Doméo acquisition costs	–	3.0

Notes to financial statements

Year ended 31 March 2013

7. Profit for the year (continued)

The analysis of auditor's remuneration is as follows:

	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	40	32
The audit of the Company's subsidiaries pursuant to legislation	208	177
Total audit fees	248	209
Audit-related assurance services	44	42
Tax compliance services	34	26
Tax advisory services	123	21
Other services	26	580
Total non-audit fees	227	669

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 £44,000 (2012: £42,000).

The other services during the year comprised training and technical consultations. The prior year comprised a comprehensive review of the UK telephone sales operations and procedures.

8. Staff costs

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

	2013 number	2012 number
UK	2,498	2,770
Continental Europe (excluding joint ventures)	858	679
United States of America	630	587
	4,062	4,036

	2013 £m	2012 £m
Their aggregate remuneration comprised:		
Wages and salaries	135.0	121.4
Social security costs	21.7	14.4
Other pension costs (note 37)	3.0	3.1
Redundancy costs	4.0	—
	163.7	138.9

9. Investment income

	2013 £m	2012 £m
Interest on bank deposits	0.1	0.1

10. Finance costs

	2013 £m	2012 £m
Interest on revolving credit facilities	2.4	1.9
Unwinding of discount on deferred and contingent consideration	0.4	0.6
Exchange movements	(0.1)	(0.2)
	2.7	2.3

11. Tax

	2013 £m	2012 £m
Current tax		
– Current year	27.0	25.7
– Adjustments in respect of prior years	0.1	(2.6)
Total current tax charge	27.1	23.1
Deferred tax (note 21)	(2.5)	0.6
Total tax charge	24.6	23.7

UK corporation tax is calculated at 24% (2012: 26%) 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:

	2013 £m	2012 £m
Profit before tax on continuing operations	66.5	138.0
Tax at the UK corporation tax rate of 24% (2012: 26%)	16.0	35.9
Tax effect of expenses/(income) that are not deductible/(chargeable) in determining taxable profit	4.3	(10.9)
Adjustments in respect of prior years – current tax	0.1	(2.6)
Overseas tax rate differences	1.8	–
Decrease in estimate of deferred tax asset	0.3	2.5
Effect of overseas losses excluding joint ventures	0.9	(0.4)
Deferred tax rate adjustment	1.2	–
Tax effect of share of results of joint venture	–	(0.8)
Tax expense for the year	24.6	23.7

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Year ended 31 March 2013

11. Tax (continued)

In addition to the amount charged to the income statement, a deferred tax charge relating to retirement benefit obligations amounting to £0.1m (2012: credit £0.1m) 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:

	2013 £m	2012 £m
Current tax		
Excess tax deductions related to Share-based payments on exercised options	0.1	1.1
Deferred tax		
Change in estimated excess tax deductions related to Share-based payments	—	(1.9)
Total tax recognised directly in equity	0.1	(0.8)

A reduction in the main rate of corporation tax to 23% with effect from 1 April 2013 was substantively enacted on 3 July 2012 and as such deferred tax at the balance sheet date has been recognised at this rate. On 20 March 2013 the Government announced the main rate corporation tax would reduce to 21% with effect from 1 April 2014, with a subsequent 1% reduction to reach 20% with effect from 1 April 2015. As these future rate reductions had not been substantively enacted at the balance sheet date, they have not been reflected in these financial statements. The effect of these tax rate reductions will be accounted for in the period they are substantively enacted.

12. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2012 of 7.67p (2011: 7.0p) per share	24.8	22.5
Interim dividend for the year ended 31 March 2013 of 3.63p (2012: 3.63p) per share	11.8	11.7
	36.6	34.2

The proposed final dividend for the year ended 31 March 2013 is 7.67p per share amounting to £24.9m (2012: 7.67p per share amounting to £24.8m). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13. Earnings per share

	2013 pence	2012 pence
Basic	12.9	35.4
Diluted	12.7	34.6
Adjusted basic	23.0	28.0
Adjusted diluted	22.6	27.3

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

Number of shares

	2013 m	2012 m
Weighted average number of shares		
Basic	324.3	322.5
Dilutive impact of share options	5.7	7.5
Diluted	330.0	330.0

Earnings

	2013 £m	2012 £m
Profit for the year	41.9	114.3
Exceptional expenditure (note 6)	25.1	31.1
Amortisation of acquisition intangibles	13.4	10.4
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	(5.9)	(10.7)
Adjusted profit for the year	74.5	90.2

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles and exceptional operating items. This is considered to be a better indicator of the performance of the Group.

14. Goodwill

	£m
Cost	
At 1 April 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
Recognised on acquisitions	0.6
Derecognised on disposal of subsidiary	—
Exchange movements	1.4
At 31 March 2013	292.7
Accumulated impairment losses	
At 1 April 2011	29.8
Impairments	3.9
Derecognised on disposal of subsidiary	(3.9)
At 1 April 2012	29.8
Impairments	14.8
Exchange movements	(0.3)
31 March 2013	44.3
Carrying amount	
At 31 March 2013	248.4
At 31 March 2012	260.9

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Year ended 31 March 2013

14. Goodwill (continued)

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ('CGUs') that are expected to benefit from that business combination. CGUs are defined as geographical territories, because they represent the smallest identifiable group of assets that generate cash inflows. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

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

The Group prepares cash flow forecasts derived from the most recent financial budgets and plans for the next three years approved by the Directors and extrapolates the annual cash flow using estimated, country specific, long-term growth rates. The pre-tax rates used to discount the forecast pre-tax cash flows are different for each territory and are detailed below (2012: All CGUs 15%):

- UK - 12.1%
- USA - 15.4%
- France - 13.8%
- Spain - 13.2%

Management has conducted a sensitivity analysis on the impairment test of each CGUs 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.

The carrying amount of goodwill has been allocated as follows:

	2013 £m	2012 £m
UK	154.6	154.0
United States of America	4.4	4.2
France - Doméo	76.1	75.2
Spain - Reparalia	13.3	13.2
France - SFG	—	14.3
	248.4	260.9

An impairment charge of £14.8m has been recognised in respect of Société Française de Garantie S.A, of which £0.5m relates to the movement in exchange rates between 31 March 2012 and 31 March 2013. Further details are given in note 6.

UK CGU

The UK CGU does not contain any intangible assets with indefinite useful economic lives. The long-term growth rate is 2% (2012: 2%) and is based on the GDP growth rate of the UK.

France - Doméo

The France - Doméo CGU does not contain any intangible assets with indefinite useful economic lives. The long-term growth rate is 2% (2012: 2%) and is based on the GDP growth rate of France.

15. Other intangible assets

Acquisition intangibles represent non-monetary assets, arising on business combinations, and include acquired access rights and acquired customer databases. Other intangibles include trademarks, access rights and software.

	Acquired access rights £m	Acquired customer databases £m	Total acquisition intangibles £m	Trademarks & access rights £m	Software £m	Total intangibles £m
Cost						
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 1 April 2012	56.5	106.2	162.7	15.3	37.2	215.2
Additions	—	—	—	15.4	11.1	26.5
Acquisitions	0.1	3.4	3.5	—	—	3.5
Disposals	(1.9)	—	(1.9)	—	(2.7)	(4.6)
Exchange movements	1.1	1.9	3.0	0.2	0.5	3.7
At 31 March 2013	55.8	111.5	167.3	30.9	46.1	244.3
Accumulated amortisation and impairment						
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 1 April 2012	36.5	14.8	51.3	4.7	16.9	72.9
Charge for the year	4.2	9.2	13.4	2.8	8.9	25.1
Disposals	(1.9)	—	(1.9)	—	(2.3)	(4.2)
Exchange movements	0.7	0.5	1.2	0.1	0.4	1.7
At 31 March 2013	39.5	24.5	64.0	7.6	23.9	95.5
Carrying amount						
At 31 March 2013	16.3	87.0	103.3	23.3	22.2	148.8
At 31 March 2012	20.0	91.4	111.4	10.6	20.3	142.3

Acquired access rights were formally known as customer relationships and acquired customer databases were formally known as customer databases.

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Year ended 31 March 2013

16. Property, plant and equipment

	Land & buildings £m	Furniture, fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
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 1 April 2012	30.4	7.1	19.2	1.8	58.5
Additions	1.6	0.3	1.2	1.5	4.6
Disposals	(1.8)	(1.4)	(3.0)	(0.6)	(6.8)
Exchange movements	0.2	0.1	0.2	0.1	0.6
At 31 March 2013	30.4	6.1	17.6	2.8	56.9
Accumulated depreciation and impairment					
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 1 April 2012	6.8	3.2	10.5	0.5	21.0
Charge for the year	1.8	0.8	4.8	0.4	7.8
Disposals	(0.7)	(0.8)	(3.4)	(0.4)	(5.3)
Exchange movements	—	(0.1)	0.1	0.1	0.1
At 31 March 2013	7.9	3.1	12.0	0.6	23.6
Carrying amount					
At 31 March 2013	22.5	3.0	5.6	2.2	33.3
At 31 March 2012	23.6	3.9	8.7	1.3	37.5

The carrying amount of the Group's property, plant and equipment includes an amount of £1.9m (2012: £1.2m) 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 (2012: £nil).

17. Subsidiaries and joint ventures

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 45 to the Company's separate financial statements.

During the prior year, 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 was 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 was recognised in the income statement.

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:

	Period to 7 December 2011 Doméo & Doméo Assistance 2012 £m
Summary income statement	
Total revenue	42.0
Total profit after tax	6.2
Group's share of profit after tax	3.0

18. Inventories

	2013 £m	2012 £m
Consumables	1.1	1.5

19. Other financial assets

Trade and other receivables

	2013 £m	2012 £m
Amounts receivable for the provision of services	203.7	203.7
Other receivables	65.4	67.1
Prepayments and accrued income	24.4	20.3
	293.5	291.1

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 £3.9m (2012: £5.3m) which are past due at the reporting date but for which the Group has not provided for 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 18 days (2012: 19 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.

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Year ended 31 March 2013

19. Other financial assets (continued)

Ageing of past due but not impaired receivables:

	2013 £m	2012 £m
1 - 30 days	2.8	3.2
31 - 60 days	1.1	1.1
61 - 90 days	—	0.5
91 days +	—	0.5
Balance at 31 March past due but not impaired	3.9	5.3
Current/not yet due	199.8	198.4
Balance at 31 March	203.7	203.7

Movement in the allowance for doubtful debts:

	2013 £m	2012 £m
At 1 April	2.0	1.3
Impairment losses recognised	1.3	1.0
Amounts written off as uncollectible	(0.9)	(0.3)
Acquisitions	—	0.3
Amounts recovered during the year	—	(0.3)
Balance at 31 March	2.4	2.0

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:

	2013 £m	2012 £m
1 - 30 days	0.3	—
31 - 60 days	—	0.2
61 - 90 days	0.8	0.2
91 days +	1.3	1.6
	2.4	2.0

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

Other receivables

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 £88.6m (2012: £52.8m) 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

20. Bank and other loans

	2013 £m	2012 £m
Revolving credit facilities (GBP equivalent)		
US dollar denominated	43.5	34.4
Euro denominated	86.1	83.4
Due after one year	129.6	117.8

The US dollar and euro denominated borrowings are used to provide debt funding to the USA and Continental European operations respectively. The borrowings are drawn in the UK and passed to the overseas subsidiaries of the Group by way of intercompany loans, denominated in the same currencies. These external borrowings and the equivalent intercompany receivable loans are treated as monetary liabilities and assets respectively and, as such, the Group's foreign currency exposure risk is minimised.

	2013 %	2012 %
The weighted average interest rates paid were as follows:		
Revolving credit facilities	1.8	2.3

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:

- The Group has a £250m revolving credit facility with five banks. This facility was taken out on 22 July 2011 and has a term of five years. This provides the Group with sufficient funding to support its strategic objectives.
- The financial covenants associated with the credit facilities are 'net debt to EBITDA of less than 3.0 times' (2012: 3.0 times) and 'interest cover greater than 4.0 times EBITDA' (2012: 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 1% (2012: 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 2013, the Group had available £120.4m (2012: £132.2m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Information about liquidity risk is presented in note 39.

Notes to financial statements

Year ended 31 March 2013

21. Deferred tax

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

Asset/(liability)	Timing differences £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 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 1 April 2012	0.7	(0.1)	0.1	0.8	(28.6)	3.7	(0.5)	(23.9)
(Charge)/credit to Income	(0.1)	—	—	(0.1)	2.6	0.1	—	2.5
Charge to Comprehensive Income	—	—	(0.1)	—	—	—	—	(0.1)
Exchange movements	0.2	—	—	—	(0.3)	(0.1)	—	(0.2)
At 31 March 2013	0.8	(0.1)	—	0.7	(26.3)	3.7	(0.5)	(21.7)

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	2013 £m	2012 £m
Deferred tax assets	1.1	—	0.4	1.6	3.1	3.7
Deferred tax liabilities	—	(24.8)	—	—	(24.8)	(27.6)
Net deferred tax asset/(liability)	1.1	(24.8)	0.4	1.6	(21.7)	(23.9)

At the balance sheet date, the Group recognised a deferred tax asset of £3.7m (2012: £3.7m) on unused tax losses of £8.9m (2012: £10.3m) available for offset against future profits, based on estimates of budgeted profits in the forthcoming years. Deferred tax has not been recognised on £17.0m (2012: £11.6m) of unused losses due to the uncertainty over the timing of future recovery.

There are expiry dates between 2020 - 2029 (2012: 2020 - 2029) in respect of £6.9m (2012: £6.9m) of the unrecognised tax losses.

22. Current liabilities – trade and other payables

	2013 £m	2012 £m
Trade creditors and accruals	91.8	83.8
Contingent consideration	1.0	0.6
Deferred consideration	0.8	1.3
Deferred income	29.2	28.7
Taxes and social security, excluding current tax	6.8	8.1
Other creditors	114.2	108.3
	243.8	230.8

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 61 days (2012: 39 days).

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

Other creditors mainly represent 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. 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.

23. Non-current liabilities – other financial liabilities

	Deferred income £m	Contingent and deferred consideration £m	Total £m
At 1 April 2012	10.7	5.1	15.8
Movement in year	(3.2)	(0.9)	(4.1)
At 31 March 2013	7.5	4.2	11.7

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.

24. Provisions

	Cost of addressing UK matters £m	FCA investigation £m	Reorganisation costs £m	Other £m	Total £m
At 1 April 2012	21.0	—	—	—	21.0
Created in the year	—	6.0	4.0	0.3	10.3
Utilised	(9.5)	(1.7)	—	—	(11.2)
At 31 March 2013	11.5	4.3	4.0	0.3	20.1

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Year ended 31 March 2013

24. Provisions (continued)

The provision for the cost of addressing the UK matters represents management's estimate of the Group's liability relating to the UK issues identified in FY2012. The remaining provision is expected to be utilised within the next 12 months and principally relates to the cost of re-contacting customers and potential compensation. 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.

The FCA investigation has progressed, and having taken advice and reviewed internal and external available information, the Board has decided to record exceptional expenditure of £6.0m in relation to the anticipated costs of managing the investigation and a fine. There remains uncertainty as to the nature or extent of the action, that the FCA may seek to take following the conclusion of its investigation and accordingly any related financial effect.

In March 2013, the Group announced plans to reduce the number of roles in the UK by around 300. The costs of this reorganisation have been estimated at £4.0m and these have been provided for at 31 March 2013.

25. Share capital

	2013 £m	2012 £m
Issued and fully paid:		
330,010,000 ordinary shares of 2.5p each (31 March 2012: 329,873,000 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 141,000 shares with a nominal value of 2.5p creating share capital of £3,500 and share premium of £214,000. In the prior 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.

26. Share premium account

	£m
Balance at 1 April 2011	36.7
Premium arising on issue of equity shares	1.4
Balance at 1 April 2012	38.1
Premium arising on issue of equity shares	0.2
Balance at 31 March 2013	38.3

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

27. Merger reserve

	£m
Balance at 1 April 2011, 1 April 2012 and 31 March 2013	71.0

The merger reserve represents the issue on 6 April 2004 of 11.6m 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.

28. Own shares reserve

	Number m	£m
Balance at 1 April 2011	7.3	21.5
Issued from the employee benefit trust	(1.1)	(2.4)
Balance at 1 April 2012	6.2	19.1
Issued from the employee benefit trust	(0.7)	(1.4)
Balance at 31 March 2013	5.5	17.7

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.

29. Share incentive reserve

	£m
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 1 April 2012	8.6
Share-based payment charges in the year	3.0
Share options exercised in the year	(0.5)
Balance at 31 March 2013	11.1

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.

30. Capital redemption reserve

	£m
Balance at 1 April 2011, 1 April 2012 and 31 March 2013	1.2

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

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Year ended 31 March 2013

31. Currency translation reserve

	£m
Balance at 1 April 2011	7.8
Movement in the year taken to comprehensive income	(3.9)
Balance at 1 April 2012	3.9
Movement in the year taken to comprehensive income	0.6
Balance at 31 March 2013	4.5

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.

32. Business combinations

The Group has incurred a cash outflow in respect of acquisitions totalling £5.8m in the year. Of this amount, £4.0m relates to current year acquisitions and £1.8m in relation to contingent and deferred consideration on prior period acquisitions. As a result, £3.4m of acquired customer databases, £0.1m of acquired access rights and £0.6m of goodwill have been recognised in the current year. None of these acquisitions were considered to be significant on an individual basis.

In the prior year, the net cash outflow relating to acquisitions was £87.8m, of which £82.9m related to the acquisition of full control of Doméo.

33. Notes to the cash flow statement

	2013 £m	2012 £m
Operating profit	69.1	85.3
Adjustments for:		
Depreciation of property, plant and equipment	7.8	7.2
Amortisation of intangible assets	25.1	20.4
Impairment	14.8	3.9
Share-based payments expense	3.0	1.7
Share of profit of joint ventures	—	(3.0)
Loss on disposal of property, plant and equipment and software	0.6	—
Operating cash flows before movements in working capital	120.4	115.5
Decrease in inventories	0.4	0.5
Decrease/(increase) in receivables	0.4	(0.4)
Increase/(decrease) in payables	7.0	(1.3)
Cash generated by operations	128.2	114.3
Income taxes paid	(26.3)	(33.3)
Interest paid	(2.7)	(3.3)
Net cash inflow from operating activities	99.2	77.7

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.

34. Operating lease arrangements

The Group as lessee

	2013 £m	2012 £m
Minimum lease payments under operating leases recognised in income for the year	6.9	7.1

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:

	2013 £m	2012 £m
Within one year	5.4	5.7
In the second to fifth years inclusive	7.0	9.7
After five years	1.7	2.0
	14.1	17.4

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.

35. Obligations under finance leases

	2013 £m	2012 £m
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	0.5	0.4
Amounts due for settlement after 12 months: in the second to fifth years inclusive	1.4	0.6
Present value of lease obligations	1.9	1.0
Minimum lease payments		
Within one year	0.5	0.4
In the second to fifth years inclusive	1.4	0.6
Present value of lease obligations	1.9	1.0

Certain motor vehicles are held under finance leases. The average lease term is 5 years (2012: 5 years). For the year ended 31 March 2013, the average effective borrowing rate was 3.5% (2012: 3.0%). 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.

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Year ended 31 March 2013

36. Share-based payments

During the year ended 31 March 2013, the Group had five (2012: five) share-based payment arrangements, which are described below:

i) Executive Share Option Plan ('ESOP')

The ESOP provided 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 was three years and was dependent upon the real increase in Earnings per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The plan is no longer used.

ii) 2005 Key Executive Incentive Plan ('KEIP')

The KEIP provided 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 vested 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. The plan is no longer used.

iii) Deferred Bonus Plan ('DBP')

The DBP 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. The shares lapse if not exercised within 10 years from the date of grant. The plan is no longer used.

iv) Long-Term Incentive Plan ('LTIP')

The LTIP provides for the grant of performance, matching and restricted awards. The vesting period is three years for performance and matching awards and two years for the restricted awards. For the performance and matching awards granted in FY2010 and FY2013, vesting is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. For the FY2011 and FY2012 awards, 50% of the award is dependent upon Total Shareholder Return and 50% is subject to a target based on Earnings per Share growth. The restricted awards granted in FY2013 are subject to the continued employment of the participant at the date of vesting.

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	DBP ¹	LTIP	SAYE
FY2013					
Number					
Outstanding at 1 April 2012	1,531,495	113,605	256,995	5,675,352	3,445,278
Granted	—	—	—	3,537,421	523,482
Lapsed	—	—	—	(1,755,820)	—
Forfeited	—	—	—	(395,564)	(1,201,609)
Exercised	(229,395)	(41,310)	—	(365,790)	(125,697)
Outstanding at 31 March 2013	1,302,100	72,295	256,995	6,695,599	2,641,454
Exercisable at 31 March 2013	1,302,100	72,295	256,995	—	112,820
Weighted average exercise price (£)					
Outstanding at 1 April 2012	1.40	1.92	—	—	1.94
Granted	—	—	—	—	1.96
Lapsed	—	—	—	—	—
Forfeited	—	—	—	—	1.98
Exercised	1.21	1.92	—	—	1.55
Outstanding at 31 March 2013	1.44	1.92	—	—	1.94
Exercisable at 31 March 2013	1.44	1.92	—	—	2.64
Range of exercise price of options outstanding at 31 March 2013					
£0.01 to £0.99	300,000	—	—	—	—
£1.00 to £1.99	1,002,100	72,295	—	—	2,424,856
£2.00 to £2.99	—	—	—	—	134,430
£3.00 to £3.99	—	—	—	—	82,168
Weighted average remaining contractual life	1	2	2	2	3
Weighted average fair value of options awarded in FY2013	—	—	—	£1.03	£0.83

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

Notes to financial statements

Year ended 31 March 2013

36. Share-based payments (continued)

	ESOP	KEIP	DBP ¹	LTIP	SAYE
FY2012					
Number					
Outstanding at 1 April 2011	1,803,765	282,865	256,995	5,917,635	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	256,995	5,675,352	3,445,278
Exercisable at 31 March 2012	1,531,495	113,605	256,995	368,275	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	3	2	4
Weighted average fair value of options awarded in FY2012	—	—	—	£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 £1.82 (2012: £3.66).

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 DBP. 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% – 56%
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 £3.0m (2012: £1.7m) related to equity-settled share-based payment transactions and total expenses of £nil (2012: £16,000) related to cash-settled share-based payment transactions.

37. Retirement benefit schemes

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all UK 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 within two years of joining and they choose to take a refund, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £3.1m (2012: £3.3m) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. At 31 March 2013, contributions of £230,000 (2012: £218,000) 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, which is closed to new members. This is a sectionalised scheme and the Group participates in the HomeServe plc Section of the Scheme. The Section is administered by a 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 2013	2012
Key assumptions used:		
Discount rate at 31 March	4.6%	4.8%
Consumer price inflation	2.7%	2.5%
Retail price inflation	3.7%	3.5%
Expected rate of salary increases	2.7%	4.5%
Future pension increases	2.7%	2.5%
Expected rate of return on scheme assets at 31 March	6.6%	7.4%
Life expectancy of male aged 60 at balance sheet date	27.4yrs	26.9yrs

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 2013

37. 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 £0.5m
- an increase in the inflation assumption rate of 0.1% would lead to an increase in the value placed on the obligations of the Section of approximately £0.5m
- a decrease in the equity market of 25% would lead to an increase in the balance sheet liability of approximately £2.1m.

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

	2013 £m	2012 £m
Current service cost	0.2	0.1
Interest cost	0.9	1.0
Expected return on scheme assets	(1.2)	(1.3)
Past service cost	—	—
Recognised in operating costs	(0.1)	(0.2)

The actual return on scheme assets was a gain of £2.2m (2012: gain of £1.0m).

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

	2013 £m	2012 £m
Present value of defined benefit obligations	(21.9)	(19.3)
Fair value of scheme assets	21.9	18.7
Deficit in scheme recognised in the balance sheet in non-current liabilities	—	(0.6)

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

	2013 £m	2012 £m
At 1 April	19.3	17.9
Employer's part of the current service cost	0.2	0.1
Interest cost	0.9	1.0
Contributions from scheme members	0.1	0.1
Actuarial losses	1.6	0.8
Benefits paid	(0.2)	(0.6)
At 31 March	21.9	19.3

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

	2013 £m	2012 £m
At 1 April	18.7	17.8
Expected return on scheme assets	1.2	1.3
Actuarial gains/(losses)	0.9	(0.4)
Contributions from the employer	1.2	0.5
Contributions from scheme members	0.1	0.1
Benefits paid	(0.2)	(0.6)
At 31 March	21.9	18.7

The amount recognised outside the income statement in the statement of comprehensive income for FY2013 is a loss of £0.7m (2012: loss of £1.2m). The cumulative amount recognised outside profit and loss at 31 March 2013 is a loss of £2.6m (2012: loss £1.9m).

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

	Expected return 2013 %	2012 %	Fair value of assets 2013 £m	2012 £m
Equity instruments	7.0	7.3	8.2	12.8
Diversified growth funds	6.3	6.6	2.9	3.4
Debt instruments	3.0	—	7.2	—
Other	3.0	3.3	3.6	2.5
			21.9	18.7

The overall expected rate of return on assets for the financial year ending 31 March 2013 was 6.6% per annum (2012: 7.4% 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 2013.

The history of experience adjustments is as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	(21.9)	(19.3)	(17.9)	(20.4)	(12.3)
Fair value of scheme assets	21.9	18.7	17.8	16.2	10.4
Deficit in scheme	—	(0.6)	(0.1)	(4.2)	(1.9)
Experience adjustments on scheme liabilities					
Amount of loss/(gain) (£m)	—	(0.4)	(0.4)	(0.2)	0.8
Percentage of scheme liabilities (%)	—	(2)	(2)	(1)	7
Experience adjustments on scheme assets					
Amount of (gain)/loss (£m)	(0.9)	0.4	0.1	(4.0)	4.4
Percentage of scheme assets (%)	(4)	2	—	(25)	43

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37. Retirement benefit schemes (continued)

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

38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements (note 50).

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	
	2013	2012	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m	£m	£m
Harpin Limited	—	—	0.2	0.2	—	—	—	—
Joint ventures	—	1.1	—	0.2	—	—	—	—

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.

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.

	2013	2012
	£m	£m
Short-term employee benefits	4.9	3.4
Post-employment benefits	0.3	0.4
Termination benefits	—	0.8
Share-based payments	1.5	(0.4)
	6.7	4.2

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

In the prior year, the share-based payment credit arose as a result of a reduction in the associated employer's national insurance liability.

39. Financial instruments

Principal financial instruments

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

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- other receivables
- trade payables
- other creditors

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 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 25 to 31 and the Group Statement of Changes in Equity.

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

	2013 £m	2012 £m
Shareholders' funds	375.2	366.4
Revolving credit facilities	129.6	117.8

Certain of the entities in the Group are subject to externally imposed capital requirements from the Financial Conduct 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 and trade payables 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

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39. 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 19 and 22. 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
2013					
Under 2 months	—	51.0	45.0	—	96.6
Between 2 and 6 months	—	34.5	43.2	0.1	77.8
Between 6 and 12 months	—	6.3	25.4	1.9	33.6
Between 1 and 2 years	—	—	0.6	1.6	1.6
Between 2 and 3 years	—	—	—	1.0	1.0
Between 3 and 4 years	129.6	—	—	1.0	130.6
Between 4 and 5 years	—	—	—	1.0	1.0
After 5 years	—	—	—	0.2	0.2
Total	129.6	91.8	114.2	6.8	342.4

	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

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).

	2013	2012
Increase in interest rate	10%	10%
Reduction in profit before tax (£m)	0.1	0.2

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 20 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 2013 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 40 to 54. 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 2013;
- 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 2013.

Christopher Robertson

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham

21 May 2013

Company statement of comprehensive income

Year ended 31 March 2013

	Notes	2013 £m	2012 £m
Profit for the year		50.7	72.1
Actuarial loss on defined benefit pension scheme	52	(0.7)	(1.2)
Tax (charge)/credit relating to components of other comprehensive income	49	(0.1)	0.1
Total comprehensive income for the year attributable to equity holders of the parent		49.9	71.0

Company balance sheet

31 March 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Other intangible assets	43	6.5	4.4
Property, plant and equipment	44	—	0.1
Investment in subsidiaries	45	194.6	194.6
Deferred tax assets	49	0.3	0.7
		201.4	199.8
Current assets			
Trade and other receivables	46	128.1	141.9
Cash and cash equivalents	46	84.9	44.8
		213.0	186.7
Total assets		414.4	386.5
Current liabilities			
Trade and other payables	47	(20.3)	(18.7)
Current tax liabilities		(0.1)	(0.4)
Provisions	48	(1.2)	—
		(21.6)	(19.1)
Net current assets		191.4	167.6
Non-current liabilities			
Retirement benefit obligation	52	—	(0.6)
Bank loans	20	(129.6)	(117.8)
		(129.6)	(118.4)
Total liabilities		(151.2)	(137.5)
Net assets		263.2	249.0
Equity			
Share capital	25	8.2	8.2
Share premium account	26	38.3	38.1
Merger reserve	27	71.0	71.0
Share incentive reserve	53	3.9	2.7
Capital redemption reserve	30	1.2	1.2
Retained earnings		140.6	127.8
Total equity		263.2	249.0

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 21 May 2013. They were signed on its behalf by:

Johnathan Ford
Chief Financial Officer
21 May 2013

Company statement of changes in equity

Year ended 31 March 2013

	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 2012	8.2	38.1	71.0	2.7	1.2	127.8	249.0
Total comprehensive income	—	—	—	—	—	49.9	49.9
Dividends paid	—	—	—	—	—	(36.6)	(36.6)
Issue of share capital	—	0.2	—	—	—	—	0.2
Issue of trust shares	—	—	—	—	—	(1.0)	(1.0)
Share-based payments	—	—	—	1.6	—	—	1.6
Share options exercised	—	—	—	(0.4)	—	0.4	—
Tax on exercised share options	—	—	—	—	—	0.1	0.1
Balance at 31 March 2013	8.2	38.3	71.0	3.9	1.2	140.6	263.2

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

Company cash flow statement

Year ended 31 March 2013

	Notes	2013 £m	2012 £m
Net cash inflow/(outflow) from operating activities	41	10.5	(111.6)
Investing activities			
Interest received		0.1	0.4
Dividends received from subsidiary undertakings		59.3	77.5
Purchases of intangible assets		(2.3)	(2.9)
Purchases of property, plant and equipment		—	(0.3)
Investments in subsidiary undertakings		—	(86.1)
Issue of shares from the employee benefit trust		0.4	0.8
Net cash from/(used in) investing activities		57.5	(10.6)
Financing activities			
Dividends paid		(36.6)	(34.2)
Share capital issued		0.2	1.4
Increase in bank loans		8.5	92.7
Net cash (used in)/from financing activities		(27.9)	59.9
Net movement in cash and cash equivalents		40.1	(62.3)
Cash and cash equivalents at beginning of year		44.8	107.3
Effect of foreign exchange rate changes		—	(0.2)
Cash and cash equivalents at end of year		84.9	44.8

Notes to financial statements

Year ended 31 March 2013

Company only

The following notes 40 to 54 relate to the Company only position for the year ended 31 March 2013.

40. 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 £50.7m (2012: £72.1m).

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.

41. Notes to the cash flow statement

	2013 £m	2012 £m
Operating loss	(9.7)	(8.7)
Adjustments for:		
Depreciation of property, plant and equipment	0.1	0.2
Amortisation of intangible assets	0.2	0.2
Share-based payment expense	1.5	0.7
Operating cash flows before movements in working capital	(7.9)	(7.6)
Decrease/(increase) in receivables	19.1	(96.2)
Decrease in payables	(4.9)	(8.0)
Cash generated/(used in) from operations	6.3	(111.8)
Income taxes received	1.3	3.9
Interest received/(paid)	2.9	(3.7)
Net cash inflow/(outflow) from operating activities	10.5	(111.6)

42. Other information

	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	40	32
Total audit fees	40	32

43. Other intangible assets

	Trademarks & access rights £m	Software £m	Total intangibles £m
Cost			
At 1 April 2011	1.8	—	1.8
Additions	—	2.6	2.6
Transfer from fellow Group undertaking	—	0.3	0.3
At 1 April 2012	1.8	2.9	4.7
Additions	—	2.3	2.3
At 31 March 2013	1.8	5.2	7.0
Accumulated amortisation and impairment			
At 1 April 2011	0.1	—	0.1
Charge for the year	0.1	0.1	0.2
At 1 April 2012	0.2	0.1	0.3
Charge for the year	0.1	0.1	0.2
At 31 March 2013	0.3	0.2	0.5
Carrying amount			
At 31 March 2013	1.5	5.0	6.5
At 31 March 2012	1.6	2.8	4.4

44. Property, plant and equipment

	Computer equipment £m
Cost	
At 1 April 2011, 1 April 2012 and 1 April 2013	0.3
Accumulated depreciation and impairment	
At 1 April 2011 and 1 April 2012	0.2
Charge for the year	0.1
At 31 March 2013	0.3
Carrying amount	
At 31 March 2013	—
At 31 March 2012	0.1

Notes to financial statements

Year ended 31 March 2013

45. Subsidiaries

Details of the Company's principal subsidiaries at 31 March 2013 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
Continental Europe			
Doméo SAS	France	100	100
Reparalia Direct SL	Spain	100	100
Reparalia SA	Spain	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
HomeServe USA Energy Services LLC	USA	100	100
HomeServe Repair Management Corp	USA	100	100
HomeServe USA Repair Management (Florida) Corp	USA	100	100

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

	£m
Cost and net book value	
1 April 2011	108.5
Additions	86.1
At 1 April 2012 and 31 March 2013	194.6

During the prior year, there was an addition of £86.1m which related to further investment made in HomeServe Enterprises Limited.

46. Financial assets

Trade and other receivables

	2013 £m	2012 £m
Amounts receivable from Group companies	125.3	138.7
Other receivables	0.7	0.9
Prepayments and accrued income	2.1	2.3
	128.1	141.9

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 (2012: £nil). The average age of receivables not impaired is 30 days (2012: 30 days).

Ageing of past due but not impaired receivables:

	2013 £m	2012 £m
1 - 30 days	—	—
31 - 60 days	—	—
61 - 90 days	—	—
91 days +	—	—
Balance at 31 March past due but not impaired	—	—
Current	125.3	138.7
Balance at 31 March	125.3	138.7

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.

Cash balances and cash equivalents

Cash balances and cash equivalents of £84.9m (2012: £44.8m) comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

Notes to financial statements

Year ended 31 March 2013

47. Financial liabilities

Trade and other payables

	2013 £m	2012 £m
Trade creditors and accruals	7.9	5.8
Amounts payable to Group companies	10.0	11.7
Taxes and social security, excluding corporation tax	0.3	0.1
Other creditors	2.1	1.1
	20.3	18.7

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 20 days (2012: 28 days).

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

48. Provisions

	£m
At 1 April 2012	—
Created in the year	1.2
At 31 March 2013	1.2

The above provision represents management's best estimate of the company's liability relating to UK redundancy and reorganisation costs. Further details are given in note 6 to the financial statements.

49. 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 2011	—	3.2	3.2
Credit to income	—	(0.9)	(0.9)
Charge to comprehensive income	0.1	—	0.1
Charge to equity	—	(1.7)	(1.7)
At 1 April 2012	0.1	0.6	0.7
Charge to income	—	(0.3)	(0.3)
Credit to comprehensive income	(0.1)	—	(0.1)
At 31 March 2013	—	0.3	0.3

50. Related party transactions

	Provision of services		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Harpin Limited	—	—	0.2	0.2	—	—	—	—
Joint ventures	—	1.1	—	0.2	—	—	—	—
Subsidiary Companies	6.4	6.3	—	—	125.3	138.7	10.0	11.7

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.

	2013 £m	2012 £m
Short-term employee benefits	3.4	2.2
Post-employment benefits	0.2	0.2
Share-based payment	1.2	(0.2)
	4.8	2.2

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

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

Notes to financial statements

Year ended 31 March 2013

51. Share-based payments

During the year ended 31 March 2013, the Company had five (2012: five) share-based payment arrangements, which are described in note 36.

	ESOP	KEIP	DBP ¹	LTIP	SAYE
FY2013					
Number					
Outstanding at 1 April 2012	1,475,000	72,295	256,995	3,125,264	202,725
Transfer	—	—	—	(17,524)	—
Granted	—	—	—	1,679,652	15,639
Lapsed	—	—	—	(779,674)	—
Forfeited	—	—	—	(13,336)	(31,356)
Exercised	(220,000)	—	—	(359,611)	(1,319)
Outstanding at 31 March 2013	1,255,000	72,295	256,995	3,634,771	185,689
Exercisable at 31 March 2013	1,255,000	72,295	256,995	—	9,370
Weighted average exercise price (£)					
Outstanding at 1 April 2012	1.38	1.92	—	—	1.97
Transfer	—	—	—	—	—
Granted	—	—	—	—	1.96
Lapsed	—	—	—	—	—
Forfeited	—	—	—	—	2.02
Exercised	1.18	—	—	—	1.72
Outstanding at 31 March 2013	1.42	1.92	—	—	1.96
Exercisable at 31 March 2013	1.42	1.92	—	—	2.64
Range of exercise price of options outstanding at 31 March 2012					
£0.01 to £0.99	300,000	—	—	—	—
£1.00 to £1.99	955,000	72,295	—	—	166,117
£2.00 to £2.99	—	—	—	—	11,760
£3.00 to £3.99	—	—	—	—	7,812
Weighted average remaining contractual life	1	2	2	2	3
Weighted average fair value of options awarded in FY2013	—	—	—	£0.99	£0.83

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

	ESOP	KEIP	DBP ¹	LTIP	SAYE
FY2012					
Number					
Outstanding at 1 April 2011	1,747,270	241,555	256,995	2,674,405	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	256,995	3,125,264	202,725
Exercisable at 31 March 2012	1,475,000	72,295	256,995	362,093	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	3	2	4
Weighted average fair value of options awarded in FY2012	—	—	—	£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 £1.66 (2012: £4.25).

The estimated fair values are calculated by applying a Black-Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP, LTIP and DBP. The assumptions used in the models are set out in note 36.

The Company recognised total expenses of £1.6m (2012: £0.7m) related to equity-settled share-based payment transactions and total expenses of £nil (2012: £16,000) related to cash-settled share-based payment transactions.

52. Retirement benefit schemes

Details of the defined contribution and defined benefit schemes are provided in note 37.

Notes to financial statements

Year ended 31 March 2013

53. Share incentive reserve

	£m
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 1 April 2012	2.7
Share-based payment charges in the year	1.6
Share options exercised in year	(0.4)
Balance at 31 March 2013	3.9

54. 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 20, cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in notes 25, 26, 27, 30 and 53 and the Company Statement of Changes in Equity.

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

	2013 £m	2012 £m
Shareholders' funds	263.2	249.0
Revolving credit facilities	129.6	117.8

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.

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
2013			
Under 2 months	—	17.9	17.9
Between 2 and 6 months	—	2.1	2.1
Between 6 and 12 months	—	—	—
Between 2 and 3 years	—	—	—
Between 3 and 4 years	129.6	—	129.6
Total	129.6	20.0	149.6

	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

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).

	2013	2012
Increase in interest rate	10%	10%
Reduction in profit before tax (£m)	0.1	—

Notes to financial statements

Year ended 31 March 2013

54. Financial instruments (continued)

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Euro	2.4	0.6	(94.2)	(88.7)
US dollar	1.1	2.9	(43.5)	(34.6)

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.

	2013	2012
Increase in £:\$ exchange rate:	10%	10%
Effect on profit before tax (£m)	3.9	2.9
Effect on equity (£m)	—	—
Increase in £:€ exchange rate:	10%	10%
Effect on profit before tax (£m)	8.4	8.1
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 20 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

Continuing operations

Unaudited	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
External revenue					
UK	302.0	349.4	355.8	286.7	246.6
United States of America	100.8	82.3	52.6	25.7	17.9
Doméo	73.8	31.2	—	—	—
Spain	60.5	60.2	48.8	46.9	—
New Markets	9.4	11.6	9.9	9.7	—
Continental Europe (excluding joint ventures)	—	—	—	—	40.3
Eliminations	—	—	—	—	(0.5)
External sales	546.5	534.7	467.1	369.0	304.3
Profit/(loss)					
UK	78.3	103.1	104.3	95.8	87.2
United States of America	9.5	9.0	6.1	1.5	(0.3)
Doméo	21.5	15.3	5.2	3.6	—
Spain	3.1	2.8	1.7	0.4	—
New Markets	(4.8)	(3.4)	(1.1)	1.1	—
Continental Europe	—	—	—	—	3.4
	107.6	126.8	116.2	102.4	90.3
Amortisation of acquisition intangibles	(13.4)	(10.4)	(9.3)	(6.5)	(3.7)
Exceptional items	(25.1)	(31.1)	—	10.2	(2.3)
Operating profit	69.1	85.3	106.9	106.1	84.3
Net interest	(2.6)	(2.2)	(2.1)	(3.9)	(3.5)
Gain on re-measurement of joint venture interest on acquisition of control	—	54.9	—	—	—
Profit before tax	66.5	138.0	104.8	102.2	80.8

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 the prior year 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

2013

26 July	Annual General Meeting
1 August	Final dividend for the year ended 31 March 2013
19 November	Interim results for the six months ending 30 September 2013

2014

January	Interim dividend for the year ending 31 March 2014
May	Preliminary results for the year ending 31 March 2014
June	2014 Annual Report and Accounts available

Shareholder helpline

HomeServe's shareholder register is maintained by Computershare Investor Services PLC who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses. If you have a query about your shareholding in HomeServe, you should contact Computershare.

Tel: 0870 707 1053

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

Website: www-uk.computershare.com/investor

Website

The HomeServe website at www.homeserveplc.com provides news and details of the Company's activities plus information for shareholders. The investor section of the website contains real time and historical share price data as well as the latest results and announcements.