




Annual Report & Accounts 2014


HomeServe at a glance

We provide home emergency and repair services to over 5.5m customers. Our established businesses operate in the UK, USA, France and Spain. We also have developing businesses in Italy and Germany.


Our business is built on developing long-term affinity relationships with utilities.




Adjusted operating profit¹	£86.9m	(2013: £107.6m)
UK	£53.4m	(2013: £78.3m)
USA	£12.9m	(2013: £9.5m)
France	£22.3m	(2013: £21.5m)
Spain	£4.0m	(2013: £3.1m)
New Markets	(£5.7m)	(2013: (£4.8m))



Customers	5.5m	(2013: 4.9m)
UK	2.1m	(2013: 2.3m)
USA	1.6m	(2013: 1.3m)
France	0.9m	(2013: 0.9m)
Spain	0.8m	(2013: 0.4m)
New Markets	0.1m	(2013: —)



Affinity partner households	85m	(2013: 77m)
UK	24m	(2013: 24m)
USA	26m	(2013: 22m)
France	14m	(2013: 14m)
Spain	15m	(2013: 13m)
New Markets	6m	(2013: 4m)



Retention	83%	(2013: 81%)
UK	82%	(2013: 79%)
USA	81%	(2013: 80%)
France	89%	(2013: 89%)
Spain	75%	(2013: ▲)

▲ As the Spanish policy base was relatively small, retention rate and income per customer were not reported prior to FY14.

¹ All references to adjusted earnings before interest tax depreciation and amortisation (EBITDA), adjusted operating profit or loss, adjusted profit before tax and adjusted earnings per share throughout the report, exclude exceptional expenditure and the amortisation of acquisition intangibles, as reconciled to their statutory equivalents in the Financial Review.

Revenue**£568.3m** (2013: £546.5m)**Adjusted EBITDA¹****£106.9m** (2013: £127.1m)**Adjusted profit before tax¹****£84.1m** (2013: £105.0m)**Statutory profit before tax****£24.4m** (2013: £66.5m)**Adjusted earnings per share¹****18.6p** (2013: 23.0p)**Basic earnings per share****3.1p** (2013: 12.9p)**Dividend per share****11.3p** (2013: 11.3p)

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

Strategic report

2014 Summary

Financial summary

- Revenue of £568.3m up 4% on prior year (2013: £546.5m)
- Adjusted operating profit of £86.9m (2013: £107.6m):
 - UK adjusted operating profit of £53.4m (2013: £78.3m)
 - Established International businesses adjusted operating profit of £39.2m (2013: £34.1m)
- Adjusted free cash flow² of £92.6m (2013: £80.2m) with net debt of £42.3m at 31 March 2014 (2013: £42.9m)
- Statutory profit before tax of £24.4m (2013: £66.5m) includes exceptional expenditure of £46.7m in respect of the resolution of UK matters.

Strategy and customer focus reaffirmed in the UK business

- 2.1m customers reflecting strong retention performance at 82% (2013: 79%)
- Further investment made to enhance products and service leading to continued improvement in customer satisfaction
- Effective multi-channel marketing acquired 0.2m customers in the year
- Financial Conduct Authority investigation completed and financial penalty paid in February 2014
- All customers included in the re-contact exercise have now been contacted and associated costs have been fully provided.

International businesses now account for 62% of total customers

- Strong profit growth in the USA (36%) and Spain (29%)
- 19% customer growth in the USA
- Signed 12 new affinity partnership agreements in the USA, including one with American Electric Power (AEP), a utility serving 3.7m households
- Customer numbers more than doubled in Spain
- Signed a new affinity partnership agreement with Aqualia, a water utility in Spain that serves 2.6m households.

² Adjusted free cash flow is cash generated by the businesses after payment of interest, tax and capital expenditure, before exceptional costs and movement in the exceptional provision as set out in the Financial Review.

Chairman's Statement

I am pleased with the progress the business has made this year, re-focusing the UK business and continuing to grow the International businesses.

Over the past 24 months the UK business has increased its focus on service delivery and I am pleased to say that customer satisfaction has increased as a result. As we announced earlier in the year, the Financial Conduct Authority concluded its investigation in January 2014 and we settled the financial penalty in February 2014.

The International businesses continue to deliver good customer growth. Customers in Spain more than doubled to 0.8m this year, while customers increased by 19% in the USA. We have built the business on having strong affinity partnerships and I am delighted that we have signed 12 new partnerships in the USA with utilities that serve over 4.4m households and we have signed a new water partner in Spain that serves 2.6m households.

All of our businesses are progressing in line with our expectations and we continue to expect the Group to deliver modest growth in FY15.

Dividend

The Board is proposing a final dividend of 7.67p per share bringing the total dividend for the year to 11.3p (2013: 11.3p).

People

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

JM Barry Gibson

Chairman
20 May 2014

Strategic report

Our business model



Our vision

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

Our mission

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

Our business is built on developing long-term relationships with our affinity partners and offering our customers home assistance in respect of water, electrical and gas related emergencies and repairs. We provide our services through the use of directly employed, franchised and sub-contract networks of engineers.

With the customer clearly at the heart of the business, we have developed strategies to enable us to fulfil our vision and mission.



Strong affinity partnerships

Long-term relationships with partners whose brands are relevant to our products, allowing us to offer our product to millions of homeowners through trusted brands. Our partners benefit by offering their customers a valuable home related product while earning a risk free income.



Claims and network management

We primarily use our own local call centres to handle customers' claims, and manage networks of qualified engineers in order to offer our customers the best service when they experience a home emergency.

Happy customers
that stay with
us year on year



Product design

We create water, gas and electrical related home assistance products. Our products 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.



Marketing capability

We use our expertise in direct marketing across a number of channels to offer our products directly to customers. Teamed with our affinity partners we also offer our products through their sales channels. We constantly innovate to ensure our marketing is fresh and relevant.

Strategic priorities	Progress in the year
Strong partnerships	<p>We have over 70 affinity partners across the six geographies in which we operate. During the year we signed 12 new partnerships in the USA, with utilities that provide energy and water services to over 4.4m residential customers across a number of states. We signed one new water partner in Spain that provides water to over 2.6m households.</p>
Products people want	<p>In the UK we increased the cover offered in our core plumbing and drainage product to include maintenance elements such as fixing dripping taps, outside taps and leaking toilets, giving more value to customers and increasing the opportunity to use the product and experience our customer service.</p> <p>In Spain, we developed a lower cost electrical assistance product, sold through our partners' sales channels, which gives customers access to a highly skilled network of technicians.</p> <p>In France, we enhanced the cover in our water products, offering leakage cover within the interior and exterior water products.</p>
Customer service	<p>We are focused on providing consistently good customer service through our service delivery operations at each touch point in the customer journey. This is an area of continued focus in all of our businesses. In the UK, we recruited additional plumbers to ensure we had sufficient capacity to cover any winter surge activity, while in the USA during the extreme winter weather conditions, we engaged additional contractors to support our directly employed gas specialists along the East coast. During the year our customer satisfaction ratings, measured by an external third party, improved significantly across all of our businesses.</p>
Efficiency	<p>We are focused in all our businesses on improving efficiency across each area of the value chain, while at the same time ensuring we deliver consistently good customer service. This will be a continued theme as we invest in upgrading our core customer IT system.</p>
People	<p>We have a team of over 3,800 people across our businesses. We are committed to developing our people, ensuring they are engaged, which will in turn result in a better customer experience.</p> <p>During the year we have filled a number of senior vacancies with internal candidates and we will develop our succession planning to ensure that this can continue.</p>

Strategic report

Chief Executive's review



We have made good progress in stabilising the UK business by focusing on improving customer service, increasing retention and delivering effective marketing. Strong customer growth in the USA and Spain has contributed to the growth in total customer numbers to 5.5m. I am delighted with the significant new affinity partner signings in the USA and Spain.

The USA remains our greatest opportunity and during FY15 we intend to increase investment in marketing and business development to take advantage of this. All our businesses are progressing in line with our expectations and we are confident of making further progress in FY15.



Our business is built on developing long-term relationships with our affinity partners and offering our customers home assistance in respect of water, electrical and gas related emergencies and repairs.

We provide our services through the use of directly employed, franchised and sub-contract networks of engineers. We have 5.5m customers across our operations in the UK, USA, France, Spain, Italy and Germany and we are becoming ever more international as a business, with 62% of our customers based in overseas markets (2013: 54%).

We have successfully re-focused the UK business on providing a high level of service to our customers at each stage of the journey, from product design to repairing the customer's home, in order to create a sustainable business model. Our UK business closed the year with 2.1m customers and, in line with our expectations, delivered adjusted operating profit of £53.4m (2013: £78.3m).

Our International businesses' results have shown continued strong growth with customer numbers up 31% to 3.4m and adjusted operating profits from our established International businesses, in the USA, France and Spain, 15% higher than the prior year at £39.2m (2013: £34.1m). We signed 12 new affinity partnerships with water and energy utilities in the USA and a new partner in Spain, in total providing an opportunity to offer our products to 7m additional households.

We have reinforced a customer focused culture across all of our operations, documenting and adhering to a Customer Charter in each territory. Customer satisfaction has increased in all of our businesses and we have also strengthened the governance and control framework.

For example in the UK, USA, France, Spain and Italy we have appointed independent non-executive directors to support the local Boards.

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

The table below shows our performance metrics as at 31 March 2014.

Global membership business metrics

		UK		International		Total		Change
		2014	2013	2014	2013	2014	2013	
Affinity partner households	m	24	24	61	53	85	77	+10%
Customers	m	2.1	2.3	3.4	2.6	5.5	4.9	+13%
Policy retention rate	%	82	79	83	83	83	81	+2ppts
Adjusted operating profit	£'m	53.4	78.3	33.5	29.3	86.9	107.6	-19%

Strategic report

Chief Executive's review

United Kingdom



What our customers say

“ The engineers were efficient and went beyond the call of duty to help. They were friendly, tidy and punctual. Thank you for such great customer service. ”

Magdalena M

“ Excellent engineer. Quickly found the faults in my electrical circuit. Very friendly manner and advisory suggestions. First class service! ”

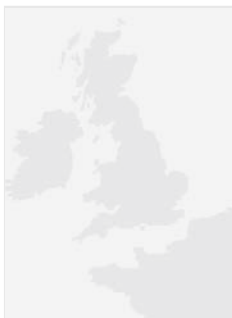
Kenneth A



Strategic report

Chief Executive's review

United Kingdom



- **Customer numbers closed at 2.1m (2013: 2.3m)**
- **Full year retention rate 82%, up from 79% last year**
- **Effective multi-channel marketing approach acquired 0.2m gross new customers**
- **Significant improvement in customer satisfaction reflecting improvements in products and service**
- **Financial Conduct Authority investigation completed and financial penalty paid in February 2014**

The UK reported revenue of £288.5m (2013: £309.0m), a 7% reduction relative to the prior year, reflecting the reduction in customer numbers partially offset by higher repair income. Adjusted operating profit in the UK was £53.4m (2013: £78.3m).

UK customer numbers have reduced by 0.2m to 2.1m (2013: 2.3m), a smaller reduction than we anticipated a year ago due to improved retention. Marketing activity increased this year relative to the last two years, the results of which have been in line with our expectations. In total gross new customers across all channels in FY14 were 0.2m (2013: 0.1m). We expect to stabilise the UK customer numbers in FY15 at at least 2.0m.

While direct mail remains our highest volume channel, we have increased the level of digital marketing, utilising a combination of brands including partner brands, the HomeServe website and comparison websites such as Money Supermarket and uSwitch and we continue to see customers buy multiple products when they purchase online.

We will invest further in our digital channel during FY15. We continued to offer products through eight of our partners' call centres and have agreement to do so with an additional three partners in FY15.

The retention rate of 82% increased three percentage points compared to the prior year. The increase reflects the improvements in customer service and product enhancements introduced over the past year.

Income per customer was £101 (2013: £106), reflecting a higher proportion of new customers who typically join at a discounted rate, the mix of policies sold and the higher cost to serve our plumbing and drains product since adding elements of maintenance cover to the product.



During the year, our network of 350 directly employed engineers and over 260 sub-contractors completed 0.6m repairs (2013: 0.7m). Over 85% of our water related repairs were completed by our directly employed engineers.

Our affinity partners continue to work with us in developing successful marketing campaigns and we are pleased to confirm that two of our larger partners have re-signed new long-term affinity agreements.

In January 2014, the FCA concluded its investigation into the past issues in the UK business and we paid the resulting financial penalty of £30.6m in February 2014. We have now re-contacted all of the customers who may have suffered detriment as a result of the way in which they initially purchased their policy or had a complaint handled. The cost of this re-contact exercise is fully provided.

UK performance metrics

		2014	2013	Change
Affinity partner households	m	24	24	—
Customers	m	2.1	2.3	-7%
Income per customer ³	£	101	106	-4%
Policies	m	5.0	5.5	-9%
Policy retention rate	%	82	79	+3ppts

UK policies split by type

		2014	2013
Water	m	2.9	3.1
Electrical	m	0.5	0.6
Heating, ventilation, air conditioning (HVAC)	m	0.6	0.6
Manufacturer warranties	m	0.4	0.5
Other	m	0.6	0.7
Total Policies	m	5.0	5.5

³ Income per customer is defined as policy revenue net of sales taxes and underwriting divided by the total number of customers.

Strategic report

Chief Executive's review

United States of America



What our customers say

“ Everything was great, the contractor did an awesome job. He was a nice man and very careful. I have absolutely no complaints. It was great service. ”

Dennis H

“ For the price you pay, they come out and guarantee their work. Being a homeowner I want to be sure I'm not going to get stuck with a huge bill. The agent went out of his way on Sunday to get me set up for Monday. ”

Linda V



Strategic report

Chief Executive's review

United States of America



- **36% increase in adjusted operating profit to £12.9m (2013: £9.5m)**
- **19% increase in customer numbers to 1.6m (2013: 1.3m)**
- **Signed an affinity partner agreement with American Electric Power (AEP) an electric utility that serves 3.7m households across 11 states**
- **In total, 12 new affinity partnerships providing services to 4.4m households**
- **Continued strong marketing performance**

Revenue in the USA was £110.9m (2013: £100.8m) and adjusted operating profit was £12.9m (2013: £9.5m), 36% higher than the prior year principally reflecting an increase in renewals income in the year.

Customer numbers increased 19% to 1.6m (2013: 1.3m) with 0.5m gross new customers added in the year.

The direct mail channel continues to be the most significant channel and we also continue to develop our digital and partner channels. Our response rates and payback periods have continued to be attractive and in line with our expectations.

Retention performance has been good, increasing from 80% to 81% as we have focused on providing consistently good customer service throughout the customer journey, refining internal processes to enhance the customer experience and introducing product improvements. In addition we now have an "on-bill" billing arrangement for over half of all policies sold.

Income per customer was \$104 (2013: \$112) a reduction of 7%, reflecting the mix of products sold and the higher cost of the extra cover provided in our products which has resulted in increased usage.

Our network of 136 directly employed technicians and around 740 sub-contractors completed over 0.3m jobs during FY14 (2013: 0.3m).

During FY14 our business development team signed 12 new utility partnerships with a mix of gas, electric and water utilities across both public and municipal ownership.

The new partnerships include a long-term on-bill marketing agreement with American Electric Power (AEP), one of the largest electric utilities in the USA. AEP, headquartered in Columbus, Ohio, serves 3.7m residential households across 11 states.



The USA remains our most significant opportunity with 128m households, of which we now have affinity partner relationships with utilities that provide services to 26m of these households.

To ensure we have the business development capacity to more effectively target the 1,445 identified utilities, during FY15 we plan to double the size of the business development team to 20 people.

This will provide us with extended reach across the USA to drive accelerated new partner signings from FY16. This increase in resource together with the additional marketing will result in profits in the USA being broadly flat in FY15. This investment is expected to deliver incremental customer and profit growth in the medium-term.

USA performance metrics

		2014	2013	Change
Affinity partner households	m	26	22	+20%
Customers	m	1.6	1.3	+19%
Income per customer	\$	104	112	-7%
Policies	m	2.4	2.1	+14%
Policy retention rate	%	81	80	+1ppts

USA policies split by type

		2014	2013
Water	m	1.2	1.1
Electrical	m	0.3	0.2
Heating, ventilation, air conditioning (HVAC)	m	0.9	0.8
Total Policies	m	2.4	2.1

Strategic report

Chief Executive's review





What our customers say

“ I have been impressed with the speed, kindness and professionalism of each person at every touch point. ”

Jean-Maurice C

“ What an adventure, but most of all what a relief to be taken care of by this insurance, which has proven to be very successful at all levels. ”

Laurence P

Strategic report

Chief Executive's review

France



- **Continued strong financial performance with profits up 4%**
- **Strong retention rate at 89%**
- **Focus on developing new partner relationships**

France reported £77.3m (2013: £73.8m) of revenue, up 5% on the prior year. Adjusted operating profit was up 4% to £22.3m (2013: £21.5m).

Customer numbers remained stable at 0.9m. The majority of our new customers in France are acquired through direct mail marketing. As in our other businesses, we are developing new sales channels, particularly the digital channel and utilising our partner's call centres to introduce our products. During the year we increased the proportion of sales generated through our partner's call centres in France.

During 2015, a French law is expected to be enacted which would give customers the ability to cancel insurance policies outside the normal renewal date. This could have a modest impact on the future retention rate, although, we would expect that retention in France would remain the highest in the Group.

Income per customer increased by 2% to €100 (2013: €98), reflecting the mix and price of policies held by customers.

All of our repairs in France are managed through our network of around 700 sub-contractors who completed 4% more repairs than the prior year.

The key to increasing customer growth remains the signing of a new partner and we continue to have active discussions with a number of utilities.



France performance metrics

		2014	2013	Change
Affinity partner households (excluding apartments)	m	14	14	—
Customers	m	0.9	0.9	+1%
Income per customer	€	100	98	+2%
Policies	m	2.3	2.3	-2%
Policy retention rate	%	89	89	—

France policies split by type

		2014	2013
Water	m	2.0	2.0
Electrical	m	0.2	0.2
Other	m	0.1	0.1
Total Policies	m	2.3	2.3

Strategic report

Chief Executive's review





What our customers say

“ We called Reparalia due to a faulty toilet. The job was very difficult but the engineer managed it very well. They were kind and came perfectly uniformed. ”

Francisco D

“ The engineer was punctual and excellent, he didn't leave the house until he was absolutely sure that the job was well done. I was very happy with the service and I will call again. ”

María B

Strategic report

Chief Executive's review

Spain



- **Customer numbers doubled to 0.8m**
- **Majority of new customers acquired through Endesa's sales channels**
- **Signed a long-term affinity partnership with Aqualia that serves 2.6m water customers**

In Spain, revenue increased by 37% to £82.6m (2013: £60.5m) and adjusted operating profit increased by 29% to £4.0m (2013: £3.1m) principally reflecting higher customer numbers in our membership business and more repair jobs in our claims handling business.

Customer numbers continued to show strong growth, more than doubling to 0.8m (2013: 0.4m) and policy numbers passed the 1m milestone in January 2014.

The majority of customer acquisitions were in respect of our electrical assistance policy which is sold by Endesa through its sales channels, the cost of which is capitalised and amortised over the life of the affinity partner contract, currently five years. This product offers a free call out for any electrical emergency, two hours of labour and up to two electrical handyman services per annum. The product is sold by Endesa to new customers or when one of their customers switches their electricity tariff and it is billed on the utility bill.

Retention in the period was 75%. The rate is lower than the Group average retention rate of 83%, reflecting the higher proportion of year one customers in Spain this year.

Income per customer at €30 reflects the dominance of the electrical assistance product in the portfolio and the associated first year discount.

In February 2014, we signed a long-term affinity partnership agreement with Aqualia, the third largest water utility in Spain that provides water to 2.6m households and we expect to commence marketing water related products in the second half of FY15. Combined with our partner Agbar, we now have access to over 50% of the water market.

Our claims handling business in Spain continues to perform well with continued growth in the number of claims managed. Our network of 1,732 sub-contractors and the 161 Reparalia franchised engineers completed 0.6m repairs in the year (2013: 0.5m).



“ I’ve been Reparalia’s customer for a few years now and called them to come and fix a broken plug. The person that came to repair it was exceptionally kind. When someone comes to repair a breakdown it is very important that they’re willing to do a good job and that the person who does it is a qualified professional, and that’s exactly how it went. We asked for a bigger plug and got it, no questions asked.

I also felt very well taken care of by customer service and the tradesman was on time. He had to go out to get a few parts but returned quickly.

”

Juan C

Spain performance metrics

		2014	2013	Change
Affinity partner households	m	15	13	+20%
Customers	m	0.8	0.4	+102%
Income per customer	€	30	▲	
Policies	m	1.1	0.5	+119%
Policy retention rate	%	75	▲	

Spain policies split by type

		2014	2013
Water	m	0.2	0.1
Electrical	m	0.8	0.3
Other	m	0.1	0.1
Total Policies	m	1.1	0.5

▲ As the Spanish policy base was relatively small, retention rate and income per customer were not reported prior to FY14.

Strategic report

Chief Executive's review

New Markets





What our customers say

“ I was very happy because the tradesman arrived in no time at all even though I called during the Christmas holidays. In addition the gas leak was repaired straight away. ”

Carlo P

“ I'm very satisfied with the electric's service, now I really need to buy the gas policy for my apartment as well! ”

Emilia G

Strategic report

Chief Executive's review

New Markets

- Continued strong relationship with Enel in Italy
- Marketing testing continues in Germany
- Sold Société Française de Garantie (SFG) the retail warranties business based in France

Our New Markets segment includes our developing businesses in Italy and Germany. Up to 5 March 2014, it also included SFG, our French retail warranty business.

The New Markets businesses reported revenue of £14.4m, up from £9.4m in the prior year reflecting higher sales in Italy. The adjusted operating loss of £5.7m (2013: £4.8m) principally reflects the additional investment in Italy over the past 12 months.

The business in Italy is making good progress. We increased the marketing investment and now have 0.1m customers, principally acquired by Enel through their sales channel. The customers pay for the product through an "on-bill" billing arrangement.

In Germany, we are focused on developing relationships with utilities and continue to invest in test activity.

In recent years SFG has been impacted by the weak French retail appliance market and during the year we took the decision to sell the business and the sale was completed in March 2014.

IT investment

As outlined previously we are investing in upgrading our core customer IT system. In the UK the new system will improve our marketing effectiveness and retention by providing better customer insight and flexibility around the products and offers we can provide our customers. The new system will improve the speed and access our call centre agents have to customer data thus improving the customer experience and providing efficiencies. In the USA the new system will also help us to more easily link into new partners' systems allowing us to increase the speed and efficiency of new partner integrations.

To date activity has focused on planning, design and selecting the most appropriate partners. I am pleased that we have recently selected Pega Systems Inc, a business with extensive transformational experience, to provide the software and build our new system. Going forward, we expect to invest around £30m in respect of this system upgrade.

Outlook

All of our businesses are progressing in line with our expectations and we continue to expect the Group to deliver modest growth in FY15.

UK

In FY15 we expect to acquire 0.3m gross new customers with an increased proportion of new sales coming from our partner and digital channels. We expect to maintain the current retention rate despite the higher proportion of first year customers. This will enable us to stabilise customer numbers at at least 2.0m.

International

We are confident of delivering strong growth in customer numbers in our International businesses. We intend to increase investment in marketing and business development resource in the USA and therefore we expect operating profits in the USA in FY15 to be broadly in line with FY14, with higher customer and profit growth in future years.

In France, we will continue to target new affinity relationships while still maintaining a strong profit performance.

In Spain, we now expect profits to increase given the continued success of our relationship with Endesa which will also give rise to continued growth in customer numbers.

In FY15, we plan to continue to invest up to £6m in New Markets.

Strategic report

Financial review



These financial results have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Segmental results

The Group has five operating segments: UK, USA, France, Spain and New Markets. The New Markets division combines the results of our businesses in Italy, Germany and, up to 5 March 2014, SFG in France. The revenue and adjusted operating profit for each of these segments are set out in the table below.

Group revenue was 4% higher than the prior year at £568.3m (2013: £546.5m). Revenue growth generated by the International businesses more than offset a reduction in UK reported revenue. Adjusted operating profit reduced to £86.9m (2013: £107.6m) with lower profits in the UK partially offset by growth in our established International businesses.

The Group adjusted operating margin (adjusted operating profit/(loss) divided by revenue) was 15%, a reduction of 5 percentage points, principally as a result of the reduction in the UK operating margin.

Financial performance by operating segment

£million	Revenue		Adjusted operating profit/(loss)		Adjusted operating margin	
	2014	2013	2014	2013	2014	2013
UK	288.5	309.0	53.4	78.3	19%	25%
USA	110.9	100.8	12.9	9.5	12%	9%
France ⁴	77.3	73.8	22.3	21.5	29%	29%
Spain	82.6	60.5	4.0	3.1	5%	5%
New Markets	14.4	9.4	(5.7)	(4.8)	(40%)	(51%)
Inter-division	(5.4)	(7.0)	—	—	—	—
Group	568.3	546.5	86.9	107.6	15%	20%

⁴The operating segment France was formerly known as Doméo.

UK

Our UK business reported revenue of £288.5m (2013: £309.0m), a reduction of £20.5m. Revenue in the UK business can be analysed as 'net income' (income per customer multiplied by the number of customers) of £213.2m (2013: £240.9m), with the remaining income of £75.3m (2013: £68.1m) representing £65.8m of repair network revenue (2013: £55.1m) and other income of £9.5m (2013: £13.0m), which includes third party claims handling revenue and revenue from transactions with other Group companies.

Net income decreased by 11% to £213.2m principally reflecting the reduction in customer numbers, a higher cost to service the customers and a higher proportion of year one customers.

Repair revenue was £10.7m higher as a result of higher average job costs.

Total costs were 2% above the prior year as we increased marketing expenditure, incurred higher repair network costs and incurred costs in respect of digital and connected home technology. This increased expenditure was partially offset by lower employment costs reflecting lower headcount in FY14.

Adjusted operating profit of £53.4m was £24.9m lower than the prior year of £78.3m, principally reflecting lower customer numbers and higher service delivery costs, which was in line with our expectations.

UK financial performance

£million	2014	2013	Change
Revenue			
Net income ⁵	213.2	240.9	(11%)
Repair network	65.8	55.1	19%
Other	9.5	13.0	(27%)
Total revenue	288.5	309.0	(7%)
Operating costs	(235.1)	(230.7)	2%
Adjusted operating profit	53.4	78.3	(32%)
Adjusted operating margin	19%	25%	-6ppts

⁵ Net income is calculated by multiplying income per customer by the number of customers.

Strategic report

Financial review

USA

In the USA, revenue increased by 10% to £110.9m (2013: £100.8m) driven by the growth in renewals income partially offset by higher claims frequencies and costs to service claims. The improvement in service contributed to the increased retention rate, now at 81%. Adjusted operating profit increased by 36% from £9.5m to £12.9m with a 3 percentage point improvement in the adjusted operating profit margin to 12%, reflecting some economies of scale. As we continue to invest both in additional marketing and business development resource we expect the USA adjusted operating margin to be at the lower end of the 10% to 15% range.

France

France contributed revenue of £77.3m compared to £73.8m in the previous year and adjusted operating profit was £22.3m, up 4% compared to the prior year (2013: £21.5m). The adjusted operating margin was 29%, in line with the prior year.

Spain

In Spain, revenue was £82.6m, £22.1m higher than in the prior year. Membership revenue almost doubled to £19.9m (2013: £10.0m) as a result of the strong growth in customer and policy numbers. The volume of jobs increased in the claims handling business resulting in a 22% increase in revenues.

USA financial performance

£million	2014	2013	Change
Total revenue	110.9	100.8	10%
Operating costs	(98.0)	(91.3)	7%
Adjusted operating profit	12.9	9.5	36%
Adjusted operating margin	12%	9%	+3ppts

France financial performance

£million	2014	2013	Change
Total revenue	77.3	73.8	5%
Operating costs	(55.0)	(52.3)	5%
Adjusted operating profit	22.3	21.5	4%
Adjusted operating margin	29%	29%	—

Spain financial performance

£million	2014	2013	Change
Revenue			
Membership	19.9	10.0	99%
Claims handling	62.7	50.5	22%
Total revenue	82.6	60.5	37%
Operating costs	(78.6)	(57.4)	37%
Adjusted operating profit	4.0	3.1	29%
Adjusted operating margin	5%	5%	—

The cost of acquiring the electrical assistance customers originated by Endesa, is capitalised and held as an intangible asset and amortised over five years, the term of our contract with Endesa. During FY14 we invested £22.2m (2013: £4.6m) in respect of the customers acquired by Endesa and as at 31 March 2014 the intangible asset in relation to these customers was £21.9m (2013: £4.4m).

The increase in operating costs principally relates to increased costs in the claims business, marketing activity and £4.2m of amortisation (2013: £0.2m) in respect of the cost of acquiring electrical assistance policies that were originated by Endesa.

Total adjusted operating profit was £4.0m, £0.9m higher than in the previous year (2013: £3.1m). Spain reported an adjusted operating margin of 5.0% in line with the prior year.

New Markets

Our New Markets businesses reported revenue of £14.4m (2013: £9.4m) and an adjusted operating loss of £5.7m (2013: £4.8m). Revenue increased by £5.0m, principally due to higher sales in Italy. Up to the point of selling SFG on 5 March 2014, it generated £9.2m of revenue and broke even from a profit perspective. There was no gain or loss on the sale.

Group statutory results

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

Statutory profit before tax was £24.4m, £42.1m lower than FY13 (2013: £66.5m). Statutory profit before tax is reported after the amortisation of acquisition intangibles and exceptional expenditure.

Group statutory results

£million	2014	2013
Total revenue	568.3	546.5
Operating profit	27.2	69.1
Net finance costs	(2.8)	(2.6)
Adjusted profit before tax	84.1	105.0
Exceptional expenditure	(46.7)	(25.1)
Amortisation of acquisition intangibles	(13.0)	(13.4)
Statutory profit before tax	24.4	66.5
Tax	(14.4)	(24.6)
Profit for the year, being attributable to equity holders of the parent	10.0	41.9

Strategic report

Financial review

Amortisation of acquisition intangibles

The amortisation of acquisition intangibles of £13.0m (2013: £13.4m) principally relates to customer and other contracts, held by businesses, which were acquired as part of the acquisitions.

Exceptional expenditure

Exceptional expenditure of £46.7m was incurred during the year (2013: £25.1m) which related to additional costs associated with the FCA investigation and the UK customer re-contact exercise. The FCA financial penalty was finalised at £30.6m which required a £27.7m increase in the provision in FY14. The fine was paid in February 2014. During the year, an additional £19.0m provision was made in respect of the customer re-contact exercise.

Cash flow

£million	2014	2013
Adjusted operating profit	86.9	107.6
Exceptional items	(46.7)	(25.1)
Amortisation of acquisition intangibles	(13.0)	(13.4)
Operating profit	27.2	69.1
Depreciation and amortisation	33.0	32.9
Non cash items	6.2	18.4
Decrease in exceptional provision	(12.4)	(0.9)
Decrease in working capital	37.9	8.7
Cash generated by operations	91.9	128.2
Net interest	(2.8)	(2.4)
Taxation	(21.6)	(26.3)
Capital expenditure	(33.6)	(29.9)
Repayment of finance leases	(0.4)	(0.6)
Free cash flow	33.5	69.0
Acquisitions	(2.4)	(5.8)
Equity dividends paid	(36.7)	(36.6)
Issue of shares	1.1	0.6
Net movement in cash and bank borrowings	(4.5)	27.2
Impact of foreign exchange	4.7	(3.2)
Finance leases	0.4	(0.9)
Opening net debt	(42.9)	(66.0)
Closing net debt	(42.3)	(42.9)

While the population of customers being re-contacted remained unchanged, with greater visibility of the numbers requesting a review and the value of the reimbursements being made, the cost of the exercise was higher than originally anticipated thus resulting in the increased provision. All customers that needed to be re-contacted have now been contacted and the provision at the year end remains appropriate.

Cash flow and financing

Our business model continues to be highly cash generative with cash generated by operations in FY14 amounting to £91.9m (2013: £128.2m), representing a cash conversion ratio against adjusted operating profit of 106% (2013: 119%).

Working capital (excluding the exceptional provision) decreased by £37.9m in FY14, compared to £8.7m in FY13. The reduction was principally a result of the timing of payments to our partners and lower revenue in the UK. The exceptional provision decreased by £12.4m in FY14, reflecting expenditure that addressed the UK matters.

During the year we incurred capital expenditure of £33.6m. This expenditure included payments of £14.4m to Endesa in Spain in respect of the acquisition of customers that Endesa originated, investment in a financial management system and upgrading our core customer IT system.

We expect to maintain a higher than usual level of capital expenditure over the next two years (FY15 and FY16) as we implement the new system and work with Endesa to acquire customers in Spain.

Free cash flow during the period was £33.5m (2013: £69.0m) and adjusted free cash flow was £92.6m (2013: £80.2m). Adjusted free cash flow is cash flow before exceptional costs of £46.7m (2013: £10.3m) and related provision movements of £12.4m (2013: £0.9m).

Net debt and finance costs

Net debt at 31 March 2014 was £42.3m (2013: £42.9m), significantly within our facility of £250m, which is committed through to July 2016. Net debt was lower than expected principally due to the timing of commission payments to partners which will now fall into FY15. Year end net debt to EBITDA was 0.4 times. Against the background of the Group's relatively low leverage and strong cash flow, and the Board's confidence in the business, the Board intends to conduct a review of its capital structure policy during the course of the year.

The Group's net finance costs were £2.8m, £0.2m higher than in FY13.

Taxation

The tax charge in the financial year was £14.4m (2013: £24.6m).

In order to calculate an effective tax rate that reflects the ongoing tax burden of the Group, it is necessary to exclude an element of the exceptional expenditure resulting in an adjusted effective tax rate of 28.3% (2013: 28.8%).

We expect the adjusted effective tax rate to remain broadly the same going forward, as the expected reduction in the UK tax rate is offset by higher profits from our international businesses, which are subject to higher rates of tax.

Strategic report

Financial review

Earnings per share

Adjusted earnings per share for the period decreased from 23.0p to 18.6p. The average number of shares in issue increased from 324m to 325m. On a statutory basis, earnings per share decreased from 12.9p to 3.1p.

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 (2013: 11.3p). The final dividend, subject to shareholder approval, will be paid on 1 August 2014 to shareholders on the register on 4 July 2014.

Foreign exchange impact

The impact of changes in the € and \$ exchange rates between FY14 and FY13 has resulted in the reported revenue of our International businesses increasing by £3.0m and adjusted operating profit decreasing by £0.3m.

The current US\$ exchange rate is \$1.68. If the average FY14 US\$ exchange rate had been at this level rather than \$1.60, revenue would have been £6.9m lower and operating profit would have been £0.8m lower than reported. The impact of foreign exchange rate movements on the individual businesses is summarised in the table below.

Acquisitions

Acquisition spend during the year totalled £2.4m (2013: £5.8m) which principally related to deferred consideration relating to acquisitions completed in prior periods.

Impact of foreign exchange

		Average exchange rate		Change	Effect on (£m)	
		2014	2013		Revenue 2014	Adjusted operating profit 2014
USA	\$	1.60	1.58	+1.2%	(1.6)	(0.6)
France	€	1.19	1.23	-3.2%	2.0	0.6
Spain	€	1.19	1.23	-3.2%	2.2	0.1
New Markets	€	1.19	1.23	-3.2%	0.4	(0.4)
Total International					3.0	(0.3)

Statutory and pro-forma reconciliations

The Group believes that adjusted EBITDA, adjusted operating profit, adjusted profit before tax and adjusted earnings per share, all of which excludes the amortisation of acquisition intangibles and exceptional expenditure 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	2014	2013
Operating profit (statutory)	27.2	69.1
Depreciation	4.9	7.8
Amortisation	15.1	11.7
Amortisation of acquisition intangibles	13.0	13.4
Exceptional expenditure	46.7	25.1
Adjusted EBITDA	106.9	127.1
Operating profit (statutory)	27.2	69.1
Amortisation of acquisition intangibles	13.0	13.4
Exceptional expenditure	46.7	25.1
Adjusted operating profit	86.9	107.6
Profit before tax (statutory)	24.4	66.5
Amortisation of acquisition intangibles	13.0	13.4
Exceptional expenditure	46.7	25.1
Adjusted profit before tax	84.1	105.0
Pence per share	2014	2013
Earnings per share (statutory)	3.1	12.9
Amortisation of acquisition intangibles	2.6	2.8
Exceptional expenditure	12.9	7.3
Adjusted earnings per share	18.6	23.0

Strategic report

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 Strategic report. 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 2013 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>Over the past two years, we have strengthened the UK management team and have tested a number of new product developments and marketing initiatives, many of which we are now in the process of implementing.</p> <p>The UK business has a detailed project plan covering a number of areas including sales and marketing effectiveness, governance and controls and customer service. These actions are 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 FY14 we have made further progress in restoring our customer focused culture in the UK. We have seen further improvements in customer satisfaction, together with a continued reduction in the number of customer complaints.</p> <p>Our marketing effectiveness has improved significantly during the year, which combined with a higher retention rate, now leads us to believe our customer number in the UK will stabilise at at least 2.0m, which is 0.1m higher than our previous expectation.</p>

Risk Description/Impact	Mitigation	Change since 2013 Annual Report
<p>Commercial relationships</p> <p>Underpinning the success in our chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies 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, Spain and the USA.</p> <p>In the UK, we have renewed all partners that were due to renew.</p> <p>In France, we continue to work with Veolia under a long term marketing agreement.</p> <p>In the USA, we have signed new agreements with 12 utilities.</p> <p>In Spain, we have seen strong growth in customer and policy numbers in FY14 with our existing partners, while also signing a new long term agreement with a water utility.</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 have seen an increased number of "requests for proposal" being issued by utilities in relation to our products and services. While we see some other parties participate in these tenders, we believe that, overall, this is positive for our business as it demonstrates an increased awareness of our products and services in the USA.</p> <p>In France and Spain, there has been no significant change in the competitive landscape.</p>

Strategic report

Principal risks and uncertainties

Risk Description/Impact	Mitigation	Change since 2013 Annual Report
<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 where possible.</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 increased to 82% compared to 79% in the previous year. The rate has been increasing during the year due to a number of factors, including enhancements to our products, greater clarity in our marketing activity and changes to our pricing strategy</p> <p>In the USA, the rate has increased to 81%.</p> <p>In France, Doméo maintained its retention rate of 89%.</p>
<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 have further developed our digital channel and sales through our partner call centres. Within the digital channel we are seeing a significant number of customers opting for our bundled products, and will typically purchase around 6 policies in the first year. We now have agreement with 60% of our utility partners to use their call centres to assist our new customer acquisition activity. Development of these two channels is serving to reduce our reliance on direct mail activity.</p>

Risk Description/Impact	Mitigation	Change since 2013 Annual Report
<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 maintain regular dialogue with the FCA.</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>We continue to provide good customer service to reduce a customer's propensity to cancel a policy.</p>	<p>During FY14 we have strengthened our regulatory and compliance teams across all our businesses and completed a review of the legislative landscape, and our compliance with it, in each of the markets in which we operate.</p> <p>In the UK, we have completed the implementation of our business improvement initiatives which were in line with the feedback from our FCA supervisory team in FY12.</p> <p>The FCA investigation into our historical UK issues has now concluded.</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>In France we are aware that Hamon Law is likely to be enacted in the next year, which would enable customers to cancel insurance policies after the first year outside the normal renewal cycle, something that is currently prohibited in France.</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, has 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 estimate of the amount required has been closely monitored to ensure it is sufficient to cover the cost of these exercises.</p> <p>The UK business is a cash generative, profitable business which can meet the associated costs of the re-contact exercises.</p>	<p>During FY14 we completed the re-contact of all customers whose complaints may not have been appropriately managed during the winter of 2010. In addition, we re-contacted customers who may have suffered detriment as a result of the way in which they were sold their policy.</p>

Strategic report

Principal risks and uncertainties

Risk Description/Impact	Mitigation	Change since 2013 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>During FY14 we identified that the original provision was lower than that required to complete the customer re-contact exercises and so increased our provision during the year by £19.0m. The provision at 31 March 2014 is appropriate.</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 FY14 we have continued to monitor customer satisfaction across all our operations at a number of different customer contact points.</p> <p>Reflecting the importance of customer service to our business, all senior managers have customer service performance as a significant component of their annual bonus opportunity.</p>

Risk Description/Impact	Mitigation	Change since 2013 Annual Report
<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 have fulfilling careers, and 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>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 FY14 we have continued our development of businesses within our New Markets segment in Italy and Germany only.</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>During FY14 we commenced the project to replace our core customer system, 'Ensura' and have now partnered with Pega Systems Inc to develop the system.</p>

Strategic report

Principal risks and uncertainties

Risk Description/Impact	Mitigation	Change since 2013 Annual Report
	<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>This project will last for the next 2-3 years. The new system will improve our marketing effectiveness and retention by providing better customer insight and flexibility around the products and offers we can provide our customers. The new system will improve the speed and access our call centre agents have to customer data thus improving the customer experience and providing efficiencies. It will also help us to more easily link into new partners' systems allowing us to increase the speed and efficiency of new partner integrations.</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 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>Credit risk</p> <p>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</p> <p>We manage liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.</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 FY14.</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 FY17. Our net debt at 31 March 2014 was £42m, significantly within the facility limit of £250m.</p>

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 Chief Executive's review and the Financial review.

The Directors have reviewed the Group's budgets, forecasts, cash flows and the financial impact of the conclusion of the FCA investigation and UK matters, 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.

This strategic report was approved by the Board of Directors on 20 May 2014 and is signed on its behalf by:

Richard Harpin

Chief Executive Officer
20 May 2014

Johnathan Ford

Chief Financial Officer
20 May 2014

Corporate responsibility





“ The UK business has had a very successful partnership with Marie Curie Cancer Care and has raised £1.5m over the past four years. ”

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:

- 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.
- Achieve sustainable profits for our shareholders.

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 focused 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
- 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

We continue to reinforce a customer focused culture in all of our businesses. A Customer Charter is now in place in each territory which outlines our commitment to our customers; we'll make things easy for customers and treat customers fairly, every step of the way. The charters have been committed to by all of our colleagues, from the management teams to those on the front line.

We undertake ongoing customer satisfaction surveys and actively monitor customer satisfaction, net promoter scores and customer effort. Customer satisfaction has increased in all of our businesses during the year.

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.

We attach considerable importance to ensuring that all our employees benefit from effective communications and engagement, using regular business updates, senior management briefing sessions and "surgeries", question and answer opportunities and constructive relationships

with employee representatives across the Group. A Group-wide employee survey is run each year, with results reported to the Board and action plans devised, implemented and tracked locally. Employees are actively involved in the creation and delivery of these plans and best practice for the promotion of employee engagement is shared across the Group.

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 is determined solely by the fair application of relevant job criteria and by personal ability and competence. We actively promote the international transfer of our employees where this is likely to assist the development of both employee and business, and our senior HR managers meet regularly to share best practice and identify opportunities to develop our employees' careers.

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.

Corporate responsibility



Charity

The UK business has had a very successful national charity partnership with Marie Curie Cancer Care for the past four years. £1.5m has now been donated and celebration activities are being planned to mark this fantastic fundraising milestone. £638,000 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 £898,000; to date 1,394 policies have been taken out and 1,092 jobs completed.

Employees in the UK have been incredibly engaged with the charity and fundraising and volunteering activities have gone from strength to strength.

In May 2013, 75 employees climbed Snowdon raising £30,000, and throughout a week in August 2013 over 50 employees worked in the gardens of the West Midlands hospice. A Charity Shop Challenge took place in November 2013 with 65 colleagues volunteering to work in Marie Curie shops. In total the Challenge raised over £11,000, increasing average sales by 165% compared to the same day the previous week.

In March 2014, the UK business also supported the Comic Relief media appeal for the tenth consecutive year by taking calls in our Walsall call centre. 270 volunteers answered over 4,000 donation calls while the live show was broadcast by the BBC and nearly £150,000 was raised to help vulnerable people in the UK and 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, employees have raised \$16,000 for the American Cancer Society and supported a number of local causes.



In France and Spain, we have continued to support local charities both by fundraising and volunteering. Activities have included decorating, electrical repairs and toy and food collections.

During the year we agreed to establish a new programme to help disadvantaged homeowners who are faced with a home emergency but don't have a policy or service contract or the funds to cover the repair. The programme was inspired by an initiative introduced in the USA and is now being rolled out in the UK, France, Spain and Italy.

The programme will leverage our existing service infrastructure and financial resources to help homeowners in need. It will be managed locally and will be used in a number of different ways to help homeowners in need. Examples include low income households facing an emergency situation but who do not have a policy and existing policyholders whose policy might not cover the work required.

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.

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.

Our Group Safety Director sits as an Independent Member of the UK Health and Safety Executive's Challenge Panel. Johnathan Ford, Group Chief Financial Officer, is the Board Champion for health and safety.

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.

Corporate responsibility

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 another year-on-year reduction in the number of accidents reported.

In the UK, the business was successful in achieving RoSPA's Gold Award for occupational health and safety performance for the fourth year running. This prestigious award follows a rigorous self-assessment and submission of a portfolio of evidence against the judging criteria. This fourth Gold Award follows a previous Silver Award and was extended to cover the whole business, having previously been awarded to our service operations division.

Our business in the USA has a firmly embedded health and safety management structure with a strong focus on incident reduction. A comprehensive carbon monoxide personal monitoring scheme was successfully introduced across the whole Energy Services operation during the year. Changes to US law mandated increased health and safety training which has been successfully delivered to all affected employees and automated external defibrillators were installed in all principal offices.

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. The most common cause of incidents in the Spanish business relate to commuting to and from work. Such incidents form part of the national frameworks for accident reporting in both Spain and France.

In France we received favourable reports from the three Government Inspectors (the Medecins du Travail) who are statutorily obliged to visit each business multiple times each year. The business has concentrated on a proactive programme to evaluate and reduce organisational stress.

The German and Italian businesses continue to be accident free.

Incidents

Reporting of accidents and incidents has continued to improve allowing us to monitor trends, anticipate issues and cascade knowledge across the Group. There is no directly transferable measure of incident severity with each country having differing statutory reporting requirements. For example, France must report every accident to their regulator irrespective of severity and the USA must keep a written record of 'reportable' accidents (the OSHA log), but not actually make the report externally.

The UK reported 79 accidents this year, down from 109 in FY13 and improving on the previous lowest number of reported incidents; 89 accidents in FY10. The top two causes of accidents were slips and manual handling, which were also the top two causes of accidents across UK industry as a whole.

The USA reported 23 accidents this year, down from 34 in FY13. The top two causes of accidents were manual handling followed by slips.

The French and Spanish business reported only commuting accidents.

Environment

We continue to 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 there were no regulatory interventions anywhere in the Group and we have implemented energy saving initiatives in the UK that have resulted in a reduction in electricity consumption of 10%. At our main UK call centre we have made a 45% reduction in gas consumption.

We have installed a new telemetric system in our UK commercial fleet that enables us to monitor the performance of our vehicles more closely, including driver behaviour and miles per gallon. The data collected helps us improve the efficiency of our fleet.

During the year, we worked with Makita UK to develop the world's first 4 stroke disk cutter for use by our plumbing and drainage engineers. This revolutionary design has a 20% reduction in fuel consumption over a conventional 2 stroke engine disk cutter. There is a significant reduction in accidental engine damage, accidental spillages when mixing the fuel together and emissions.

Throughout the year we gave our customers tips and hints on how they could reduce costs whilst reducing their impact on the environment. These have been sent electronically or using social media to reduce the environmental impact.

UK waste reduction

We have worked hard to ensure that recycling levels remain high. The volume of waste produced in our network has increased by 48% but 94% of our waste is recycled with only 6% being sent to landfill.

Carbon Footprint

The formal disclosure in respect of our carbon footprint is included in the Directors' Report.

We have had our global direct and indirect greenhouse gas emissions externally audited (using Defra emission factors). It should be noted that fugitive emissions from office air-conditioning are not included. This makes up a very small proportion of our data but work is underway to include this in future reporting.

The carbon footprint for FY14 was 11,150 tCO₂e.

Governance

Chairman's overview



The Board continues to believe that good corporate governance underpins good business performance. As a Board we are accountable to our shareholders for ensuring that governance processes are in place and are effective and we are fully committed to meeting the required standards of corporate governance.

The reports that follow are intended to give shareholders an understanding of our corporate governance arrangements and how they operated in FY14.

Board focus

Over the last year we have continued to re-focus the business on our customers and we have made improvements to our service, culture, governance and controls. Following the issues identified in the UK business in FY12, we undertook an extensive review of regulatory compliance outside the UK with the assistance of external specialists.

The Board has been pleased by management's approach to the review and its willingness to invest time and resource in improving and refining their compliance framework and structure. Independent non-executive directors have been appointed in all our businesses and local legal and compliance functions have been strengthened.

As a Board we regularly discuss and review:

- Our performance and our progress towards our strategic goals
- Our customers and how we can ensure that they are at the heart of everything we do
- Our people and how we can develop and support them to provide the service our customers expect
- Our shareholders and how we communicate with them
- Our governance and controls.

Board changes

As previously reported, Jonathan King stepped down as Chief Executive Officer of the UK business. The Board was pleased to be able to appoint an internal candidate, Martin Bennett, as his successor. Martin is a key member of HomeServe's executive team and in his previous role as Group Chief Operating Officer worked closely with Jonathan to re-focus our UK operations and improve customer service.

Rachael Hughes, a member of the Executive Committee, left the Group on 31 March 2014 having served as Chief Executive Officer of HomeServe Europe since 2005. Rachael joined the Group in 2001 to launch Doméo in France and was instrumental in developing our businesses in Continental Europe.

I would like to thank both Jonathan and Rachael for their contribution and wish them well for the future.

Board effectiveness

During the year, a review of the Board and its committees was undertaken by Lintstock Limited, an external facilitator. The process and findings are described in the Corporate Governance report. Based on this review and my experience as Chairman, I am satisfied that the Board and its Committee are performing efficiently and that there is an appropriate balance of skills, experience, knowledge and independence to enable the Board to discharge its duties effectively.

JM Barry Gibson

Chairman
20 May 2014

Governance

Directors



JM Barry Gibson (62)^{1 3 4}

Appointed to the Board in April 2004 and appointed as Chairman on 1 April 2010 following a year as Senior Non-Executive Director. Also Non-Executive Chairman of Harding Brothers Holdings Ltd and a Non-Executive Director of SSP Group Ltd. Previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and Non-Executive Director of Somerfield plc, National Express plc and William Hill plc.

Richard Harpin (49)

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.

Martin Bennett (45)

Appointed as Chief Executive Officer of the UK business in January 2014, following two years as Group Chief Operating Officer and three years as Group Chief Financial Officer. Previously Finance Director of the UK business, 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.

Johnathan Ford (44)

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.

Ian Chippendale (65)^{1 2 3 4}

Appointed to the Board in January 2007 and as Senior Non-Executive Director on 1 April 2010. Currently an independent Director of Alleghany Corporation and Chairman of Allen and Allen Group Ltd. Previously Chairman of RBS Insurance, Group Chief Executive of the Direct Line Group of companies, Chief Executive of Privilege Insurance and Chairman of the Insurance Division of Provident Financial plc.

Stella David (51)^{1 3 4}

Appointed to the Board in November 2010. Currently Chief Executive Officer of William Grant & Sons having joined them in 2009 following more than fifteen years with Bacardi Ltd where she undertook a number of roles culminating in four years as Global Chief Marketing Officer. Currently a Non-Executive Director of C&J Clark Limited, she also spent seven years as a Non-Executive Director at Nationwide Building Society.

Ben Mingay (49)^{1 2 3}

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

Mark Morris (54)^{1 2 3 4}

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

Tom Rusin (45)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. He was previously a Non-Executive Director of The Ambassador's Group.

Anna Maughan (44)

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

Key:

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

Governance

Corporate governance report

The Company is committed to the principles of corporate governance contained in the 2012 UK Corporate Governance Code ('the Code'). The Company has applied the principles set out in the Code and has complied with the provisions set out in the Code throughout the year. An explanation of how the Code has been applied is set out here, in the Audit & Risk Committee report and in the Remuneration report.

The Board

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

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference of the various committees to which it has delegated its authority in certain matters. Matters reserved to the Board include:

- the recommendation or approval of dividends
- the approval of annual and interim financial statements
- the approval of major financial commitments
- the acquisition 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 our 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

Jonathan Charles King (resigned 31 March 2014)

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 makes clear the division of responsibilities between the Chairman and the Chief Executive. They include the smooth running of the Board, effective communication between Executive and Non-Executive Directors and the general progress and long-term development of the Group.

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 their appointment, and is subject to re-election every year thereafter.

Short biographies of each of the Directors including their membership of committees may be found on page 55.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2014 and 20 May 2014 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

There is a clear need to ensure that there is an appropriate pool of talented and capable individuals to fill senior roles and a succession planning process has been established across the Group to facilitate this. Each business and corporate function prepares and maintains succession plans with the support of local and Group HR and with input from the Group Chief Executive. The Executive Committee reviews the plans in detail twice a year and the Board reviews the high level plan at least annually.

The identification and development of our people remains a key focus across the Group.

Diversity

The Board is committed to ensuring that it is appropriately diverse. It is supportive of the aspiration of the Davies Report to promote greater female representation on corporate boards. Although no target has been set in respect of the percentage of women on the Board, when seeking to recruit for Board positions we ensure that 'long lists' include women candidates.

The Board also believes that a diversity of experience and psychological profile is important around the board table. We seek to ensure that there is a balance of skills and experience 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.

Governance

Corporate governance report

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, 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	3
Meetings attended			
R Harpin	10		
M Bennett	9		
J Ford	10		
J King	10		
J M B Gibson	10		3
I Chippendale	9	4	3
S David	9		3
B Mingay	9	4	
M Morris	10	4	3

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.

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 FY12 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 improve the effectiveness of the Board further. Lintstock presented this report to the Board in February 2012.

During FY14, Directors again completed evaluation questionnaires and these were used by Lintstock to compile a further report which was considered by the Board in February 2014. The Board concluded that it was operating effectively, although a number of recommendations for further improvement were approved including the creation of a more detailed forward looking programme for the Board to ensure that the Directors, particularly the Non-Executives, had more exposure to the businesses and to key members of management.

A full external evaluation process, including interviews, will be completed in FY15.

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 Audit & Risk Committee and Remuneration Committee are detailed in the reports of those committees.

Nomination Committee

Members

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

Governance

Corporate governance report

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 Martin Bennett to the position of Chief Executive Officer of the UK business. 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.

Executive Committee

The day to day running of the business rests with the Group Chief Executive, Richard Harpin. The Executive Committee assists the Chief Executive in the performance of his duties including:

- the development and implementation of strategy, operational plans, policies, procedure and budgets
- the monitoring of operating and financial performance
- the prioritisation and allocation of resources and
- the oversight of group wide initiatives and investments.

Other members of the Executive Committee are Martin Bennett, Johnathan Ford and Tom Rusin, Chief Executive of HomeServe USA. The Committee has adopted formal terms of reference.

Risk Committee

A Group 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.

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 strategic report, as are the principal risks and uncertainties. In addition, the strategic report includes, amongst other things, cash flow and financing information.

The Directors have reviewed the Group's budgets, forecasts, cash flows and the financial impact of the conclusion of the FCA investigation and UK matters, 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 and have concluded that there is no impairment of these assets.

Internal controls

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Audit & Risk Committee has a key role to play in overseeing internal controls and advising the Board thereon. More detail in respect of the role of the Audit & Risk Committee is provided in the report of that committee.

Governance

Corporate governance report

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 FY12 indicated that there had been a breakdown in certain internal controls which gave rise to exceptional one-off 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 FY12 consisting of a number of focused workstreams which have now been completed.

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 was undertaken during the year and action plans to address the issues identified were agreed by local management and discussed by the Audit & Risk Committee. Good progress has been made in respect of the action plans.

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 Group Risk Committee and the Audit & Risk Committee.
- The Group 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. More detail is provided in the report of the Audit & Risk Committee.

- 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.
- 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 a dedicated Internal Audit function 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, supported by the Audit & Risk Committee, carries out an annual assessment of the effectiveness of the system of internal controls.

By Order of the Board

JM Barry Gibson

Chairman

20 May 2014

Governance

Audit & Risk Committee report



Members

Mark Morris (Chair)
Ian Chippendale
Ben Mingay

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 and now also chairs the Audit Committee of LSL Property Services plc.

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 and managers 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.

Responsibilities

The primary responsibilities of the Committee are to:

- monitor, on behalf of the Board, compliance with and the effectiveness of, the Company's accounting and internal control systems
- agree audit strategy
- monitor the scope and results of the Company's annual external 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
- approve and monitor the internal audit plan
- review the appropriateness of the internal audit function

- receive reports from the Company's internal and external auditors
- make recommendations to the Board on accounting policies
- make recommendations to the Board for a resolution to be put to the shareholders for their approval in general meeting for the appointment of the external auditor, the approval of their remuneration and their terms of engagement
- receive reports from the Group Risk Committee
- 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 Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Summary of meetings in the year

The Committee usually meets four times in the year and did so in FY14. During the year the agenda has included the following items:

- Half year results
- Full year results
- Principal judgemental accounting matters
- External audit plans and reports
- Internal audit plans and reports
- Risk assessments and reports, including a gap analysis in respect of the Group's risk appetite
- Updates on regulatory compliance activity
- Updates on certain key risks, including information security and data protection
- Update on the HomeServe Toolkit which sets out the delegated authorities across the Group
- Whistleblower reports
- Internal audit effectiveness and independence
- External audit effectiveness and independence.
- The Chairman of the Committee provides an update in respect of the matters discussed to the Board after each Committee meeting and the minutes of meetings are circulated to the whole Board.

The Committee meets privately, without any of the Executive Directors or management present, with the external and internal auditors after each Committee meeting.

Governance

Audit & Risk Committee report

Significant issues related to the financial statements

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. Management prepares papers providing details on the key judgements and these are reviewed by the Committee.

The Committee also reviews reports from the external auditor on the half year and full year results, which provide an overview of the audit work undertaken and highlight any issues for discussion.

The significant issues considered in the year were:

- revenue recognition, specifically the timing of when to recognise revenue so that sufficient revenue is deferred to cover future obligations including claims handling
- accounting in respect of new customers acquired through the Endesa and Enel 'Sales Through Service' channels
- the exceptional provisions required in respect of the UK issues including the remediation exercises
- the exceptional provisions required for the FCA fine and associated costs
- the carrying value of intangible assets (specifically acquisition intangible assets) and goodwill arising on the purchase of businesses and books of policies and customers

The Committee addressed these matters using reports presented by management which set out the basis for the assumptions used. All of the issues were also discussed with the external auditor and its views were taken into account. The Committee is satisfied that the judgements made are reasonable and appropriate disclosures have been included in the accounts.

External auditor

The Committee is responsible for assessing the effectiveness of the external audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment of the external auditor. The Committee is also responsible for developing and implementing the Group's policy on the provision of non-audit services by the external auditor.

The Committee has 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.

Deloitte LLP has been the Group's auditor since 2002, although the lead audit partner rotates every five years.

During the year the external auditor presented its transparency report to the Committee, which is intended to demonstrate the steps it takes to ensure audit quality with reference to the Audit Quality Framework issued by the Professional Oversight Board of the Financial Reporting Council. The Committee also considered whether the auditor's understanding of the Group's business and its understanding of the sectors in which the Group operates, including the regulatory landscape, was appropriate to the Group's needs. It also assessed the performance of the audit, the auditor's conduct of its relationship with the Group and the requirements of the Group's financial control process. On this basis, the Committee concluded that the needs of the Group would not be best served by putting the external audit out to tender at this time. The Committee has therefore recommended to the Board that the re-appointment of Deloitte LLP should be proposed at the forthcoming Annual General Meeting.

The Committee has noted the findings of the Competition Commission into the audit market, which will require all FTSE-350 companies to put their audit out to tender every ten years and, where auditors have been in office since before 2005, to conduct a tender no later than two years after the end of the current lead partner's five year term. Based on the expected date that these rules will be effective, this would mean that the Group would be required to put its audit out to tender by 2021. A recommended course of action will be proposed to the Board in due course. The Committee has not identified any factors which might restrict its choice of external auditor.

Governance

Audit & Risk Committee report

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 audit-related assurance 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 audit-related assurance services) totalled £176,000 and the fees payable in respect of audit and audit-related assurance services totalled £320,000. 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 his independence as auditor of the Company in a letter addressed to the Directors.

Risk management and internal control

As stated in the Corporate Governance report, the Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Audit & Risk Committee supports the Board by advising the Group's overall risk appetite, tolerance and strategy, current risk exposures and future risk strategy. The Committee reviews risk registers produced by the management of each business and the plc function at each of its meetings. On a periodic basis, it also reviews action plans in respect of significant risks.

The Committee also monitors, on behalf of the Board, the effectiveness of the Company's accounting and internal control systems. In fulfilling this responsibility, the Committee receives reports from management and the internal and external auditors.

Further details in respect of risk management and controls are set out in the Corporate Governance report.

Internal audit

The Committee considers and approves the internal audit plan which is based on an assessment of the key risks faced by the Group. Progress in respect of the plan is monitored throughout the year and care is taken to ensure that the internal audit function has sufficient resource to complete the plan. The audit plan may be reviewed during the year as a result of the ongoing assessment of the key risks or in response to the needs of the business.

The Assurance, Risk and Best Practice Director reports ultimately to the Chairman of the Committee although he reports on a day-to-day basis to the Chief Financial Officer. He attends all meetings of the Committee and reports regularly to the Group Risk Committee. A quarterly report on completed internal audits is presented to the Committee and, where appropriate, action plans are reviewed. In addition, all grade 1 audit reports are circulated to the Committee as soon as they are finalised so any issues can be addressed in a timely manner.

During the year, the effectiveness of the internal audit function was assessed by the Assurance, Risk and Best Practice Director and the Committee.

By Order of the Audit & Risk Committee.

Mark Morris

Chairman of the Audit & Risk Committee
20 May 2014

Governance

Remuneration report



Dear Shareholder

I am pleased to present the remuneration report for the year ended 31 March 2014. In line with the new reporting requirements, we have made some changes to the format and content of the report and we will be seeking shareholder approval for our remuneration policy at the forthcoming AGM.

Performance and reward

The Group has made good progress during the year; there has been further focus on customer service in the UK and our International businesses have shown continued strong growth. Customer satisfaction has increased in all of our businesses and the number of complaints has decreased across the Group. As a result, the stretching commercial and customer targets for FY14 have been met.

The exceptional expenditure in the year relates to historic issues identified in the UK in FY12; no bonuses were paid in that year.

In respect of longer-term performance, the LTIP awards granted in 2010 did not vest and, based on performance to date, it is not expected that the awards granted in 2011 will vest either.

The Committee is satisfied that the remuneration paid to the Executive Directors in the year fairly reflects both corporate and individual performance during the year.

Remuneration policy FY14

The remuneration policy for FY14 was unchanged from the FY13 policy. The Committee's activities during the year are described in more detail later in this report.

Jonathan King stood down from the Board on 31 March 2014. He will remain an employee of the company for the duration of his notice period and will continue to be paid salary and benefits until the cessation of his employment. Further detail is provided later in the report.

Martin Bennett became the UK CEO on 1 January 2014 and it was agreed that his basic salary be increased by 6.7% to £400,000 to acknowledge his change of role and, in particular, the important role he will play in continuing the strengthening and re-focusing of the UK business.

Remuneration policy FY15

During the year the Committee reviewed the remuneration policy and concluded that the overall policy remained appropriate. Each element of the policy was reviewed in detail and in general will remain unchanged. The key proposed change is in respect of pension provision. The Committee recognised that going forward, more executives may not wish to join occupational pension schemes as a result of the lifetime allowance restrictions. It is therefore proposed that the Company will provide a cash allowance of 20% of the notional earnings cap as an alternative.

As reported last year, salaries will now normally be reviewed in July each year (unless responsibilities change). As Martin Bennett's salary was increased in the year, he will not receive an increase in July. Johnathan Ford joined the Group eighteen months ago and having reviewed his performance and contribution over that period, his salary will be increased by 15.3%. This reflects the market median for the role.

Richard Harpin's salary will increase by 2.6%. The general increase being given to HomeServe employees in the UK will be 3%.

Ian Chippendale

Chairman of the Remuneration Committee
20 May 2014

Governance

Remuneration report

This report has been prepared in accordance with the new disclosure requirements for directors' pay - Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report also satisfies the relevant requirements of the Listing Rules and describes how the Board has applied the principles and complied with the provisions relating to directors' remuneration in the UK Corporate Governance Code.

Remuneration policy

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

- to align rewards with the Group's financial and operational performance
- to ensure that remuneration, in particular, variable pay, supports the Group's strategy as a customer focused operation
- to provide a remuneration package that is sufficient, but no more than necessary, to attract, retain and motivate high calibre executives.

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 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, encourages 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. 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 guard further against excessive risk-taking.

Summary of components of Executive Directors' remuneration

The table opposite summarises the Committee's policy for the remuneration of Executive Directors which, if approved by shareholders at the 2014 Annual General Meeting, will become effective immediately thereafter.

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
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.	Usually reviewed annually, with any changes normally taking effect from 1 July each year.	<p>Individual pay is determined by the Committee taking into account the role, responsibilities, performance and experience of the individual and market data on comparable roles. Consideration is also given to overall business performance and pay and employment conditions elsewhere in the Company when determining any increases to base salary levels for the Executive Directors.</p> <p>When reviewing salary increases, the Committee also takes into account the impact of any increase to base salaries on the total remuneration package.</p> <p>Details of the current salaries of the Executive Directors are set out in the Annual Report on Remuneration.</p>
Performance related bonus	The annual bonus is designed to drive and reward the short-term operating performance of the Company and encourage the delivery of consistently good customer outcomes.	Annual (determined after the year end)	<p>Annual bonuses are determined by reference to performance against a mix of customer, commercial and personal objectives. Before any bonus is payable a minimum level of both customer and financial performance must be achieved.</p> <p>Bonuses are based on group performance and, if relevant, the specific territory for which an Executive Director is responsible. Individual performance accounts for no more than 20% of the overall bonus opportunity.</p> <p>The maximum potential quantum is 100% of salary and assuming their personal objectives are met in full, the normal 'on-target' bonus is 60% of basic salary.</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 Long Term Incentive Plan (which was approved by shareholders in 2008).</p> <p>The maximum limit is 200% of salary for performance share awards (currently awards of 150% of salary are made to the Executive Directors) and a maximum 2:1 match on voluntary investment of bonus into shares. The maximum amount of bonus that may be invested is set at 75% of the maximum bonus potential (i.e. 75% of salary). If the bonus earned is less than 25% of salary, then the executive may invest the equivalent of 25% of salary, from their own money, in shares to receive a matching award. In determining the number of matching awards to be granted, the investment is deemed to be made gross of tax.</p> <p>Both performance and matching awards are subject to the same performance condition which is currently relative Total Shareholder Return, subject to satisfactory underlying earnings performance. Performance is measured over a performance period of at least three years.</p>

Governance

Remuneration report

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	<p>Richard Harpin participates 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). The key features of these schemes are set out beneath this policy table.</p> <p>Retirement benefits under both schemes are restricted by a notional earnings cap (£129,670 for 2013/14). 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>As an alternative to the above arrangements for those affected by the Lifetime Allowance, the Committee may also permit the pension contribution (up to 20% of salary) to be taken solely as a cash allowance.</p>
Other benefits	Provides a competitive package of benefits to assist with recruitment and retention of staff.	N/A	<p>Other benefits comprise a fully expensed car (or cash alternative), fuel allowance, private health cover (for the individual, partner and dependant children), death in service benefits (up to 5 x salary) and permanent health insurance for members of the HomeServe Money Plan. There is no maximum limit on the value of the benefits provided but the Committee monitors the total cost of the benefit provision.</p>
Save As You Earn Scheme	To encourage employee share ownership.	N/A	<p>The Executive Directors may participate in the Group's Save As You Earn Scheme. The Scheme is subject to limits on the level of individual participation as set by HMRC. No performance conditions are attached to this Scheme.</p>
Chairman and Non-Executive Directors' fees	To attract and retain Non-Executive Directors of the right calibre.	N/A	<p>Non-Executive Director fees are determined by the Board. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions.</p> <p>The fee levels are reviewed periodically and are set to reflect the responsibilities and time commitment of the role and the experience of the individual. Fee levels are set by reference to rates in companies of comparable size and complexity. The fees for the Non-Executive directors comprise a basic Board fee, with additional fees paid for chairing a Committee or for the Senior Independent Directorship. The Chairman receives an all encompassing fee for his role.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. The fees are paid monthly in cash.</p>

Rationale behind performance metrics and targets

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 (c.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.

Annual Bonus

The annual bonus is designed to drive and reward excellent short-term operating performance of the Company and encourage real year-on-year growth in profitability. No annual bonus is paid unless a very high level of performance is achieved. The Committee reviews the annual bonus plan measures annually, in order to ensure that they are aligned with the Group's strategy and so that bonus arrangements are consistent amongst the senior executive team. Performance targets are set at the start of the financial year and are linked to the Group's strategic and operational objectives. The transition to a more customer focused culture across our business is reflected in the use of customer metrics in the annual bonus scheme. These are currently based on measures relating to customer complaints and customer satisfaction. This is balanced by the use of commercial and personal objectives to reflect other strategic priorities. The commercial objectives currently include metrics relating to profit before tax and the number of core renewable customers.

The Committee retains the discretion to alter the choice and weighting of the metrics for future bonus cycles to reflect the changing needs of the business. The payment of any bonus is at the discretion of the Committee and bonuses will only be paid once a minimum level of customer and financial performance is achieved.

LTIP

Long-term incentive awards will be granted in accordance with the rules of the shareholder approved HomeServe 2008 Long-Term Incentive Plan (LTIP) and the discretions contained therein. The performance measures for the matching and performance awards are set using a sliding scale of targets and no more than 25% of the award (under each measure) will vest for achieving the threshold performance hurdle.

The current performance measure for the LTIP awards is relative total shareholder return performance (TSR). The performance period runs for three years 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 requires out-performance of the Index by 15% per annum. TSR is deemed to be the most appropriate metric to measure sustained long-term performance, is aligned with shareholder interests and does not encourage inappropriate risk taking. However, the Committee retains the discretion to set different measures for future LTIP awards as set out below.

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Remuneration report

Some past LTIP awards have been subject to a performance condition requiring growth in earnings per share (EPS) (in excess of inflation) over the performance period (with 50% of the award subject to the EPS condition and 50% to the TSR condition). A split EPS and TSR condition may be reintroduced for future LTIP grant cycles, if a suitably robust earnings growth measure can be determined and the Committee considers it is appropriate to do so. The Committee would inform its major shareholders in advance of such a measure being set but considers that this would not constitute a change in policy, and therefore would not require a revised vote on the policy report.

Under the rules of the plan, the Committee has the discretion to adjust the targets applying to existing awards in exceptional circumstances providing the new targets are no less challenging than originally envisaged. The Committee also has the power to adjust the number of shares subject to an award in the event of a variation in the capital of the Company.

Awards under the LTIP may be granted as conditional allocations or nil (or nominal) cost options with, or as, forfeitable shares. The Committee may also decide to grant cash based awards of an equivalent value to share based awards or to satisfy share based awards in cash, although it does not currently intend to do so. Awards are 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.

The Committee recognises that the current LTIP was introduced in 2008 and it is intended that the LTIP will be reviewed in FY15 to ensure that it continues to reflect market practice and to provide appropriate rewards. Shareholders would be consulted in the event that changes were proposed.

Clawback

The Committee has the power to reclaim some, or all, of a cash bonus and vested LTIP awards (performance and matching) in exceptional circumstances, such as misstatement of financial results, an error in assessment of performance, the use of misleading information and/or gross misconduct on the part of the individual.

Legacy arrangements

Details of the outstanding share awards held by directors are set out in the annual report on remuneration. These include vested but unexercised awards granted to Richard Harpin under the Executive Share Option Plan (ESOP) and Deferred Bonus Plan (DBP) (which may be exercised at any time until the tenth anniversary of grant) and unvested awards granted to the Executive Directors under the LTIP (which for the 2011 awards, include an earnings per share performance condition for 50% of the awards). No further awards may be granted under the ESOP or DBP.

For the avoidance of doubt, these outstanding share awards will be allowed to be paid out under the approved policy providing that the terms on which the awards have been granted are satisfied.

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
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; and spouse's pension on death • normal retirement at age 60.
Special features	Non-contributory for Richard Harpin.
The HomeServe Money Plan	A funded, Inland Revenue approved occupational defined contribution 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 FY14 the notional cap was £129,670.</p>

Governance

Remuneration report

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 their 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.

How employees' pay is taken into account

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Group as a whole. Our ability to meet our growth expectations and compete effectively is dependent on the skills, experience and performance of all of our employees. Our employment policies, remuneration and benefit packages for employees are regularly reviewed.

There are some differences in the structure of the remuneration policy for the Executive Directors and senior management team compared to other employees reflecting their differing responsibilities, with the principal difference being the increased emphasis on performance related pay for the more senior executives within the organisation. However, there are many common themes. For example, the structure of the annual bonus, with the focus on customer, commercial and personal performance is the same for employees at management grade and above (albeit with a higher weighting on personal performance at less senior grades). Furthermore, employee share ownership is encouraged and facilitated through extending participation in the LTIP to other senior leaders within the business and all UK based employees are able to participate in the Save as You Earn Scheme (subject to meeting the minimum service requirement).

Although the Committee does not consult directly with employees on directors' pay, the Committee does take into consideration the pay and employment conditions of all employees when setting the policy for directors' remuneration. In terms of comparison metrics, the Committee takes into account the average level of salary increase being budgeted for the UK workforce when reviewing the salary levels of the Executive Directors. The Committee is also mindful of any changes to the pay and benefit conditions for employees more generally when considering the policy for directors' pay.

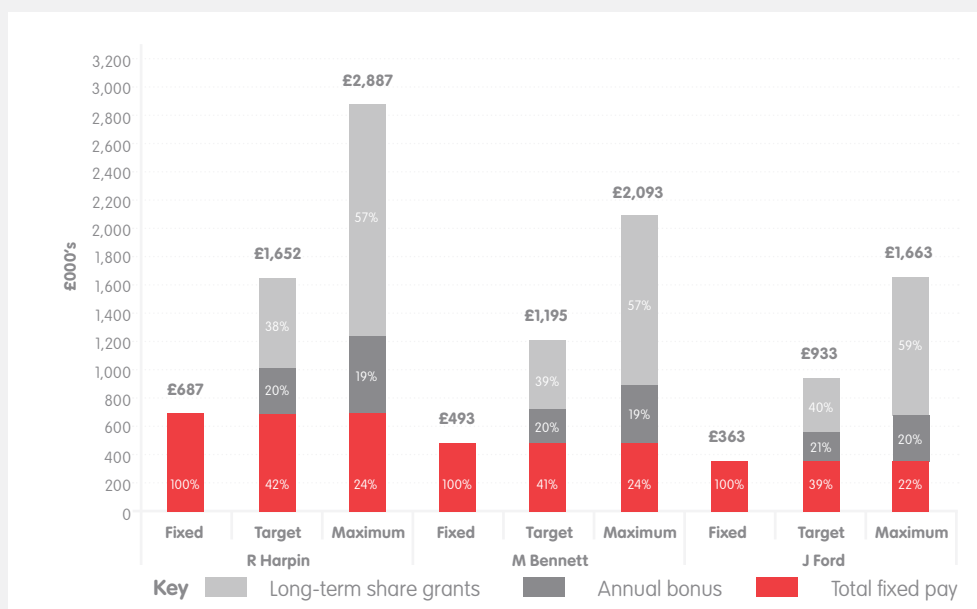
How shareholders' views are taken into account

The Remuneration Committee considers shareholder feedback received regarding the directors' remuneration report annually and guidance from shareholder representative bodies more generally. These views are key inputs when shaping remuneration policy. The Committee consults with shareholders when considering changes to remuneration arrangements and has done so on a number of occasions in recent years.

Overall balance of measures for variable pay for FY14

Remuneration scenarios for Executive Directors

The chart below details the composition of each Executive Director's remuneration package and how it varies at different levels of performance under the policy set out above. It demonstrates the balance between fixed and variable pay at threshold, on-target and maximum performance levels under the normal remuneration policy for the Executive Directors.



Assumptions

Fixed	fixed pay only (salary plus benefits plus pension).
On target	target annual bonus of 60% of salary plus target LTIP awards of 90% of salary plus matching awards of 60% of salary.
Maximum	maximum annual bonus of 100% of salary plus maximum LTIP awards of 150% of salary plus matching awards of 150% of salary.

Whilst the maximum award limit under the LTIP is 200% of salary, historically it has been 150% of salary and therefore it is this value which has been used in the above. Salary levels (on which other elements of the packages are calculated) are based on those applying from July 2014. The value of taxable benefits is based on the actual values paid in FY14.

Richard Harpin participates in a defined benefit scheme which has been valued according to BIS regulations. The other Executives participate in a defined contribution scheme, receiving 20% of basic salary as pension provision. The Executive Directors may participate in all-employee share schemes on the same basis as other employees. The value that may be received under these schemes is subject to tax approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the above charts. The chart excludes the impact of share price growth.

Governance

Remuneration report

Executive Directors' service agreements and policy on payments for loss of office

Under the Executive Directors' service contracts twelve months' notice of termination of employment is required by either party (reduced to six months if following a prolonged period of incapacity).

Dates of current contracts are summarised in the table below:

Name	Date of contract
R Harpin	18 January 2002
M Bennett	1 January 2014
J Ford	1 October 2012

Should notice be served, the Executives can continue to receive basic salary, benefits and pension for the duration of their notice period. The Company may require the individual to continue to fulfil their current duties, or may assign a period of garden leave. The Company applies a general principle of mitigation in relation to termination payments and supports the use of phased payments.

Outplacement services may be provided where appropriate, and any statutory entitlements or sums to settle or compromise claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice) would be paid as necessary.

The service contracts also enable the Company to elect to make a payment in lieu of notice equivalent in value to twelve months' base salary, benefits and pension (and full bonus in the case of Richard Harpin).

In the event of cessation of employment, the executives may still be eligible for a performance related bonus for the period worked. Different performance measures may be set to reflect changes in the director's responsibilities until the point of departure.

The rules of the LTIP set out what happens to outstanding share awards if a participant leaves employment before the end of the vesting period. Generally, any outstanding share awards will lapse when an Executive leaves employment, except in certain circumstances. If the Executive leaves employment as a result of redundancy, death, ill-health, injury, disability, retirement, transfer of employment or any other reason at the discretion of the Committee, then they will be treated as a 'good leaver' under the plan rules.

For a good leaver, any outstanding unvested LTIP awards will vest on the normal vesting date subject to an assessment of performance, with a pro-rata reduction to reflect the proportion of the vesting period served. The Committee may dis-apply the time pro-rating requirement if it considers it appropriate to do so. In the case of cessation due to death, the Committee can determine that the awards vest early. Outstanding vested but not exercised awards can be exercised by a good leaver until the expiry of the normal exercise period (or within 12 months in the case of death).

In determining whether an Executive should be treated as a good leaver and the extent to which their award may vest, the Committee will take into account the circumstances of an individual's departure.

The treatment of share awards on a change of control is the same as that set out above in relation to a good leaver (albeit with the vesting period automatically ending on the date of the change in control).

Recruitment policy

Base salary levels will be set in accordance with HomeServe's remuneration policy, taking account of the executive's skills, experience and their current remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance. Benefits will generally be provided in accordance with the approved policy, with relocation expenses and/or an expatriate allowance paid for if necessary. For an overseas appointment (which may include the relocation of an existing Director), the benefit and pension arrangements may be tailored to reflect local market practice (subject to the overall maximum limits on pension set out in the policy table).

The structure of variable pay element will be in accordance with HomeServe's policy as detailed above. The maximum permitted variable pay opportunity under the Plan rules is 450% of salary (100% of salary bonus + 200% of salary LTIP + 150% of salary matching award). However, the normal award limits are a bonus of 100% of salary, a performance share award of 150% of salary and up to a 150% of salary matching award. In the case of the matching awards, a new recruit may invest up to 25% of salary from their own funds in the first year in order to receive a matching award (in determining the number of matching awards to be granted, the investment is deemed to be made gross of tax).

Governance

Remuneration report

The performance and matching awards would be granted on a consistent basis to the other Executive Directors. In the case of the annual bonus, different performance measures may be set for the first year, taking into account the responsibilities of the individual and the point in the financial year at which they joined. If it is necessary to buy-out incentive pay (which would be forfeited on leaving the previous employer) in order to secure the appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. The LTIP permits the grant of restricted share awards to Executive Directors in the case of recruitment to facilitate this, although awards may also be granted outside of this scheme if necessary, and as permitted under the Listing Rules.

The service contract for a new appointment would be in accordance with the policy for the current Executive Directors and in line with the contract for Johnathan Ford (which is the most recent).

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

Non-Executive Directors' letters of appointment

Non-Executive Directors serve under letters of appointment for periods of three years. The Non-Executive Directors (including the Chairman) 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 the 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 2013
B Mingay	1 January 2012
M Morris	27 February 2012

Outside Appointments

Executive Directors may hold one outside appointment and can retain any fees received.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2014 Annual General Meeting.

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 and the guidelines issued by institutions such as the ABI and NAPF. 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.

Governance

Remuneration report

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 fees paid to NBS during the year for services to the Committee were £47,000.

The Committee has also received assistance from Richard Harpin, Group Chief Executive and Anna Maughan, Company Secretary, both 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 for the year under review (Audited)

	Year	Salary and Fees £000	Taxable Benefits ⁴ £000	Pension ⁵ £000	Bonus £000	LTIP ⁶ £000	Other ⁷ £000	Compensation for loss of office £000	Total 2014 £000	Total 2013 £000
Executives										
R Harpin	2014	536	30	110	536	—	—	—	1,212	
	2013	523	38	80	392	—	—	—		1,033
M Bennett	2014	381	21	75	366	—	—	—	843	
	2013	355	22	71	295	—	—	—		743
J Ford ¹	2014	282	20	55	282	—	—	—	639	
	2013	140	10	28	122	—	—	—		300
J King ²	2014	377	38	66	377	—	—	—	858	
	2013	368	66	32	312	—	—	—		778
Non-Executives										
J M B Gibson	2014	220	—	—	—	—	—	—	220	
	2013	200	—	—	—	—	—	—		200
I Chippendale	2014	64	—	—	—	—	—	—	64	
	2013	58	—	—	—	—	—	—		58
S David	2014	48	—	—	—	—	—	—	48	
	2013	44	—	—	—	—	—	—		44
B Mingay	2014	48	—	—	—	—	—	—	48	
	2013	44	—	—	—	—	—	—		44
M Morris	2014	58	—	—	—	—	—	—	58	
	2013	53	—	—	—	—	—	—		53
Total 2014		2,014	109	306	1,561	—	—	—	3,990	
Total 2013		1,785	136	211	1,121	—	—	—		3,253

¹ Johnathan Ford was appointed on 27 September 2012.

² Jonathan King stepped down from the Board on 31 March 2014. He relocated from the USA to the UK with effect from 1 September 2011 therefore his benefits include a living allowance of £44,000 per annum (payable for two years from 1 September 2011).

⁴ Benefits comprise company car, fuel allowance and medical insurance.

⁵ Details of pension benefits and contributions may be found later on in the report.

⁶ No LTIPs vested in either year as the performance conditions were not met.

⁷ 'Other' would include the value of any sharesave options exercised. No such options were exercised in either year.

Governance

Remuneration report

Details of variable pay earned in the year (Audited)

Annual Bonus

For FY14, the annual bonus was based on the following stretch targets:

Commercial objectives (40% of bonus)	Profit before tax (PBT)	<p>The PBT objective for Richard Harpin and Johnathan Ford was based only on Group performance. For Jonathan King and Martin Bennett, who had specific responsibility for the UK, the objective was based half on Group PBT and half on UK EBITA.</p> <p>The reported adjusted profit before tax for the Group was £84.1m. This meant that the stretch target was met in full. The reported EBITA for the UK was £53.4m. This meant that the stretch target was met in full.</p>
	Core renewable customers	<p>The Group stretch target was to reach 5.282m core renewable customers. This was achieved.</p>
Customer objectives (40% of bonus)	A reduction in customer complaints	<p>The Group stretch target (which applied to Richard Harpin and Johnathan Ford) was based on a weighted average reduction in complaints across the UK, US, France and Spain. The average reduction required was 13.5%. This was achieved.</p> <p>The UK stretch target (which applied to Jonathan King and Martin Bennett) was a 34% reduction in complaints. This was achieved.</p> <p>In both cases, complaints were measured as a percentage of total customers.</p>
	An increase in customer satisfaction	<p>The Group stretch target (which applied to Richard Harpin and Johnathan Ford) was based on a weighted average reduction in customer dissatisfaction across the UK, US, France and Spain. The average reduction required was 12.5%. This was achieved.</p> <p>The UK stretch target (which applied to Jonathan King and Martin Bennett) was a 10% reduction in customer dissatisfaction. This was achieved.</p>
	Up to five stretching personal objectives	<p>Personal objectives related to the functional or territorial responsibilities of the individual Executives. Achievement in respect of personal objectives ranged from 80% to 100%.</p>

In addition to the above, minimum customer and financial (PBT) performance levels had to be achieved before any bonuses could be paid. These were both achieved.

Following the strong performance in the year, the following bonuses were payable:

Name	Bonus £	% of salary
R Harpin	535,819	100
M Bennett	366,000	96
J Ford	281,875	100
J King	377,456	100

Long-term Incentive Plan

Details of the performance conditions for the 2010 and 2011 LTIP awards are set out below.

2010 awards

The 2010 LTIP awards were granted on 25 June 2010. The performance condition for these awards was as follows:

Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
50% TSR (underpinned by underlying financial performance)	3 years to 25 June 2013	TSR equal to the FTSE 250 index (25% vests)	TSR exceeds the index by an average of 15% p.a. (100% vests)	HomeServe TSR of -35.1% compared to Index TSR of 52%.	0% vesting
50% EPS	3 years to 31 March 2013	RPI + 4% (25% vests)	RPI + 10% (100% vests)	Average EPS growth of 1.2% p.a.	0% vesting

The 2010 awards lapsed on 25 June 2013.

2011 awards

The 2011 LTIP awards were granted on 14 July 2011. The performance condition for these awards was as follows:

Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
50% TSR (underpinned by underlying financial performance)	3 years to 14 June 2014	TSR equal to the FTSE 250 index (25% vests)	TSR exceeds the index by an average of 15% p.a. (100% vests)	Performance period not yet ended	—
50% EPS	3 years to 31 March 2014	RPI + 4% (25% vests)	RPI + 10% (100% vests)	Threshold performance not achieved	0% vesting

Based on performance to date, the 2011 awards will lapse on 14 July 2014.

Governance

Remuneration report

Summary of outstanding awards (Audited)

LTIP

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

	31 March 2014	Awarded during year	Lapsed during year	Vested during year	31 March 2013	Date granted	Type of award
R Harpin	—	—	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
	289,528	289,528	—	—	—	24.6.13	Performance
	282,464	282,464	—	—	—	24.6.13	Matching
M Bennett	—	—	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
	202,630	202,630	—	—	—	24.6.13	Performance
	192,038	192,038	—	—	—	24.6.13	Matching
J King ¹	—	—	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
	203,957	203,957	—	—	—	24.6.13	Performance
J Ford	152,310	152,310	—	—	—	24.6.13	Performance
	75,457	75,457	—	—	—	24.6.13	Matching

¹ Jonathan King resigned as a Director on 31 March 2014. He leaves the Company on 22 October 2014 and will be treated as a good leaver under the rules of the plan. His awards may vest at the end of the three year performance period subject to the performance conditions and will be pro-rated for time.

The performance conditions are as follows:

- 2010 and 2011 awards – 50% EPS (RPI + 4% to 10% p.a.) and 50% comparative TSR (FTSE 250 Index + 15% pa for maximum vesting)
- 2012 and 2013 awards – 100% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting)

Further details on awards granted in the year

On 24 June 2013, the following performance and matching share awards were granted to the Executive Directors under the LTIP:

Performance share awards

	Date of grant	Number of shares	Share price used to determine awards	Award size (% salary)	Face value £	% that vests at threshold
R Harpin	24.06.13	289,528	£2.771	150%	802,282	25%
M Bennett	24.06.13	202,630	£2.771	150%	561,488	25%
J Ford	24.06.13	152,310	£2.771	150%	422,051	25%
J King	24.06.13	203,957	£2.771	150%	565,165	25%

Matching share awards

	Date of grant	Number of shares	Award Size	Number of shares subject to Matching Award	Share price used to determine awards	Face value £	% that vests at threshold
R Harpin	24.06.13	74,853	2:1 match	282,464	£2.771	782,708	25%
M Bennett	24.06.13	50,890	2:1 match	192,038	£2.771	532,137	25%
J Ford	24.06.13	19,996	2:1 match	75,457	£2.771	209,091	25%

Both the performance and matching awards are subject to a relative total shareholder return performance condition that requires HomeServe's TSR to match that of the FTSE 250 Index over a three year performance period (from the date of grant) for 25% vesting, increasing on a straight-line basis to Index + 15% pa. for 100% vesting (subject to underlying financial performance).

DBP

The Deferred Bonus Plan (DBP) was introduced in 2005. Under its terms, Executive Directors were able to invest some, or all, of their annual bonus into shares and defer receipt for three years. Matching shares could be earned if the TSR of the Company exceeded the median of the FTSE 350 Index of companies (excluding investment trusts). Richard Harpin elected to convert his 2005 award into a nil cost option at the end of the performance period. The option (over 256,995 shares) can be exercised at any time up until the tenth anniversary of grant (2 August 2015).

Governance

Remuneration report

Save as you earn (Sharesave) schemes

	31 March 2014	Granted during year	Lapsed during year	Exercised during year	31 March 2013	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 ¹	4,891	—	—	—	4,891	£1.84	19.12.11	1.3.15

¹ Jonathan King resigned as a Director on 31 March 2014. He leaves the Company on 22 October 2014 and will be treated as a good leaver under the rules of the scheme. He will therefore be able to exercise a proportion of the option after he leaves.

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

ESOP

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.

	31 March 2014	Granted during year	Lapsed during year	Exercised during year	31 March 2013	Option price	Date granted
R Harpin	—	—	—	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

Richard Harpin exercised an option over 300,000 shares on 24 June 2013. The share price on that day was £2.771.

Shareholding Guidelines (Audited)

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.

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:

	No of shares owned		Other interests in shares		Total 31 March 2014	Value of shares counting towards guideline holding (as a % of salary) ¹	Guideline met?
	31 March 2014	31 March 2013	Outstanding LTIP Awards	Outstanding Share Options			
R Harpin ²	40,346,940	39,972,087	1,393,448	935,147	42,675,535	23,719	Yes
M Bennett	131,041	80,151	882,034	8,152	1,021,227	103	Yes
J Ford ³	19,996	—	227,767	4,591	252,354	22	No
J King	262,404	262,404	747,464	4,891	1,014,759	219	Yes
J M B Gibson	75,000	75,000	—	—	75,000	n/a	—
I Chippendale	20,000	20,000	—	—	20,000	n/a	—
S David	17,688	17,688	—	—	17,688	n/a	—
B Mingay	20,000	20,000	—	—	20,000	n/a	—
M Morris	17,500	17,500	—	—	17,500	n/a	—

¹ Calculated using the share price on 31 March 2014 of £3.15 divided by the Executive's salary on that date.

² Includes an indirect interest of 28,500.

³ Johnathan Ford was appointed on 27 September 2012.

There were no changes in the Directors' interests in shares between 31 March and 20 May 2014.

Directors' pensions (Audited)

Members of the Water Companies Pension Scheme

Details of the calculation of the single figures relating to Jonathan King's and Richard Harpin's individual pension entitlements in the HomeServe plc Section of the Water Companies Pension Scheme, as required under Schedule 8 of the Large Companies Regulations and the Listing Rules, are shown below:

	J King		R Harpin	
	2014 £000	2013 £000	2014 £000	2013 £000
Accrued pension per annum at end of period ¹	59	57	50	48
Accrued lump sum at end of period ¹	178	170	150	143
Director's contributions in the period	12	11	—	—
Unapproved pension contributions paid into the Scheme	—	48	—	—
Single figure of pension remuneration attributable to the Scheme ²	18	32	31	1
Unapproved pension contributions paid as cash	48	—	79	79

¹ The accrued pension and lump sum figures are the leaving service benefits to which the Director would have been entitled had they left the Section at the relevant date.

² This is calculated as 20 times the increase in the accrued pension over the period after allowing for CPI inflation plus the increase in accrued lump sum (also after allowing for CPI inflation), less the contributions made by the Director over the period.

Governance

Remuneration report

Members of the HomeServe Money Plan

Martin Bennett and Johnathan Ford were members of the Company's money purchase pension scheme. Contributions paid by the Company into the Plan were as follows:

	2014 £000	2013 £000
M Bennett	26	26
J Ford	26	13

In addition, the following unapproved pension contributions were paid in respect of earnings in excess of the notional earnings cap:

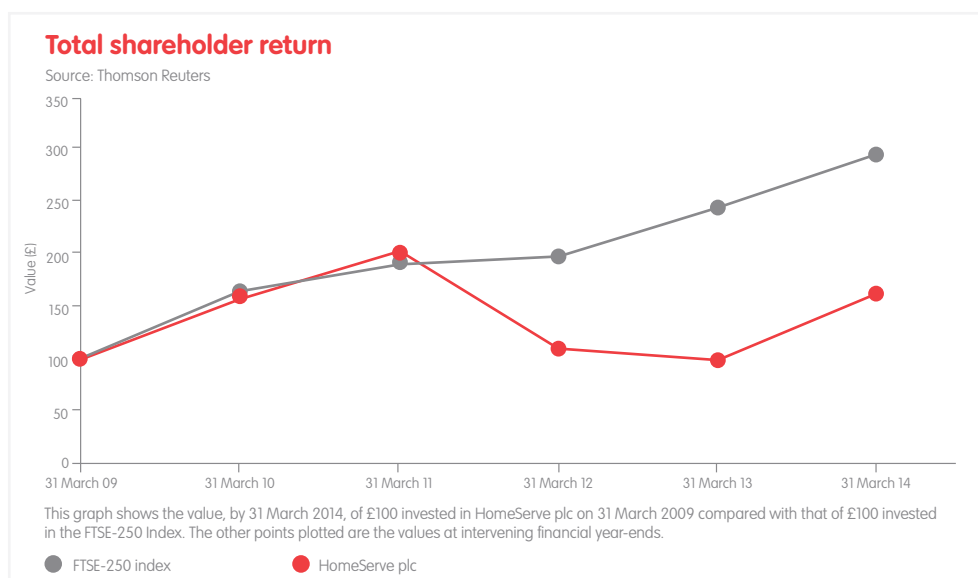
	2014 £000	2013 £000
M Bennett ¹	49	45
J Ford ²	29	15

¹ Martin Bennett chose to have his unapproved contributions paid partly into the Plan and partly as cash in both years.

² Johnathan Ford chose to take his unapproved contributions as cash in both years.

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 2014. 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.



Chief Executive's remuneration

The total remuneration figures for the Chief Executive during each of the last five years are shown in the table below. The figures include the annual bonus based on that year's performance and the matching awards plus the LTIP awards based on the three year performance period ending in the relevant year. The annual bonus and long-term incentive award vesting level as a percentage of the maximum opportunity are also disclosed below:

	2010	2011	2012	2013	2014
Total remuneration (£000s)	1,030	953	559	953	1,212
Annual Bonus	100%	87%	—	75%	100%
LTIP awards vesting	21% ¹	51% ²	60%	—	—

¹ No LTIPs were due to vest in FY10. The ESOP awards granted in 2006 lapsed as the performance conditions were not met. Awards made under the Deferred Bonus Plan vested on the basis of 1.19 shares out of a maximum 3.

² No LTIPs were due to vest in FY11. The ESOP awards granted in 2007 lapsed as the performance conditions were not met. Awards made under the Deferred Bonus Plan vested on the basis of 2.48 shares out of a maximum 3.

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any pension, matching plan awards and PSP awards receivable in the year) between FY13 and FY14 compared to the average for all employees of HomeServe plc.

	% Change from FY13 to FY14		
	Salary	Benefits	Annual Bonus
Chief Executive Officer	+3%	-21%	+18%
Average of other HomeServe plc employees	+4%	0%	+18%

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends, tax and retained profits:

	FY13 £m	FY14 £m	% change
Staff costs	163.7	161.8	-1.2%
Dividends	36.6	36.7	+0.3%
Tax	24.6	14.4	-41.5%
Retained profits	41.9	10.0	-76.1%

£3.9m of the staff costs relate to pay for the Executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share based awards are accounted for.

The dividends figures relate to amounts payable in respect of the relevant financial year.

Loss of Office Payments (Audited)

No payments have been made for loss of office in the year.

Governance

Remuneration report

Departure of Jonathan King (Audited)

As announced on 23 October 2013, Jonathan King stood down from the HomeServe Membership Board on 31 December 2013 and the HomeServe plc Board on 31 March 2014. He will remain an employee of the company for the duration of his notice period (i.e. for the 12 months to 22 October 2014) providing services and expertise as required.

He will continue to be paid salary and benefits until the cessation of his employment. However, he will not be eligible for a bonus for FY15 and will be granted no further awards under the LTIP. In respect of his pension, Jonathan King opted out of the Water Companies Pension Scheme on 31 March 2014 to seek protection for his lifetime allowance but he will be paid the top up cash allowance of 20% for earnings over the notional earnings cap.

He will be treated as a good leaver under the LTIP rules in relation to his outstanding awards and these will continue to vest on the normal vesting date subject to performance. The number of shares in respect of each award will be pro-rated for time.

Application of the remuneration policy for FY15

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.

Martin Bennett became the UK CEO on 1 January 2014 and it was agreed that his basic salary be increased by 6.6% to £400,000 to acknowledge his change of role and, in particular, the important role he will play in continuing the strengthening and re-focusing of the UK business.

As reported last year, salaries will now normally be reviewed in July each year (unless responsibilities change). As Martin Bennett's salary was increased in the year, he will not receive an increase in July. Johnathan Ford joined the Group eighteen months ago and having reviewed his performance and contribution over that period, his salary will be increased by 15.3%. This reflects the market median for the role.

Richard Harpin's salary will increase by 2.6%. The general increase being given to HomeServe employees in the UK will be 3%.

The salaries for the Executive Directors effective from 1 July 2014 will therefore be as follows:

Name of Director	Salary as at 1 July 2013	Salary as at 1 July 2014	Increase %
R Harpin	£535,819	£550,000	2.6%
M Bennett	£375,000	£400,000	6.7%
J Ford	£281,875	£325,000	15.3%

Fees for the Chairman and Non-Executive Directors

As detailed in the remuneration policy, the Company aims to set remuneration for Non-Executive Directors at a level which is sufficient to attract and retain Non-Executive Directors of the right calibre. The fees paid to the Chairman and the Non-Executive Directors are reviewed periodically and were reviewed during the year. A review of the fees paid by other FTSE 250 companies was undertaken and consideration given to the time commitment required. Prior to this review, fee levels had not changed since 2010.

Details of the fees and the increases agreed in the year are detailed in the table below. The increases were effective from 1 August 2013. Excluding the adjustment to the additional fee paid to the Senior Independent Director, this represents a median increase equivalent to 3.6% per annum.

	Fees as at 31 March 2013	Fees as at 31 March 2014	Increase %
Chairman's fees	£200,000	£230,000	15%
Senior Independent Director additional fee	£5,000	£7,500	50%
Non-Executive Directors' base fee	£44,000	£50,000	14%
Chair of Remuneration or Audit Committee	£8,500	£10,000	18%

Annual bonus performance targets

The annual bonus plan for FY15 will operate on a similar basis to FY14 and is consistent with the policy detailed earlier in this report.

The bonus measures will be as follows:

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

Stringent bonus gates will apply with the customer objectives being considered first. If an agreed percentage of the customer objectives is not achieved, no bonus will be payable. If customer objectives are achieved, the level of profit (and therefore affordability) will be considered.

Governance

Remuneration report

The commercial and customer objectives for Richard Harpin and Johnathan Ford will be based on Group performance. The commercial objectives for Martin Bennett will be based on Group and UK performance and the customer objectives will be based on UK performance. The Committee considers the forward looking performance targets to be commercially sensitive but more detailed disclosure will be provided in next year's remuneration report.

Long-term incentives performance targets

The annual awards granted to the Executive Directors under the long-term incentives will be subject to the same relative TSR performance measure as for the 2013 awards. The award level for 2014 will be 150% of salary for the performance shares. 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 the same as for the performance share awards.

Shareholder voting on the Directors' remuneration report at the 2013 Annual General Meeting

At last year's Annual General Meeting held on 26 July 2013, the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	243,388,911	96%
Against	10,863,586	4%
Total votes cast (for and against excluding withheld votes)	254,252,497	100%
Votes withheld	16,779	
Total votes (including withheld votes)	254,269,276	

General

The market price of the Company's shares at 31 March 2014 was £3.15 (2013: £2.005). During the year the price ranged from £1.86 to £3.46.

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 2014 amounted to 4,678,478 ordinary shares. Shares may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme (which are fully compliant with investor guidelines).

By Order of the Board

Ian Chippendale

Chairman of the Remuneration Committee
20 May 2014

Directors' report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 March 2014. The Corporate Governance report forms part of this report. An indication of likely future developments is included in the strategic report. Information about the use of financial instruments by the Group is given in note 39 to the financial statements.

Dividends

The Directors are recommending the payment on 1 August 2014 of a final dividend of 7.67p per ordinary share to shareholders on the register at the close of business on 4 July 2014 which, together with the net interim dividend of 3.63p per ordinary share paid on 3 January 2014, results in a total net dividend for the year of 11.3p per share (2013: 11.3p).

Greenhouse Gas Emissions Reporting

	Global tonnes of CO ₂ e 2014	Global tonnes of CO ₂ e 2013
Combustion of fuel and operation of facilities	6,629	6,495
Electricity, heat, steam and cooling purchased for own use	4,521	5,512
Total	11,150	12,007
Tonnes of CO ₂ e per thousand customers	2.02	2.45

We have reported on all of the emission sources required under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008 as amended in August 2013. The reporting boundary used for collation of the above data is consistent with that used for consolidation purposes in the financial statement. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014 to calculate the above disclosures.

Capital Structure

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 or 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.

Governance

Director's report

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 2013 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 2014 AGM.

Authority to purchase shares

The Company was authorised at the 2013 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 2014 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 2014 Annual General Meeting of the Company is to be held on 18 July 2014. The notice of the meeting accompanies this report.

Disclosure of Information to the 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 its remuneration will be put to the Annual General Meeting.

Fixed Assets

Capital expenditure on tangible fixed assets amounted to £3.6m (2013: £4.6m) during the year.

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 2014, except for the following:

Name	As at 31 March 2014		As at 20 May 2014	
	Ordinary shares	%	Ordinary shares	%
Invesco Ltd	85,279,583	25.82	74,069,269	22.43
Richard Harpin ¹	40,346,940	12.22	40,346,940	12.22
Prudential plc	32,395,618	9.81	32,395,618	9.81
Marathon Asset Management Ltd	26,779,635	8.11	26,779,635	8.11
Woodford Investment Management LLP	—	—	10,187,171	3.08

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
20 May 2014

Governance

Director's 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;
- the strategic report 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; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

By Order of the Board

Richard Harpin

Chief Executive Officer

20 May 2014

Johnathan Ford

Chief Financial Officer

20 May 2014

Financial statements

Independent auditor's report to the members of HomeServe plc

Opinion on financial statements of HomeServe plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group income statement, the Group and Company statement of comprehensive income, the Group and Company balance sheets, the Group and Company cash flow statement, the Group and Company statements of changes in equity and the related notes 1 to 54. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 61 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
<p>Provision for FCA remediation activities, FCA investigation and fine</p> <p>Whilst nearing completion of the remediation process, the Group continues to provide for the cost associated with the remediation activities in the UK business, aimed at addressing the Group's sales and marketing, controls and governance and complaints handling issues in accordance with the requirements of the FCA.</p> <p>The directors are required to make a number of estimates and assumptions around response rate, unsuitability rate and average redress payable to those affected, all of which affect the level of the required provision. The risk is that these estimates and assumptions do not accurately reflect actual experience.</p> <p>In addition, during the year a fine of £30.6m has been levied on the Group as a result of the Financial Conduct Authority (FCA) investigation into past practices.</p>	<p>We have assessed the key assumptions underlying the provision included in the Annual report and financial statements. These include expected response rate, unsuitability rate and average redress. We have compared these to the position taken at the interim half year announcement and to the latest available management information, which reflects the actual costs incurred so far. We have compared a sample of costs to external supporting documentation to verify their accuracy.</p> <p>We have reviewed related correspondence with the FCA (including in relation to the fine) and have spoken directly with the FCA's supervisory team.</p> <p>Given the difference in quantum between management's provision at the time of the 2013 Annual report and financial statements and the fine actually levied, we assessed whether the adjustment for this meets the definition of a prior period error under IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p> <p>We have also reviewed the disclosure in the Annual report and financial statements to determine whether this is consistent with the findings of our audit work.</p>
<p>Carrying value of goodwill and intangible assets</p> <p>The Group's assessment of the potential impairment of goodwill and intangible assets is a judgemental process which requires estimates concerning the future cash flows of each cash generating unit and associated discount rates and growth rates based on management's view of future business prospects.</p>	<p>We challenged management's key assumptions relating to the estimated future cash flows, growth rates and the discount rates applied to the separate cash generating units including consideration of our understanding of the future prospects of the business. Our procedures included reviewing forecast cash flows with reference to historical trading performance and benchmarking assumptions such as the growth rate and discount rate to external macro-economic and market data.</p>
<p>Revenue recognition</p> <p>The revenue recognition risks are inappropriate cut off of policy revenue, accounting to reflect expected policy cancellations and the deferral of revenue relating to claims handling.</p>	<p>We tested controls over the revenue recognition process and performed testing around the cut off and timing of revenue recognition for policy income. This involved reviewing the trend of cancellations subsequent to the year end to ensure revenue has been correctly recognised in the year.</p> <p>We also challenged and tested the methodology used for calculating expected policy cancellations and deferral of revenue relating to claims handling by auditing the inputs and assumptions used by reference to the historical claims and cancellation rates experienced by the Group.</p>

Financial statements

Independent auditor's report to the members of HomeServe plc

The Audit and Risk Committee's consideration of these risks is set out on page 66.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £5.4m, which is based on 7.5% of profit before tax and exceptional items. The exceptional items are unique in nature and their exclusion is consistent with the Group's internal and external reporting to facilitate a better understanding of the underlying trading performance.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences that impact profit in excess of £100,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scope focused primarily on the audit work at the following components:

- UK
- USA
- France, and
- Spain.

All of these were subject to a full audit, whilst the New Markets segment was subject to specific audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations.

The UK, USA, France and Spain components represent the principal business units within the Group's reportable segments and account for 96.6% of the Group's net assets, 97.5% of the Group's revenue and 100% of the Group's profit before tax from profit-making components (there was a loss for the year in the New Markets segment which is not subject to a full audit). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work at the 4 components was executed at levels of component materiality applicable to each individual entity which were lower than Group materiality.

At the Parent Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the group audit team visits each of the locations where the Group audit scope is focused at least once every two years and the most significant location at least once a year. In years when we do not visit a significant component we will include the component audit team in discussing their risk assessment, participate in their audit close meetings and review documentation of the findings from their work.

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Financial statements

Independent auditor's report to the members of HomeServe plc

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the Annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the 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 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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.

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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Christopher Robertson

Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
20 May 2014

Financial statements

Group income statement

Year ended 31 March 2014

	Notes	2014 £m	2013 £m
Continuing operations			
Revenue	4	568.3	546.5
Operating costs	7	(541.1)	(477.4)
Operating profit		27.2	69.1
Investment income	9	0.5	0.1
Finance costs	10	(3.3)	(2.7)
Profit before tax, exceptional expenditure and amortisation of acquisition intangibles			
		84.1	105.0
Exceptional expenditure	6	(46.7)	(25.1)
Amortisation of acquisition intangibles	7	(13.0)	(13.4)
Profit before tax		24.4	66.5
Tax	11	(14.4)	(24.6)
Profit for the year, being attributable to equity holders of the parent		10.0	41.9
Dividends per share, paid and proposed			
	12	11.3p	11.3p
Earnings per share			
Basic	13	3.1p	12.9p
Diluted	13	3.0p	12.7p

Group statement of comprehensive income

Year ended 31 March 2014

	Notes	2014 £m	2013 £m
Profit for the year		10.0	41.9
Items that will not be classified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	37	0.3	(0.7)
Tax charge relating to components of other comprehensive income	21	(0.1)	(0.1)
		0.2	(0.8)
Items that may be reclassified subsequently to profit and loss:			
Exchange movements on translation of foreign operations	31	(2.2)	0.6
		(2.2)	0.6
Total comprehensive income for the year		8.0	41.7

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Group balance sheet

31 March 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Goodwill	14	246.3	248.4
Other intangible assets	15	156.9	148.8
Property, plant and equipment	16	30.0	33.3
Deferred tax assets	21	7.2	3.1
Retirement benefit assets	37	1.2	—
		441.6	433.6
Current assets			
Inventories	18	0.7	1.1
Trade and other receivables	19	290.6	293.5
Cash and cash equivalents	19	96.2	88.6
		387.5	383.2
Total assets		829.1	816.8
Current liabilities			
Trade and other payables	22	(297.2)	(243.8)
Current tax liabilities		(7.9)	(9.7)
Provisions	24	(7.7)	(20.1)
Obligations under finance leases	35	(0.5)	(0.5)
		(313.3)	(274.1)
Net current assets		74.2	109.1
Non-current liabilities			
Bank and other loans	20	(137.1)	(129.6)
Other financial liabilities	23	(2.7)	(11.7)
Deferred tax liabilities	21	(22.2)	(24.8)
Obligations under finance leases	35	(0.9)	(1.4)
		(162.9)	(167.5)
Total liabilities		(476.2)	(441.6)
Net assets		352.9	375.2
Equity			
Share capital	25	8.3	8.2
Share premium account	26	38.6	38.3
Merger reserve	27	71.0	71.0
Own shares reserve	28	(15.9)	(17.7)
Share incentive reserve	29	14.4	11.1
Capital redemption reserve	30	1.2	1.2
Currency translation reserve	31	2.3	4.5
Retained earnings		233.0	258.6
Total equity		352.9	375.2

The financial statements were approved by the Board of Directors and authorised for issue on 20 May 2014. They were signed on its behalf by:

Johnathan Ford
Chief Financial Officer
20 May 2014

Group statement of changes in equity

Year ended 31 March 2014

	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 2013	8.2	38.3	71.0	(17.7)	11.1	1.2	4.5	258.6	375.2
Total comprehensive income	—	—	—	—	—	—	(2.2)	10.2	8.0
Dividends paid	—	—	—	—	—	—	—	(36.7)	(36.7)
Issue of share capital	0.1	0.3	—	—	—	—	—	—	0.4
Issue of trust shares	—	—	—	1.8	—	—	—	(1.1)	0.7
Share-based payments	—	—	—	—	4.1	—	—	—	4.1
Share options exercised	—	—	—	—	(0.8)	—	—	0.8	—
Tax on exercised share options	—	—	—	—	—	—	—	0.4	0.4
Deferred tax on share options	—	—	—	—	—	—	—	0.8	0.8
Balance at 31 March 2014	8.3	38.6	71.0	(15.9)	14.4	1.2	2.3	233.0	352.9

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

Financial statements

Group cash flow statement

Year ended 31 March 2014

	Notes	2014 £m	2013 £m
Net cash inflow from operating activities	33	67.0	99.2
Investing activities			
Interest received		0.5	0.3
Proceeds on disposal of property, plant and equipment		—	1.4
Purchases of intangible assets		(30.2)	(27.3)
Purchases of property, plant and equipment		(3.4)	(4.0)
Net cash outflow on acquisitions	32	(2.4)	(5.8)
Net cash used in investing activities		(35.5)	(35.4)
Financing activities			
Dividends paid	12	(36.7)	(36.6)
Repayment of finance leases		(0.4)	(0.6)
Issue of shares from the employee benefit trust		0.7	0.4
Proceeds on issue of share capital	25	0.4	0.2
Increase in bank and other loans	20	13.1	8.5
Net cash used in financing activities		(22.9)	(28.1)
Net increase in cash and cash equivalents		8.6	35.7
Cash and cash equivalents at beginning of year		88.6	52.8
Effect of foreign exchange rate changes		(1.0)	0.1
Cash and cash equivalents at end of year		96.2	88.6

Notes to financial statements

Year ended 31 March 2014

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. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period as explained in note 39 below.

Adoption of new or revised standards and accounting policies

The following accounting standards have been adopted in the year:

Amendments to IFRS1	Government Loans
Amendments to IFRS7	Disclosures – Transfers of Financial Assets and Financial Liabilities
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
Improvements to IFRSs (2012)	

IAS1 (amended) has impacted the presentation of the Statement of Comprehensive Income, separating those items that cannot be subsequently classified to the profit and loss from those that may be subsequently classified. IFRS13 has introduced certain additional disclosure requirements and these are set out in note 39.

All other accounting standards listed above have been adopted but their adoption has not had any material impact on the amounts reported in this consolidated set of financial statements.

Financial statements

Notes to financial statements

Year ended 31 March 2014

2. Significant accounting policies (continued)

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):

IFRS9	Financial Instruments
IFRS14	Regulatory Deferral Accounts
IAS19 (Amendments)	Defined Benefit Plans: Employee Contributions
IFRIC21	Levies
Improvements to IFRSs (2013)	

The implementation of IFRS9 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.

The financial statements have been prepared 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, is exposed or has rights to variable return from its involvement with the investee, and has the ability to use its power to affect its returns.

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.

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 the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Financial statements

Notes to financial statements

Year ended 31 March 2014

2. Significant accounting policies (continued)

Goodwill (continued)

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

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

Annual service revenue is recognised on completion of the annual service. Ongoing service revenue is recognised in equal instalments over the life of the policy.

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 for the Group's selling and policy renewal activities. 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 by the Group, 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 the Group 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.

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2. Significant accounting policies (continued)

Foreign currencies (continued)

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange movements, if any, are classified as equity and transferred to the Group's translation reserve. Such cumulative exchange movements are recognised as income or expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated after charging all operating costs, 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 and the return on scheme assets (excluding interest) 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. Remeasurement recorded in the statement of comprehensive income is not recycled.

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. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

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 the 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	5 – 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.

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Year ended 31 March 2014

2. Significant accounting policies (continued)

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 markets, sells and renews policies 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 exist at the date of acquisition and are acquired by the Group as part of a business combination. Acquired customer databases are recorded at fair value using the estimated and discounted incremental future cash flows resulting from the future renewal of 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.

Other intangible assets

Access rights arise from the contractual agreements with Affinity Partners which provide the contractual framework within which the Group markets, sells and renews policies with the individual customers of the Affinity Partner. 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.

Customer databases represent the value attributable to the portfolios of renewable customer policies that have been created by our Affinity Partners through their own sales and marketing activity and subsequently purchased by the Group. Such customer databases are recorded at their fair value based on the amount paid to the Affinity Partner. These customer databases are amortised on a straight line basis over the remaining term of the Affinity Partner marketing agreement, which are in the range of 3 - 10 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.

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Year ended 31 March 2014

2. Significant accounting policies (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Interest-bearing loans and overdrafts are stated at amortised cost and are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Provisions

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

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Group also provides employees with the ability to purchase the Group's ordinary shares at a discount to the current market value through Save As You Earn schemes.

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 Group's equity settled share based payment 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.

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

Revenue recognition (continued)

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.

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 £246.3m (2013: £248.4m). The carrying value of acquisition intangibles is £87.3m (2013: £103.3m). Following the annual impairment review, no impairment charge has been recorded against goodwill or acquisition intangibles.

During the prior year, an impairment charge of £14.8m was recorded against goodwill relating to Société Française de Garantie S.A.

As set out in note 14, changes in respect of commercial outcomes around sales volumes, prices, margins and discount rates can impact the recoverable value. Management do not believe that any reasonably possible changes to the key assumptions would produce an impairment in the forthcoming year.

Financial Conduct Authority (FCA) investigation

In February 2014 the FCA concluded their investigation into the historic issues in our UK business, and a financial penalty of £30.6m was paid.

Customer re-contact programme

We have completed the re-contacting of UK customers who may have suffered detriment in the way they bought their policy, and where appropriate, re-imbursed customers. During the year total expenditure of £23.3m was incurred in running this programme and making customer redress payments. In November 2013 an additional exceptional charge of £19.0m was made to cover the costs of this programme which were higher than initially expected. At the end of March 2014 there is £7.2m of the provision remaining. The provision of £7.2m relates to the finalisation of reimbursement payments to customers who have responded to the re-contact exercise and other costs associated with completing the redress of the UK issues.

4. Revenue

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

	2014 £m	2013 £m
Provision of services	568.3	546.5
Investment income (note 9)	0.5	0.1
	568.8	546.6

5. Business and geographical segments

Segment revenues and results

IFRS8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, who is considered to be the Chief Executive, to allocate resources to the segments and to assess their performance. The operating segment France was formerly known as Doméo.

Segment profit/loss represents the result of each segment including allocating costs associated with head office and shared functions, but before allocating investment income, finance costs, and tax. This is the measure reported to the Chief Executive for the purposes of resource allocation and assessment of segment performance.

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5. Business and geographical segments (continued)

Segment revenues and results (continued)

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.

	UK £m	USA £m	France £m	Spain £m	New Markets £m	Total £m
2014						
Revenue						
Total revenue	288.5	110.9	77.3	82.6	14.4	573.7
Inter-segment	(5.4)	—	—	—	—	(5.4)
External revenue	283.1	110.9	77.3	82.6	14.4	568.3
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles and exceptional expenditure	53.4	12.9	22.3	4.0	(5.7)	86.9
Exceptional expenditure	(46.7)	—	—	—	—	(46.7)
Amortisation of acquisition intangibles	(0.5)	(4.7)	(6.0)	(1.8)	—	(13.0)
Operating profit/(loss)	6.2	8.2	16.3	2.2	(5.7)	27.2
Investment income						0.5
Finance costs						(3.3)
Profit before tax						24.4
Tax						(14.4)
Profit for the year						10.0
2013						
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

Segment information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
UK	419.3	442.1	216.6	222.0	14.8	19.3	11.9	16.4
USA	110.1	99.8	100.7	95.4	5.8	6.3	7.2	5.9
France	211.3	213.8	69.4	66.4	0.5	1.6	6.9	6.8
Spain	77.3	43.9	66.3	34.3	23.3	5.5	6.8	2.4
New Markets	11.1	17.2	23.2	23.5	—	0.4	0.2	16.2
Total	829.1	816.8	476.2	441.6	44.4	33.1	33.0	47.7

All assets and liabilities (including intercompany loans) are allocated to reportable segments.

Revenue from major products and services

	2014 £m	2013 £m
Sale of home assistance and emergency policies	433.9	431.3
Provision of repair services	134.4	115.2
Consolidated revenue (excluding investment revenue)	568.3	546.5

Geographical information

The Group operates in three principal geographical areas – UK, Continental Europe and the USA. The Group's revenue from external customers and information about its segment assets (non-current assets excluding deferred tax and retirement benefit assets) by geographical location is detailed below:

	Revenue from external customers		Non-current assets	
	2014 £m	2013 £m	2014 £m	2013 £m
UK	283.1	302.0	216.3	214.7
USA	110.9	100.8	33.5	38.4
Continental Europe	174.3	143.7	183.4	177.4
	568.3	546.5	433.2	430.5

Information relating to Continental Europe in the table above includes our businesses in France, Spain, Italy and Germany.

Information about major customers

The Group earned 10% of its revenue from Inter Partner Assistance S.A., the principal underwriting partner for its UK business. The UK invoiced £56.1m in respect of repair services performed on policy claims, including both employed and sub-contract engineers. There were no customers in the prior year from which the Group earned more than 10% of its revenue.

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6. Exceptional items

Exceptional expenditure of £46.7m was incurred during the year which related to additional costs associated with the FCA investigation and the UK customer re-contact exercise. The FCA financial penalty was finalised at £30.6m which required a £27.7m increase in the provision in FY14. The fine was paid in February 2014. During the year, an additional £19.0m provision was made in respect of the customer re-contact exercise. While the population of customers being re-contacted remained unchanged, with greater visibility of the numbers requesting a review and the value of the reimbursements being made, the cost of the exercise was higher than originally anticipated thus resulting in the increased provision.

The exceptional expenditure in FY13 related to the £14.8m impairment of goodwill in respect of Société Française de Garantie S.A., together with £10.0m of costs related to the FCA investigation and UK re-organisation, and £0.3m of other costs.

7. Profit for the year

Profit for the year has been arrived at after charging:

	2014 £m	2013 £m
Included in operating costs:		
Staff costs	161.8	163.7
Cost of inventories recognised as an expense	6.3	4.2
Depreciation of property, plant and equipment	4.9	7.8
Amortisation of acquisition intangible assets	13.0	13.4
Amortisation of other intangibles	15.1	11.7
Other impairment loss recognised on trade receivables	1.5	1.3
Exceptional operating items		
- Resolution of UK legacy issues	46.7	10.0
- New Markets	—	15.1

The analysis of auditor's remuneration is as follows:

	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	55	40
The audit of the Company's subsidiaries pursuant to legislation	220	208
Total audit fees	275	248
Audit-related assurance services	45	44
Tax compliance services	30	34
Tax advisory services	110	123
Other services	36	26
Total non-audit fees	221	227

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 £45,000 (2013: £44,000).

The other services during the current and prior year comprised training, technical consultations and, in FY14, advice relating to a reduction in the number of statutory entities within the Group.

8. Staff costs

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

	2014 number	2013 number
UK	2,149	2,498
Continental Europe	1,028	934
USA	626	630
	3,803	4,062

	2014 £m	2013 £m
Their aggregate remuneration comprised:		
Wages and salaries	137.5	135.0
Social security costs	21.4	21.7
Other pension costs (note 37)	2.9	3.0
Redundancy costs	—	4.0
	161.8	163.7

9. Investment income

	2014 £m	2013 £m
Interest on bank deposits	0.5	0.1

10. Finance costs

	2014 £m	2013 £m
Interest on revolving credit facilities	3.3	2.4
Unwinding of discount on deferred and contingent consideration	0.4	0.4
Exchange movements	(0.4)	(0.1)
	3.3	2.7

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11. Tax

	2014 £m	2013 £m
Current tax		
– Current year	20.4	27.0
– Adjustments in respect of prior years	(0.2)	0.1
Total current tax charge	20.2	27.1
Deferred tax (note 21)	(5.8)	(2.5)
Total tax charge	14.4	24.6

UK corporation tax is calculated at 23% (2013: 24%) 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:

	2014 £m	2013 £m
Profit before tax on continuing operations	24.4	66.5
Tax at the UK corporation tax rate of 23% (2013: 24%)	5.6	16.0
Tax effect of expenses that are not deductible in determining taxable profit	7.1	4.3
Adjustments in respect of prior years – current tax	(0.3)	0.1
Overseas tax rate differences	2.2	1.8
(Increase)/decrease in estimate of deferred tax asset	(0.8)	0.3
Effect of overseas losses	1.0	0.9
Deferred tax rate adjustment	0.2	1.2
Utilisation of losses not previously recognised	(0.6)	—
Tax expense for the year	14.4	24.6

In addition to the amount charged to the income statement, a deferred tax charge relating to retirement benefit obligations amounting to £0.1m (2013: £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:

	2014 £m	2013 £m
Current tax		
Excess tax deductions related to share-based payments on exercised options	0.4	0.1
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	0.8	—
Total tax recognised directly in equity	1.2	0.1

The UK corporation tax rate reduced from 24% to 23% with effect from 1 April 2013. Further tax rate reductions to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were substantively enacted on 2 July 2013. The rate of 20% is used for the calculation of the UK deferred tax position as at 31 March 2014 on the basis that the asset will materially reverse after 1 April 2015.

12. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2013 of 7.67p (2012: 7.67p) per share	24.9	24.8
Interim dividend for the year ended 31 March 2014 of 3.63p (2013: 3.63p) per share	11.8	11.8
	36.7	36.6

The proposed final dividend for the year ended 31 March 2014 is 7.67p per share amounting to £25.0m (2013: 7.67p per share amounting to £24.9m). 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

	2014 pence	2013 pence
Basic	3.1	12.9
Diluted	3.0	12.7
Adjusted basic	18.6	23.0
Adjusted diluted	18.2	22.6

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

Number of shares	2014 m	2013 m
Weighted average number of shares		
Basic	325.0	324.3
Dilutive impact of share options	6.9	5.7
Diluted	331.9	330.0

Earnings	2014 £m	2013 £m
Profit for the year	10.0	41.9
Exceptional expenditure (note 6)	46.7	25.1
Amortisation of acquisition intangibles	13.0	13.4
Tax impact arising on amortisation of acquisition intangibles and exceptional costs	(9.2)	(5.9)
Adjusted profit for the year	60.5	74.5

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13. Earnings per share (continued)

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

14. Goodwill

	£m
Cost	
At 1 April 2012	290.7
Recognised on acquisitions	0.6
Exchange movements	1.4
At 1 April 2013	292.7
Recognised on acquisitions	—
Derecognised on disposal of subsidiary	(14.2)
Exchange movements	(2.4)
At 31 March 2014	276.1
Accumulated impairment losses	
At 1 April 2012	29.8
Impairments - SFG	14.8
Derecognised on disposal of subsidiary	(0.3)
At 1 April 2013	44.3
Derecognised on disposal of subsidiary	(14.2)
Exchange movements	(0.3)
31 March 2014	29.8
Carrying amount	
At 31 March 2014	246.3
At 31 March 2013	248.4

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 discount rates using pre-tax rates that reflect 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:

- UK 10.8% (2013: 12.1%)
- USA 14.5% (2013: 15.4%)
- France 12.2% (2013: 13.8%)
- Spain 13.2% (2013: 13.2%)

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value, which also reflects the different risk profile of each CGU. The Group 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 judgmental assumptions, however, it takes account of the headroom in the value in use calculation versus the current carrying value.

The carrying amount of goodwill has been allocated as follows:

	2014 £m	2013 £m
UK	154.7	154.6
USA	4.0	4.4
France	74.5	76.1
Spain	13.1	13.3
	246.3	248.4

In the prior year, an impairment charge of £14.8m was recognised in respect of Société Française de Garantie S.A. which was disposed of on 5 March 2014. Further details are disclosed in note 32.

UK CGU

The UK CGU does not contain any intangible assets with indefinite useful economic lives. The long-term growth rate is 2% (2013: 2%) and is based on the GDP growth rate of the UK.

France CGU

The France CGU does not contain any intangible assets with indefinite useful economic lives. The long-term growth rate is 2% (2013: 2%) and is based on the GDP growth rate of France.

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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, customer databases and software. Due to the increased expenditure during the year in relation to customer databases, these amounts are now separated from Trademarks and access rights, and prior year comparisons have been restated.

	Acquired access rights £m	Acquired customer databases £m	Total acquisition intangibles £m	Trademarks & access rights (restated) £m	Customer databases £m	Software £m	Total intangibles £m
Cost							
At 1 April 2012	56.5	106.2	162.7	15.3	—	37.2	215.2
Additions	—	—	—	10.8	4.6	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 1 April 2013	55.8	111.5	167.3	26.3	4.6	46.1	244.3
Additions	—	—	—	2.3	22.2	16.3	40.8
Acquisitions	0.2	—	0.2	—	—	—	0.2
Disposals	(28.1)	—	(28.1)	—	—	(2.4)	(30.5)
Exchange movements	(1.2)	(4.2)	(5.4)	(0.3)	(0.5)	(0.5)	(6.7)
At 31 March 2014	26.7	107.3	134.0	28.3	26.3	59.5	248.1
Accumulated amortisation and impairment							
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	2.6	0.2	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 1 April 2013	39.5	24.5	64.0	7.4	0.2	23.9	95.5
Charge for the year	2.5	10.5	13.0	4.0	4.2	6.9	28.1
Disposals	(28.1)	—	(28.1)	—	—	(1.8)	(29.9)
Exchange movements	(0.6)	(1.6)	(2.2)	(0.3)	—	—	(2.5)
At 31 March 2014	13.3	33.4	46.7	11.1	4.4	29.0	91.2
Carrying amount							
At 31 March 2014	13.4	73.9	87.3	17.2	21.9	30.5	156.9
At 31 March 2013	16.3	87.0	103.3	18.9	4.4	22.2	148.8

16. Property, plant and equipment

	Land & buildings £m	Furniture, fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
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 1 April 2013	30.4	6.1	17.6	2.8	56.9
Additions	1.1	1.2	1.1	0.2	3.6
Disposals	(1.0)	(0.6)	(6.9)	(0.1)	(8.6)
Exchange movements	(0.2)	(0.2)	(0.2)	(0.1)	(0.7)
At 31 March 2014	30.3	6.5	11.6	2.8	51.2
Accumulated depreciation and impairment					
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 1 April 2013	7.9	3.1	12.0	0.6	23.6
Charge for the year	1.5	1.0	2.0	0.4	4.9
Disposals	(0.7)	(0.5)	(5.9)	—	(7.1)
Exchange movements	—	—	(0.1)	(0.1)	(0.2)
At 31 March 2014	8.7	3.6	8.0	0.9	21.2
Carrying amount					
At 31 March 2014	21.6	2.9	3.6	1.9	30.0
At 31 March 2013	22.5	3.0	5.6	2.2	33.3

The carrying amount of the Group's property, plant and equipment includes an amount of £1.7m (2013: £1.9m) 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 (2013: £nil).

17. Subsidiaries

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

18. Inventories

	2014 £m	2013 £m
Consumables	0.7	1.1

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19. Other financial assets

Trade and other receivables

	2014 £m	2013 £m
Amounts receivable for the provision of services	210.0	203.7
Other receivables	70.1	65.4
Prepayments and accrued income	10.5	24.4
	290.6	293.5

Trade receivables

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

Of the trade receivables balance at the end of the year, there is no significant concentration of credit risk, with exposure spread across a large number of counterparties and customers. There are no customers that represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of £4.3m (2013: £3.9m) 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 29 days (2013: 18 days). Trade debtors to be received from customers relating to instalments of policy premiums that are not yet due have been excluded from the average age calculation.

Ageing of past due but not impaired receivables:

	2014 £m	2013 £m
1 - 30 days	2.9	2.8
31 - 60 days	1.4	1.1
61 - 90 days	—	—
91 days +	—	—
Balance at 31 March past due but not impaired	4.3	3.9
Current/not yet due	205.7	199.8
Balance at 31 March	210.0	203.7

Movement in the allowance for doubtful debts:

	2014 £m	2013 £m
At 1 April	2.4	2.0
Impairment losses recognised	1.5	1.3
Amounts written off as uncollectable	(0.2)	(0.9)
Disposals	(0.1)	—
Exchange movements	(0.1)	—
Balance at 31 March	3.5	2.4

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality 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:

	2014 £m	2013 £m
1 - 30 days	—	0.3
31 - 60 days	—	—
61 - 90 days	0.7	0.8
91 days +	2.5	1.3
Current/not yet due	0.3	—
	3.5	2.4

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 £96.2m (2013: £88.6m) 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

	2014 £m	2013 £m
US dollar denominated	44.5	43.5
Euro denominated	92.6	86.1
Due after one year	137.1	129.6

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20. Bank and other loans (continued)

The US dollar and euro denominated borrowings are used to provide debt funding to the USA and Continental European operations respectively. The revolving credit facility borrowings of £135.3m (2013: £129.6m) 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.

	2014 %	2013 %
The weighted average interest rates paid were as follows:		
Revolving credit facilities	1.8	1.8

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' (2013: 3.0 times) and 'interest cover greater than 4.0 times EBITDA' (2013: 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% (2013: 1%) above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk.

At 31 March 2014, the Group had available £114.7m (2013: £120.4m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Information about liquidity risk is presented in note 39.

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 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 1 April 2013	0.8	(0.1)	—	0.7	(26.3)	3.7	(0.5)	(21.7)
Credit/(charge) to Income	4.8	(0.1)	(0.1)	1.4	2.8	(3.0)	—	5.8
Credit to equity	—	—	—	0.8	—	—	—	0.8
Charge to Comprehensive Income	—	—	(0.1)	—	—	—	—	(0.1)
Exchange movements	—	—	—	—	0.4	(0.2)	—	0.2
At 31 March 2014	5.6	(0.2)	(0.2)	2.9	(23.1)	0.5	(0.5)	(15.0)

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 £m	France £m	Spain £m	USA £m	2014 £m	2013 £m
Deferred tax assets	2.0	—	2.2	3.0	7.2	3.1
Deferred tax liabilities	—	(22.2)	—	—	(22.2)	(24.8)
Net deferred tax asset/(liability)	2.0	(22.2)	2.2	3.0	(15.0)	(21.7)

At the balance sheet date, the Group recognised a deferred tax asset of £0.5m (2013: £3.7m) on unused tax losses of £1.6m (2013: £8.9m) available for offset against future profits, based on estimates of budgeted profits in the forthcoming years. Deferred tax has not been recognised on £18.1m (2013: £17.0m) of unused losses due to the uncertainty over the timing of future recovery.

There are expiry dates between 2022 – 2030 (2013: 2020 - 2029) in respect of £5.5m (2013: £6.9m) of the unrecognised tax losses.

22. Current liabilities – trade and other payables

	2014 £m	2013 £m
Trade creditors and accruals	109.5	91.8
Contingent consideration	0.1	1.0
Deferred consideration	0.8	0.8
Deferred income	33.7	29.2
Taxes and social security, excluding current tax	7.9	6.8
Other creditors	145.2	114.2
	297.2	243.8

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22. Current liabilities – trade and other payables (continued)

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 66 days (2013: 61 days).

Deferred income represents revenue where an obligation exists to provide future services. An appropriate proportion of monies received in advance is 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.

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 2013	7.5	4.2	11.7
Movement in year	(7.5)	(1.5)	(9.0)
At 31 March 2014	—	2.7	2.7

Deferred income represents revenue where an obligation exists to provide future services. An appropriate proportion of monies received in advance is 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 2013	11.5	4.3	4.0	0.3	20.1
Created in the year	19.0	27.7	—	—	46.7
Utilised in the year	(23.3)	(31.8)	(3.7)	(0.3)	(59.1)
At 31 March 2014	7.2	0.2	0.3	—	7.7

During the year, an additional £19.0m provision was made in respect of the customer re-contact exercise. While the population of customers being re-contacted remained unchanged, with greater visibility of the numbers requesting a review and the value of the reimbursements being made, the cost of the exercise was higher than originally anticipated thus resulting in the increased provision. The provision of £7.2m (2013: £11.5m) in respect of the cost of addressing UK matters relates to the finalisation of reimbursement payments to customers who have responded to the re-contact exercise and other costs associated with completing the UK issues.

An additional provision of £27.7m (2013: £6.0m) was made in respect of the costs associated with the FCA investigation. During FY14, a fine of £30.6m was paid together with costs of £1.2m in relation to managing the investigation.

The Group implemented its plans to reduce the number of roles in the UK, utilising the majority of the provision relating to reorganisation costs created in FY13.

All of the above provisions are expected to be utilised within the next 12 months.

25. Share capital

	2014 £m	2013 £m
Issued and fully paid:		
330,225,457 ordinary shares of 2.5p each (31 March 2013: 330,013,918 ordinary shares of 2.5p each)	8.3	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 211,539 shares (2013: 140,847 shares) with a nominal value of 2.5p creating share capital of £5,288 (2013: £3,521) and share premium of £350,750 (2013: £214,025).

26. Share premium account

	£m
Balance at 1 April 2012	38.1
Premium arising on issue of equity shares	0.2
Balance at 1 April 2013	38.3
Premium arising on issue of equity shares	0.3
Balance at 31 March 2014	38.6

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

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27. Merger reserve

	£m
Balance at 1 April 2012, 1 April 2013 and 31 March 2014	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 2012	6.2	19.1
Issued from the employee benefit trust	(0.7)	(1.4)
Balance at 1 April 2013	5.5	17.7
Issued from the employee benefit trust	(0.8)	(1.8)
Balance at 31 March 2014	4.7	15.9

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 2012	8.6
Share-based payment charges in the year	3.0
Share options exercised in the year	(0.5)
Balance at 1 April 2013	11.1
Share-based payment charges in the year	4.1
Share options exercised in the year	(0.8)
Balance at 31 March 2014	14.4

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 2012, 1 April 2013 and 31 March 2014	1.2

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

31. Currency translation reserve

	£m
Balance at 1 April 2012	3.9
Movement in the year taken to comprehensive income	0.6
Balance at 1 April 2013	4.5
Movement in the year taken to comprehensive income	(2.2)
Balance at 31 March 2014	2.3

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

32. Business combinations and disposals

The Group has incurred a net cash outflow in respect of acquisitions and disposals of £2.4m in the year. This principally relates to deferred consideration on prior period acquisitions. In the prior year, the net cash outflow relating to acquisitions was £5.8m.

Société Française de Garantie S.A. (SFG) was disposed of on 5 March 2014, the Directors consider the disposal of SFG to be immaterial to the HomeServe plc Group due to the nature and size of its operations. There was no material gain or loss on the disposal of SFG.

33. Notes to the cash flow statement

	2014 £m	2013 £m
Operating profit	27.2	69.1
Adjustments for:		
Depreciation of property, plant and equipment	4.9	7.8
Amortisation of intangible assets	28.1	25.1
Impairment	—	14.8
Share-based payments expense	4.1	3.0
Loss on disposal of property, plant and equipment and software	2.1	0.6
Operating cash flows before movements in working capital	66.4	120.4
Decrease in inventories	0.2	0.4
(Increase)/decrease in receivables	(18.6)	0.4
Increase in payables (excluding exceptional provision)	56.3	7.9
Decrease in exceptional provision	(12.4)	(0.9)
Cash generated by operations	91.9	128.2
Income taxes paid	(21.6)	(26.3)
Interest paid	(3.3)	(2.7)
Net cash inflow from operating activities	67.0	99.2

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.

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34. Operating lease arrangements

The Group as lessee

	2014 £m	2013 £m
Minimum lease payments under operating leases recognised in income for the year	8.2	6.9

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:

	2014 £m	2013 £m
Within one year	6.6	5.4
In the second to fifth years inclusive	12.7	7.0
After five years	4.4	1.7
	23.7	14.1

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

	2014 £m	2013 £m
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	0.5	0.5
Amounts due for settlement after 12 months: in the second to fifth years inclusive	0.9	1.4
Present value of lease obligations	1.4	1.9

Minimum lease payments

Within one year	0.5	0.5
In the second to fifth years inclusive	0.9	1.4
Present value of lease obligations	1.4	1.9

Certain motor vehicles are held under finance leases. The average lease term is 5 years (2013: 5 years). For the year ended 31 March 2014, the average effective borrowing rate was 3.0% (2013: 3.5%). 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.

36. Share-based payments

During the year ended 31 March 2014, the Group had five (2013: five) share-based payment schemes, which are described below:

i) 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. The vesting period for the restricted awards is 2 years for those granted in 2013 and 3 years for those granted in 2014. For the performance and matching awards granted in 2013 and 2014, vesting is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. For the 2011 and 2012 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 2013 and 2014 are subject to the continued employment of the participant at the date of vesting.

ii) 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.

iii) 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.

iv) 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.

v) 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.

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Year ended 31 March 2014

36. Share-based payments (continued)

	LTIP	SAYE	ESOP	KEIP	DBP
2014					
Number					
Outstanding at 1 April 2013	6,695,599	2,641,454	1,302,100	72,295	256,995
Granted	2,916,015	497,750	—	—	—
Lapsed	(1,542,238)	—	—	—	—
Forfeited	(248,157)	(659,844)	—	—	—
Exercised	(269,542)	(209,528)	(309,395)	—	—
Outstanding at 31 March 2014	7,551,677	2,269,832	992,705	72,295	256,995
Exercisable at 31 March 2014	—	58,817	992,705	72,295	256,995
Weighted average exercise price (£)					
Outstanding at 1 April 2013	—	1.94	1.44	1.92	—
Granted	—	1.92	—	—	—
Lapsed	—	—	—	—	—
Forfeited	—	2.03	—	—	—
Exercised	—	1.68	0.97	—	—
Outstanding at 31 March 2014	—	1.87	1.58	1.92	—
Exercisable at 31 March 2014	—	3.15	1.58	1.92	—
Range of exercise price of options outstanding at 31 March 2014					
£0.01 to £0.99	—	—	—	—	—
£1.00 to £1.99	—	2,189,300	992,705	72,295	—
£2.00 to £2.99	—	18,510	—	—	—
£3.00 to £3.99	—	62,022	—	—	—
Weighted average remaining contractual life	2	2	1	1	1
Weighted average fair value of options awarded in 2014	£2.06	£0.85	—	—	—

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

The weighted average share price at the date of exercise for share options exercised during the year was £3.04 (2013: £1.82).

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%

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Year ended 31 March 2014

36. Share-based payments (continued)

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 £4.1m (2013: £3.0m) related to equity-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 £2.7m (2013: £3.1m) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme. At 31 March 2014, contributions of £247,000 (2013: £230,000) due in respect of the current reporting period had not been paid over to the scheme.

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. Remeasurements are recognised immediately through other comprehensive income.

	Valuation at	
	2014	2013
Key assumptions used:		
Discount rate at 31 March	4.5%	4.5%
Consumer price inflation	2.6%	2.7%
Retail price inflation	3.6%	3.7%
Expected rate of salary increases	2.6%	2.7%
Future pension increases	2.6%	2.7%
Life expectancy of male aged 60 at balance sheet date	27.5yrs	27.4yrs

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

As an indication, all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the obligations of the Section of approximately £0.5m
- 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
- an increase of life expectancy of 1 year would lead to an increase in the value placed on the obligations of the Section of approximately £0.7m.

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

	2014 £m	2013 £m
Current service cost	0.2	0.2
Interest cost	—	0.9
Expected return on scheme assets	—	(1.2)
Past service cost	—	—
Recognised in operating costs	0.2	(0.1)

The actual return on scheme assets was a loss of £0.1m (2013: gain of £2.2m).

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

	2014 £m	2013 £m
Present value of defined benefit obligations	(22.3)	(21.9)
Fair value of scheme assets	23.5	21.9
Surplus in scheme recognised in the balance sheet in non-current assets	1.2	—

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

	2014 £m	2013 £m
At 1 April	21.9	19.3
Employer's part of the current service cost	0.2	0.2
Interest cost	0.9	0.9
Contributions from scheme members	0.1	0.1
Actuarial (gains)/losses	(0.4)	1.6
Benefits paid	(0.4)	(0.2)
At 31 March	22.3	21.9

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Year ended 31 March 2014

37. Retirement benefit schemes (continued)

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

	2014 £m	2013 £m
At 1 April	21.9	18.7
Interest on Section assets	0.9	—
Actual return less interest on Section assets	(0.1)	—
Expected return on scheme assets	—	1.2
Actuarial gains	—	0.9
Contributions from the employer	1.1	1.2
Contributions from scheme members	0.1	0.1
Benefits paid	(0.4)	(0.2)
At 31 March	23.5	21.9

During the year the Company adopted IAS19 (revised). The prior year comparisons have not been restated as the adjustment is not considered to be material and has been recognised in the current year.

The amount recognised outside the income statement in the statement of comprehensive income for 2014 is a gain of £0.3m (2013: loss of £0.7m). The cumulative amount recognised outside profit and loss at 31 March 2014 is a loss of £2.3m (2013: loss £2.6m).

The analysis of the scheme assets at the balance sheet date was as follows:

	Fair value of assets	
	2014 £m	2013 £m
Equity instruments	10.4	8.2
Diversified growth funds	3.0	2.9
Debt instruments	6.7	7.2
Other	3.4	3.6
	23.5	21.9

The estimated amounts of contributions expected to be paid to the scheme during the forthcoming financial year is £1.0m (2014: actual £1.0m) 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

Group companies purchased services of £0.2m (2013: £0.2m) from a related party, Harpin Limited, which is not a member of the Group. 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. There were no amounts outstanding by or to Harpin Limited at the year end.

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.

	2014 £m	2013 £m
Short-term employee benefits	5.7	4.9
Post-employment benefits	0.3	0.3
Share-based payments expense	2.3	1.5
	8.3	6.7

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

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
- contingent and deferred consideration
- other creditors.

All principal financial instruments are stated at amortised cost, with the exception of contingent and deferred consideration which is held at fair value.

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Year ended 31 March 2014

39. Financial instruments (continued)

Principal financial instruments (continued)

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Group has no financial instruments with fair values that are determined by reference to Level 1 or Level 2 and there were no transfers of assets or liabilities between levels during the period. There are no non-recurring fair value measurements. The Group held the following Level 3 financial instruments at fair value:

	2014 £m	2013 £m
Contingent and deferred consideration at fair value through profit and loss:		
Current liabilities	0.9	1.8
Non current liabilities	2.7	4.2
	3.6	6.0

Contingent and deferred consideration liabilities are calculated using forecasts of future performance of acquisitions discounted to present value. The reconciliation of Level 3 fair value measurements of financial liabilities is shown below:

	£m
Balance at 1 April 2012	7.0
Unwinding of discount through the income statement	0.6
Payments	(2.3)
Acquisitions	0.2
Exchange	0.5
Balance at 1 April 2013	6.0
Unwinding of discount through the income statement	0.4
Payments	(2.2)
Disposals	(0.2)
Exchange	(0.4)
Balance at 31 March 2014	3.6

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:

	2014 £m	2013 £m
Shareholders' funds	352.9	375.2
Bank and other loans	137.1	129.6

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.

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, 22 and 23. The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk.

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Year ended 31 March 2014

39. Financial instruments (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily relates 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 and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Total £m
2014					
Under 2 months	0.3	66.9	72.5	0.2	139.9
Between 2 and 6 months	0.6	31.3	41.5	0.1	73.5
Between 6 and 12 months	0.8	11.3	29.5	0.8	42.4
Between 1 and 2 years	1.7	—	1.7	0.9	4.3
Between 2 and 3 years	137.6	—	—	0.9	138.5
Between 3 and 4 years	—	—	—	0.9	0.9
Between 4 and 5 years	—	—	—	0.2	0.2
After 5 years	—	—	—	—	—
Total	141.0	109.5	145.2	4.0	399.7

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Total £m
2013					
Under 2 months	0.3	51.0	45.0	—	96.3
Between 2 and 6 months	0.5	34.5	43.2	0.1	78.3
Between 6 and 12 months	0.8	6.3	25.4	1.9	34.4
Between 1 and 2 years	1.7	—	0.6	1.6	3.9
Between 2 and 3 years	1.7	—	—	1.0	2.7
Between 3 and 4 years	130.1	—	—	1.0	131.1
Between 4 and 5 years	—	—	—	1.0	1.0
After 5 years	—	—	—	0.2	0.2
Total	135.1	91.8	114.2	6.8	347.9

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

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

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

	2014	2013
Increase in interest rate	10%	10%
Reduction in profit before tax (£m)	0.2	0.1

Credit risk

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

The majority of the Group's trade receivables consist of a large number of individual members and hence for these balances the Group does not have any significant credit risk exposure to a single counterparty. As a result, the Group's exposure to bad debts is not considered to be significant.

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

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

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Group's Board which sets the framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 20 are details of the undrawn facilities that are available to the Group to reduce liquidity risk further.

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

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Company statement of comprehensive income

Year ended 31 March 2014

	Notes	2014 £m	2013 £m
Profit for the year		33.3	50.7
Items that will not be classified subsequently to the profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	52	0.3	(0.7)
Tax charge relating to components of other comprehensive income	49	(0.1)	(0.1)
Total comprehensive income for the year		33.5	49.9

Company balance sheet

31 March 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Other intangible assets	43	11.1	6.5
Investment in subsidiaries	45	194.6	194.6
Deferred tax assets	49	0.4	0.3
Retirement benefit assets	52	1.2	—
		207.3	201.4
Current assets			
Trade and other receivables	46	154.8	128.1
Cash and cash equivalents	46	58.8	84.9
		213.6	213.0
Total assets		420.9	414.4
Current liabilities			
Trade and other payables	47	(23.0)	(20.3)
Current tax liabilities		(0.9)	(0.1)
Provisions	48	(0.2)	(1.2)
		(24.1)	(21.6)
Net current assets		189.5	191.4
Non-current liabilities			
Bank loans	20	(135.3)	(129.6)
		(135.3)	(129.6)
Total liabilities		(159.4)	(151.2)
Net assets		261.5	263.2
Equity			
Share capital	25	8.3	8.2
Share premium account	26	38.6	38.3
Merger reserve	27	71.0	71.0
Share incentive reserve	53	5.3	3.9
Capital redemption reserve	30	1.2	1.2
Retained earnings		137.1	140.6
Total equity		261.5	263.2

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 20 May 2014. They were signed on its behalf by:

Johnathan Ford
Chief Financial Officer
20 May 2014

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Company statement of changes in equity

Year ended 31 March 2014

	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 2013	8.2	38.3	71.0	3.9	1.2	140.6	263.2
Total comprehensive income	—	—	—	—	—	33.5	33.5
Dividends paid	—	—	—	—	—	(36.7)	(36.7)
Issue of share capital	0.1	0.3	—	—	—	—	0.4
Issue of trust shares	—	—	—	—	—	(1.1)	(1.1)
Share-based payments	—	—	—	2.1	—	—	2.1
Share options exercised	—	—	—	(0.7)	—	0.7	—
Tax on exercised share options	—	—	—	—	—	0.1	0.1
Balance at 31 March 2014	8.3	38.6	71.0	5.3	1.2	137.1	261.5

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

Company cash flow statement

Year ended 31 March 2014

	Notes	2014 £m	2013 £m
Net cash (outflow)/inflow from operating activities	41	(41.9)	10.5
Investing activities			
Interest received		5.2	0.1
Dividends received from subsidiary undertakings		40.0	59.3
Purchases of intangible assets		(5.3)	(2.3)
Issue of shares from the employee benefit trust		0.7	0.4
Net cash from investing activities		40.6	57.5
Financing activities			
Dividends paid		(36.7)	(36.6)
Share capital issued		0.4	0.2
Increase in bank loans		12.0	8.5
Net cash used in financing activities		(24.3)	(27.9)
Net movement in cash and cash equivalents		(25.6)	40.1
Cash and cash equivalents at beginning of year		84.9	44.8
Effect of foreign exchange rate changes		(0.5)	—
Cash and cash equivalents at end of year		58.8	84.9

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Notes to financial statements

Year ended 31 March 2014

Company only

The following notes 40 to 54 relate to the Company only position for the year ended 31 March 2014.

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 £33.3m (2013: £50.7m).

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

	2014 £m	2013 £m
Operating loss	(16.5)	(9.7)
Adjustments for:		
Depreciation of property, plant and equipment	—	0.1
Amortisation of intangible assets	0.6	0.2
Share-based payment expense	2.1	1.5
Operating cash flows before movements in working capital	(13.8)	(7.9)
(Increase)/decrease in receivables	(42.2)	19.1
Increase/(decrease) in payables (excluding exceptional provision)	15.9	(6.1)
(Decrease)/increase in exceptional provision	(1.0)	1.2
Cash (used in)/generated from operations	(41.1)	6.3
Income taxes received	3.1	1.3
Interest (paid)/received	(3.9)	2.9
Net cash (outflow)/inflow from operating activities	(41.9)	10.5

42. Other information

	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	55	40
Total audit fees	55	40

43. Other intangible assets

	Trademarks & access rights £m	Software £m	Total intangibles £m
Cost			
At 1 April 2012	1.8	2.9	4.7
Additions	—	2.3	2.3
At 1 April 2013	1.8	5.2	7.0
Additions	—	5.2	5.2
At 31 March 2014	1.8	10.4	12.2
Accumulated amortisation and impairment			
At 1 April 2012	0.2	0.1	0.3
Charge for the year	0.1	0.1	0.2
At 1 April 2013	0.3	0.2	0.5
Charge for the year	0.1	0.5	0.6
At 31 March 2014	0.4	0.7	1.1
Carrying amount			
At 31 March 2014	1.4	9.7	11.1
At 31 March 2013	1.5	5.0	6.5

44. Property, plant and equipment

	Computer equipment £m
Cost	
At 1 April 2012, 1 April 2013 and 31 March 2014	0.3
Accumulated depreciation and impairment	
At 1 April 2012	0.2
Charge for the year	0.1
At 1 April 2013	0.3
Charge for the year	—
At 31 March 2014	0.3
Carrying amount	
At 31 March 2014	—
At 31 March 2013	—

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Year ended 31 March 2014

45. Subsidiaries

Details of the Company's principal subsidiaries at 31 March 2014 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
HomeServe Alliance Limited	England	90	90
Continental Europe			
Doméo SAS	France	100	100
Reparalia Direct SL	Spain	100	100
Reparalia SA	Spain	100	100
Assistenza Casa Srl	Italy	100	100
HomeServe GmbH	Germany	100	100
USA			
HomeServe USA Corp	USA	100	100
HomeServe Energy Services (New England) LLC	USA	100	100
HomeServe USA Energy Services LLC	USA	100	100
HomeServe USA 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	
At 1 April 2012, 1 April 2013 and 31 March 2014	194.6

46. Financial assets

Trade and other receivables

	2014 £m	2013 £m
Amounts receivable from Group companies	153.1	125.3
Other receivables	0.9	0.7
Prepayments and accrued income	0.8	2.1
	154.8	128.1

Trade receivables

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

Included in the Company's trade receivable balance are debtors with a carrying amount of £nil (2013: £nil). The average age of receivables not impaired is 30 days (2013: 30 days).

Ageing of past due but not impaired receivables:

	2014 £m	2013 £m
1 - 30 days	—	—
31 - 60 days	—	—
61 - 90 days	—	—
91 days +	—	—
Balance at 31 March past due but not impaired	—	—
Current	153.1	125.3
Balance at 31 March	153.1	125.3

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 £58.8m (2013: £84.9m) 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.

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47. Financial liabilities

Trade and other payables

	2014 £m	2013 £m
Trade creditors and accruals	8.2	7.9
Amounts payable to Group companies	11.2	10.0
Taxes and social security, excluding corporation tax	0.6	0.3
Other creditors	3.0	2.1
	23.0	20.3

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 12 days (2013: 20 days).

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

48. Provisions

	£m
At 1 April 2013	1.2
Utilised in the year	(1.2)
Created in the year	0.2
At 31 March 2014	0.2

The Company implemented its planned UK redundancy and reorganisation programme during the year using the majority of the provision made in FY13.

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	Timing differences £m	Total £m
At 1 April 2012	0.1	0.6	—	0.7
Charge to income	—	(0.3)	—	(0.3)
Charge to comprehensive income	(0.1)	—	—	(0.1)
At 1 April 2013	—	0.3	—	0.3
Transfer	—	0.3	(0.3)	—
(Charge)/credit to income	(0.1)	0.4	(0.1)	0.2
Charge to comprehensive income	(0.1)	—	—	(0.1)
At 31 March 2014	(0.2)	1.0	(0.4)	0.4

50. Related party transactions

The Company purchased services of £0.2m (2013: £0.2m) from a related party, Harpin Limited. 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. There were no amounts outstanding by or to Harpin Limited at the year end.

The Company also provided services of £5.6m (2013: £6.4m), lent monies to of £46.0m (2013: £5.5m) and borrowed monies from of £15.3m (2013: £9.8m) with subsidiary companies of the Group. Amounts due to subsidiary companies amount to £11.2m (2013: £10.0m). Amounts owed by subsidiary companies amount to £153.1m (2013: £125.3m).

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.

	2014 £m	2013 £m
Short-term employee benefits	4.3	3.4
Post-employment benefits	0.3	0.2
Share-based payments expense	1.8	1.2
	6.4	4.8

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

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Year ended 31 March 2014

51. Share-based payments

During the year ended 31 March 2014, the Company had five (2013: five) share-based payment arrangements, which are described in note 36.

	LTIP	SAYE	ESOP	KEIP	DBP
2014					
Number					
Outstanding at 1 April 2013	3,634,771	185,689	1,255,000	72,295	256,995
Transfer	—	—	—	—	—
Granted	1,721,835	12,959	—	—	—
Lapsed	(898,463)	—	—	—	—
Forfeited	(91,069)	(37,391)	—	—	—
Exercised	(269,542)	(19,907)	(300,000)	—	—
Outstanding at 31 March 2014	4,097,532	141,350	955,000	72,295	256,995
Exercisable at 31 March 2014	—	4,535	955,000	72,295	256,995
Weighted average exercise price (£)					
Outstanding at 1 April 2013	—	1.96	1.42	1.92	—
Transfer	—	—	—	—	—
Granted	—	1.92	—	—	—
Lapsed	—	—	—	—	—
Forfeited	—	2.15	—	—	—
Exercised	—	1.78	0.94	—	—
Outstanding at 31 March 2014	—	1.93	1.57	1.92	—
Exercisable at 31 March 2014	—	3.42	1.57	1.92	—
Range of exercise price of options outstanding at 31 March 2014					
£0.01 to £0.99	—	—	—	—	—
£1.00 to £1.99	—	133,535	955,000	72,295	—
£2.00 to £2.99	—	2,390	—	—	—
£3.00 to £3.99	—	5,425	—	—	—
Weighted average remaining contractual life	2	2	1	1	1
Weighted average fair value of options awarded in 2014	£2.00	£0.84	—	—	—

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

The weighted average share price at the date of exercise for share options exercised during the year was £3.03 (2013: £1.66).

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 are set out in note 36.

The Company recognised total expenses of £2.1m (2013: £1.6m) related to equity-settled share-based payment transactions.

52. Retirement benefit schemes

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

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Year ended 31 March 2014

53. Share incentive reserve

	£m
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 1 April 2013	3.9
Share-based payment charges in the year	2.1
Share options exercised in year	(0.7)
Balance at 31 March 2014	5.3

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
- intercompany 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:

	2014 £m	2013 £m
Shareholders' funds	261.5	263.2
Revolving credit facilities	135.3	129.6

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 primarily relates 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
2014			
Under 2 months	0.3	19.4	19.7
Between 2 and 6 months	0.6	3.0	3.6
Between 6 and 12 months	0.8	—	0.8
Between 1 and 2 years	1.7	—	1.7
Between 2 and 3 years	135.8	—	135.8
Between 3 and 4 years	—	—	—
Total	139.2	22.4	161.6

	Bank overdrafts and revolving credit facilities £m	Trade, other and group payables £m	Total £m
2013			
Under 2 months	0.3	17.9	18.2
Between 2 and 6 months	0.5	2.1	2.6
Between 6 and 12 months	0.8	—	0.8
Between 1 and 2 years	1.7	—	1.7
Between 2 and 3 years	1.7	—	1.7
Between 3 and 4 years	130.1	—	130.1
Total	135.1	20.0	155.1

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

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Year ended 31 March 2014

54. Financial instruments (continued)

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).

	2014	2013
Increase in interest rate	10%	10%
Reduction in profit before tax (£m)	0.2	0.1

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	
	2014 £m	2013 £m	2014 £m	2013 £m
Euro	9.5	2.4	(114.0)	(94.2)
US dollar	1.3	1.1	(42.7)	(43.5)

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.

	2014	2013
Increase in £:\$ exchange rate:	10%	10%
Effect on profit before tax (£m)	3.8	3.9
Effect on equity (£m)	3.8	3.9
Increase in £:€ exchange rate:	10%	10%
Effect on profit before tax (£m)	9.5	8.4
Effect on equity (£m)	9.5	8.4

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 the bank overdrafts and the revolving credit facilities, all of the Company's financial liabilities are due for payment within six months, based on contractual payment terms.

Five year summary

Continuing operations

Unaudited	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
External revenue					
UK	283.1	302.0	349.4	355.8	286.7
USA	110.9	100.8	82.3	52.6	25.7
France	77.3	73.8	31.2	—	—
Spain	82.6	60.5	60.2	48.8	46.9
New Markets	14.4	9.4	11.6	9.9	9.7
External sales	568.3	546.5	534.7	467.1	369.0
Profit/(loss)					
UK	53.4	78.3	103.1	104.3	95.8
USA	12.9	9.5	9.0	6.1	1.5
France	22.3	21.5	15.3	5.2	3.6
Spain	4.0	3.1	2.8	1.7	0.4
New Markets	(5.7)	(4.8)	(3.4)	(1.1)	1.1
	86.9	107.6	126.8	116.2	102.4
Amortisation of acquisition intangibles	(13.0)	(13.4)	(10.4)	(9.3)	(6.5)
Exceptional items	(46.7)	(25.1)	(31.1)	—	10.2
Operating profit	27.2	69.1	85.3	106.9	106.1
Net interest	(2.8)	(2.6)	(2.2)	(2.1)	(3.9)
Gain on re-measurement of joint venture interest on acquisition of control	—	—	54.9	—	—
Profit before tax	24.4	66.5	138.0	104.8	102.2

France was formerly referred to as Doméo. On 7 December 2011, the Group acquired 100% ownership of Doméo in France. Prior to this, the Group owned 49%.

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Shareholder information

Financial calendar

2014

18 July	Annual General Meeting
1 August	Final dividend for the year ended 31 March 2014
18 November	Interim results for the six months ending 30 September 2014

2015

January	Interim dividend for the year ending 31 March 2015
May	Preliminary results for the year ending 31 March 2015
June	2015 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.