Homeserve plc

2006
Report & Accounts

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Highlights of the Year

Continuing Operations

	2006	2005	Increase
Revenue	£367m	£221m	66%
Operating Profit*	£54.4m	£42.2m	29%
Profit before Tax*	£53.6m	£41.9m	28%
Profit before Tax	£50.0m	£38.8m	29%
Earnings Per Share*	59.2p	47.2p	25%

Total Group - including discontinued operations

	2006	2005
Revenue	£369m	£281m
Profit for the year	£34.4m	£7.2m
Total Basic Earnings Per Share	55.1p	11.6p

- **Operating profit* increased by 29% to £54.4m**
- **Cash generated from continuing operations of £55.6m**
- **UK utility branded policy growth of 30% to 4.97m**
- **International making good progress, signed fifth marketing agreement in US and agreed a test in Spain**
- **Brought together comprehensive range of emergency trades into an integrated offering**
- **Acquisitions of Chem-Dry and Improveline performing well. Acquired glazing division of Pilkington Building Products in April 2006**
- **Earnings per share* from continuing operations increased 25% to 59.2p**
- **Dividend per share increased by 25% to 20.0p**

* excludes amortisation of acquisition intangibles of £3.6m (2005: £0.3m) and exceptional bad debt charge of £nil (2005: £2.8m) as set out in the Financial Review and notes 4 and 13.

Chairman's Statement

Brian Whitty Executive Chairman

Homeserve has had another very successful year, building upon its position as an innovative market leader in both of its Policy Membership and Emergency Repair businesses. Within the Policy Membership division, the UK business has again delivered outstanding policy growth. The Emergency Repair division has seen high levels of activity and benefited from its unique ability to combine repair networks across most trades as a package for Household Insurers.

Results

Revenue from continuing operations increased by 66% to £367m (2005: £221m). Profit before tax* increased by 28% to £53.6m (2005: £41.9m) and earnings per share* increased by 25% to 59.2p (2005: 47.2p).

Profit before tax increased by 29% to £50.0m (2005: £38.8m) and total basic earnings per share increased to 55.1p (2005: 11.6p).

The Board is proposing a final dividend of 13.9p per share to be paid on 7 August 2006, which brings the full year dividend to 20.0p per share, a year on year increase of 25%.

Net debt at 31 March 2006 was £16.3m (2005: net cash £11.2m). Cash generated by operations amounted to £55.6m which has principally been invested in acquisitions (£34.7m) and the purchase of shares by the Homeserve Employee Trust in respect of share incentive plans (£8.2m).

Our results continue to be analysed between Policy Membership and Emergency Repair, which is consistent with our internal reporting structure.

Policy Membership

The Policy Membership business increased revenue by 26% to £161m (2005: £128m), with operating profit* increasing by 9% to £41.3m (2005: £37.7m).

Homeserve GB, the UK policy business, achieved an increase in policies and customers of 30% and 22% respectively, with the recent mailing campaigns performing particularly well. Homeserve GB delivered strong growth of 20% in operating profits, in part offset by increased investment in our international business development and a loss in our Retail Warranties business.

* excludes amortisation of acquisition intangibles of £3.6m (2005: £0.3m) and exceptional bad debt charge of £nil (2005: £2.8m) as set out in the Financial Review and notes 4 and 13.

innovative...

"...Homeserve has had another very successful year, building upon its position as an innovative market leader..."

Investment in organic growth in our international operations increased by £1.5m to £2.6m during the year. Doméo, our French operation is performing well with our 49% share of the joint venture generating an operating profit of £0.8m and with the number of policies increasing by 49% to 0.42m.

The US operation increased its policy base three fold to 0.13m and significantly strengthened its management team. We signed our fifth marketing agreement in the US in May 2006 with CEMC, a major energy utility based in Georgia, providing access to 0.4m homes. We also agreed with our existing partner, Aqua America, to extend into three more of their territories. This brings the total number of US households to which we have access to 1.4m. In April 2006 we reached agreement with a major Spanish utility to commence a test of our electrics policy in September 2006.

Our Retail Warranties business has continued to experience difficult trading conditions in the furniture retail market and made an operating loss of £1.5m (2005: £1.4m profit). We have reduced the operating cost base of this business, which combined with new retail clients, is now beginning to be reflected in improved performance. Within Manufacturer Warranty, we have achieved strong policy growth.

Emergency Repair

The Emergency Repair business has increased revenue to £218m (2005: £100m) with operating profit* increasing by 192% to £13.1m (2005: £4.5m).

These results include revenue and operating profit of £64m and £3.9m respectively, from acquisitions in the year, principally Chem-Dry, acquired in April 2005, and Improveline, acquired in December 2005. The year on year growth in revenue and operating profit* was 54% and 106% respectively, including a full year contribution from Homeserve Property Repairs, acquired in December 2004.

The Glass, Locks, Plumbing and Drains business had an outstanding year completing the turnaround programme. This will result in a final earn-out payment of £13.7m, which is in line with our original estimate at the time of acquisition in 2002.

We completed the acquisition of the glazing division of Pilkington Building Products in April 2006 at a cost of £6.5m. This business brings complementary customers and will be fully integrated into our existing glazing network.

Chairman's Statement

Over the last twelve months we have brought together a comprehensive range of emergency trades into a unique integrated offering for Household Insurers, acquiring businesses in fire and flood, property repairs and glazing to complement our existing operations.

Employees

The commitment to our successful growth and the dedication of all of our employees has continued and I would like to thank them all for their contribution to another outstanding year.

Prospects

Homeserve will continue to develop its innovative Home Emergency business where each of our chosen markets has significant potential for further growth.

Our Policy Membership business is expected to continue to increase its market penetration in the UK and further develop its international operations, replicating the proven UK model for successful growth. Internationally, our focus will continue to be on signing new water and energy company partners in the US and further developing our operations in France and Spain.

Our Emergency Repair business is expected to build on its unique ability to provide a fully integrated range of trades on behalf of Household Insurers. We aim to achieve this by extending this model to other Household Insurers, where we believe there is a significant market opportunity, and by ensuring that each of our operations provides market leading levels of efficiency and customer satisfaction.

Homeserve looks forward to the coming year with confidence. Our existing businesses, both in the UK and internationally, are well positioned for continued organic growth in policy numbers and profits and we will continue to seek strategic acquisitions for Policy Membership and Emergency Repair.

Brian Whitty
Executive Chairman
22 May 2006

Homeserve
home emergency service

Chief Executive's Review

Richard Harpin Chief Executive

Our vision is to be "Your Home Emergency Service Worldwide" providing insured repair solutions to customers' homes via major business partners. This service is provided by selling policies to cover home emergencies and carrying out high quality repairs. We operate networks covering a full range of trades, which completed over 1.1m repairs in the year.

Our strategy is to be the leading provider of home emergency services in the UK and to replicate this internationally. We have made good progress both in France and the US on policy sales and have developed our own claims management operations. In April 2006, we signed a marketing agreement to commence testing in Spain.

Our Policy Membership business in the UK and International including Manufacturer Warranty, has grown by 34% to a total of 5.7m policies in the year (2005: 4.2m). We provide underwritten cover for a broad range of domestic emergencies branded to our business partners in the utilities, appliance manufacturing and retail sectors. Our policies include cover for plumbing and drains and water supply pipes, electrical wiring, gas central heating and appliances, gas supply pipe cover, electrical appliances and furniture.

Our Emergency Repair business is a market leader providing a comprehensive range of domestic emergency repair trades to homeowners via Household Insurers for repairs following break-ins, storm and water damage as well as claims by our own policyholders. The acquisitions of Chem-Dry and Improveline during the year, together with the glazing repair division of Pilkington Building Products in April 2006, have significantly enhanced our repair capabilities and extended our relationships with Household Insurer business partners. Homeserve is now uniquely positioned to provide a national fully integrated repair service across all of these trades and in November 2005 we commenced our first groundbreaking outsourced multi trade contract with Liverpool Victoria.

In addition to employing almost 1,000 of our own engineers, we operate subcontract and franchise networks of almost 4,000 engineers. Whilst these networks are highly complementary, our strategy is to increase the proportion of work we do using our own Homeserve branded directly employed operatives, delivering increased productivity, quality and customer service through more direct control. We plan to do this both organically and through acquisition.

* excludes amortisation of acquisition intangibles of £3.6m (2005: £0.3m) and exceptional bad debt charge of £nil (2005: £2.8m) as set out in the Financial Review and notes 4 and 13.

our vision...

"...is to be 'Your Home Emergency Service Worldwide'..."

Our recent acquisitions are performing well and we have again achieved outstanding levels of policy growth combined with revenue of £367m and operating profit* of £54.4m.

Policy Membership Division

Revenue and operating profit* from these businesses increased by 26% and 9% to £161m and £41.3m respectively. The underlying growth in Homeserve GB operating profit was 20%.

Homeserve GB

This has been another record year for the utilities branded policy business which provides plumbing and drainage cover together with a range of other emergency policies to customers of water and energy companies and other affinity partners. We combined the highest ever levels for new customer and policy numbers with excellent profits growth. We have continued to increase our penetration in the UK market where policies increased by 30% from 3.82m to 4.97m over the year:

- 3.35m in plumbing and drains and water supply pipe (2005: 2.76m)
- 0.76m in electrical (2005: 0.60m)
- 0.86m in other including gas supply pipe and housebuilder (2005: 0.46m)

The total number of new policies sold during the year in the UK set a new record at 1.63m (2005: 1.3m). The number of customers increased by 22% to 2.79m (2005: 2.29m) achieving 1.78 policies per customer compared to 1.66 in March 2005 and 1.73 in September 2005.

The final quarter mailing campaigns incorporated all of our relevant learning to date on direct mail and performed exceptionally well both for new customer acquisition and cross sell.

We have continued to support our direct mail campaigns with the use of cost effective outbound telesales for cross sell activity. The total number of call centre agents including outbound has increased to 497 from 436 last year, and our outbound agents achieved policy sales of 0.45m (2005: 0.4m). Average acquisition costs per policy have remained stable.

Underlying retention rates for the majority of customers in their second and subsequent year of membership on our standard plumbing and drains policies remains in excess of 88%. However, overall retention rates decreased from 88% to 87% reflecting the increased level of innovative new offers and promotions, which have achieved excellent response rates but with slightly reduced renewal rates for new customers at their first renewal. The proportion of customers using continuous payment methods such as direct debit increased to 89% (2005: 85%).

what our partners say...

"Five years on, the results are impressive; more than 400,000 policies subscribed and the creation of Doméo Assistance, to provide a claims handling service as part of the Doméo business, which can only further improve the quality of service we provide. This service will have a positive impact on Veolia Eau's image, as well as very promising financial results."

Antoine Frérot, Chief Executive Officer, Veolia Water, Doméo's joint venture partner in France

Our 48 hour call backs to customers who have made a claim enable us to directly measure customer satisfaction following a repair and to monitor and improve the performance of our repair networks. Customer satisfaction for the core plumbing and drains product remains at a high level of 96% and importantly the proportion of customers rating our service as outstanding has increased from 15% to 20%.

International

We are making good progress in the development of our existing international business where revenue increased by 92% to £6.3m (2005: £3.3m). The operating loss for the international businesses of £2.6m (2005: £1.1m loss) reflects the increased investment in management resource, primarily in the USA, partly offset by a profit from our French joint venture. The number of international policies increased by 75% to 0.55m during the year. Our strategy remains one of replicating the proven UK model of water and energy company branded, underwritten emergency policies offered via direct marketing and outbound telesales.

Doméo, our 49% owned joint venture in France with Veolia performed particularly well and is now reaching critical mass. The company achieved turnover and operating profit of £8.8m and £1.6m respectively, of which our share amounts to £4.3m and £0.8m respectively. The number of policies increased by 49% from 0.28m to 0.42m during the year bringing policies per customer to 1.5 (2005: 1.4). Retention rates of 87% are in line with those achieved in the UK. Doméo now employs 85 staff (2005: 49), including 18 outbound telesales agents.

There are approximately 12m owner occupied houses in France of which Veolia provides water to 4.5m. During the year we sent out over 16.8m (2005: 11.0m) door to door and solus mailings, marketing to over 9m households. In February 2006 we took the important step of bringing claims management in house. Our objective is to replicate our proven approach in the UK of direct management of our repair networks, which will improve service delivery and reduce repair costs.

what our partners say...

"This relationship benefits our own company reputation. It really is an opportunity for us to show that we care about the added value service to our customers that this relationship brings. We are able to demonstrate to our customers that we care beyond the strict level of our water supply responsibilities."

Tony Harding, CEO, United Water

The US business has achieved strong policy growth with its existing affinity partners and now has 0.13m policies (2005: 0.03m). In particular, we have grown the United Water LeakGuard policy base, acquired in May 2005, by almost 80% in 12 months from 41,000 to 73,000 demonstrating that we can add significant value to acquired policy bases both through new customer acquisition and cross selling other products.

In May 2006 we signed a five year marketing agreement with our fifth business partner, CEMC, based in Georgia. CEMC, an electricity and gas utility with access to 0.4m households provides significant potential given the limited marketing activity to date. This is an exciting opportunity particularly since it is our first energy company agreement. We will market our policies using the CEMC brand. We have also recently secured agreement with one of our existing partners, Aqua America, to market our policies to their customers in Texas and North Carolina from July 2006 and Illinois from February 2007, amounting to 0.2m households. This brings the total number of households served by our five partners to approximately 1.4m.

There are over 70m owner occupied houses in the US and our experience to date is that our policies sell well once we have an affinity partner agreement in place. Over the last 12 months we have significantly increased the level of senior management resource dedicated to new business development and our pipeline of potential partners continues to develop. Our original target of water companies has been extended to include electricity and gas companies, where the largest 50 companies supply 49m households compared to the largest 50 water companies, which supply 8m households.

In April 2006 we successfully reached agreement with one of Spain's largest utility companies to trial our policies with up to 0.1m households. This represents a significant market opportunity. In the meantime we are continuing to progress our discussions with a number of other leading water and energy companies in Spain.

Homeserve
Your home
Homeserve

what our partners say...

"Homeserve Warranties have been instrumental in bringing the Halfords Car Breakdown Service to market, demonstrating innovation and flexibility during development and implementation. The organisation delivered everything promised on time, reflecting a shared vision and business approach which Halfords looks for in all its business partners."

Keith Scott, Halfords Limited

Retail and Manufacturer Warranties

Our retail and manufacturer warranty businesses were fully integrated during the year under the new management team. This has enabled the combined operation to develop and share common operating practices and systems and to share economies of scale and best practice.

We have grown our manufacturer warranty policies by 60% to 144,000 (2005: 90,000). Our client base includes The Vaillant Group, Rangemaster (part of the AGA Foodservice Group), Ideal Boilers, Mira Showers, Creda Heating, Sime Boilers, Redring and Xpelair, all of which have experienced good policy growth.

We have been successful in driving policy growth through improved direct marketing which has increased warranty card registration rates and the take up rates of these registered customers to fully paid warranties and related service polices. These warranty and policy sales are generally on products with long lifecycles (eg boilers) and therefore have a good renewal income stream thereby creating an attractive business model. We have also started to cross sell our other Home Assistance policies to these customers.

Our furniture warranty business, which provides fully underwritten furniture cover, operates in the furniture retail market, which remains difficult. However, we have successfully secured several new accounts including Floors-2-Go, Reids, Debenhams, Halfords and over 20 independent regional retailers. During the year we have reduced the cost base of the business and focused on improving the efficiency of the upholstery repair network, implementing improved scheduling and routing systems, which have already enabled us to achieve an increase in the number of jobs completed per day of over 25%. Despite the difficult trading conditions, we believe that the business under the new management team is recovering and we expect it will generate satisfactory returns in the medium term.

what our partners say...

"Liverpool Victoria were delighted to announce their new partnership deal with Homeserve Property Repairs, for the full outsourcing of their 'Building Claims' over a 3 year period. Together we challenged current market thinking and removed the duplicated processes that get in the way of a speedy solution to the customers' buildings claim problem. Building claims are settled in under 40 days where the industry remains at over 100 days."

John Bannon, Liverpool Victoria

Emergency Repair Division

Revenue from these businesses increased by 118% to £218m and operating profit* increased by 192% to £13.1m. The acquisitions of Chem-Dry in April 2005 and Improveline in December 2005 contributed revenue and operating profit* of £64m and £3.9m respectively. Homeserve Property Repairs, acquired in December 2004, contributed its first full year revenues of £54m (2005: £13m) and operating profit* of £1.5m (2005: £0.1m).

Homeserve Emergency Services continues to be an innovative market leader. The acquisitions have brought complementary trades, networks and customers, ensuring that we are able to provide an integrated range of emergency repair trades to homeowners via their Household Insurers, as well as to our own policy members.

We commenced a groundbreaking multi trade outsourced contract with Liverpool Victoria in November 2005 with estimated sales in excess of £66m over three years. Liverpool Victoria has outsourced the management, negotiation and settlement of all of its building claims with a high level of delegated authority per claim. This operating model enables us to achieve significant efficiencies and cost savings for Household Insurers. There is also improved customer satisfaction through reduced claims lead times.

Our intention is to roll this model out with other insurers, using our complement of trades to manage a claim from initial fire or flood through to a permanent building repair. This is a unique offering in a market which is highly fragmented with many repairs still being performed by local builders.

We have achieved a significant enhancement in performance in our Glass, Locks, Plumbing and Drains business. The investment in operational and system enhancements that have enabled us to achieve a market leading performance are directly transferable to our other networks and will ensure that we share the same systems, best practices and operating models in order to deliver the best possible service.

We opened our first multi trade depot in February 2006, in St Albans, which will act as a blue print for other major locations. This is the first depot of its kind and is designed to improve communication and efficiency and the passing of claims from one trade to the next. The branch incorporates a comprehensive training and assessment facility for our engineers where we continue to invest in skills development and service orientation. Our business model continues to be one of employing high quality branch managers controlling an average of 12 engineers for a single national trade to achieve consistent quality and efficiency.

Homeserv
0800 29 30

what our partners say...

"They deliver service levels that our customers expect and the growth of the policy base has exceeded expectations."

Craig Moore, Insurance Services & Regulatory Compliance Manager, Thames Water

Glass, Locks, Plumbing and Drains

The business delivered an outstanding performance during the year completing the turnaround programme. Despite reduced claims due to mild weather conditions, the business has benefited from the introduction of a more efficient workflow management system which has enhanced engineer productivity together with the successful implementation of new IT systems reducing central and branch administration costs. The Fitter Package, our engineer incentive scheme, is now operating in all of our Glass and Locks branches following successful trials during the year and is delivering improvements in service delivery and productivity of up to 20% combined with a marked reduction in engineer labour turnover from 50% to 25%.

The directly employed Glass and Locks network comprises over 300 employed engineers covering repair and replacement of glass, frames, locks, garage doors, greenhouses and conservatories, and operates from 36 branches nationally. The operational improvements achieved in this business have enabled the conversion of insurance leads to sales to be increased from 85% to 90%, a key measure of our efficiency.

The acquisition of the glazing division of Pilkington Building Products in April 2006 brings a complementary Household Insurance customer base together with an additional 44 directly employed glaziers supported by a national subcontract network. The network includes a glazing capability for small and medium sized enterprises which is an important step in providing full support to a number of our insurance partners in relation to landlord premises and small shops. The existing seven branches will be integrated within our network over the coming months and build on what is now a highly efficient business.

The national directly employed Plumbing and Drainage network works for a range of leading Household Insurers in addition to completing approximately 25% of the repairs for our own policy base. The directly employed model enables us to more effectively manage high quality service delivery for both the initial emergency repair and in many cases a more permanent second fix repair. This will be further enhanced by the rollout of the Fitter Package to this network over the coming year following its successful implementation in Glass and Locks.

Homeserve

what our partners say...

"Even after 8 years of working closely with Homeserve, we are impressed by their responsiveness and the excellent value of Home Emergency products for our customers here in the South West."

Bob Baty, Chief Executive, South West Water Limited

The expansion of this business together with the Glass and Locks operation has been significant and in October 2006 we will move to a new purpose built call centre in Norwich with capacity for over 280 employees.

Permanent Repair

Homeserve Property Repairs

Homeserve Property Repairs, which was acquired in December 2004, is one of the UK's leading permanent repair networks working for Household Insurers, providing permanent domestic repairs including plastering and decorating arising from the escape of water, storm, fire and accidental damage. The network comprises over 290 independent contractors managing approximately 6,000 claims per month. Operating from a new call centre near Nottingham, this business has continued to deliver operational excellence and in particular has continued to reduce the average claims cycle from 61 to 39 days, compared to a market average of over 90 days. As a result, the inconvenience caused to householders following a major emergency and the cost to the Household Insurer are significantly reduced.

A testament to this success was the commencement of a groundbreaking multi trade outsource contract for Liverpool Victoria in November 2005 for the management, negotiation and settlement for all building claims with a high level of delegated authority. This service is fully personalised to Liverpool Victoria with 30 dedicated employees. We are now completing over 2,000 claims per month across all trades with 5% of these claims generating fire and flood work for Chem-Dry. Acting as a single point of contact for Liverpool Victoria throughout the claims process has reduced the administration costs and life cycle associated with a claim and increased customer satisfaction which is running at 97%. This contract is estimated to generate revenues of over £66m over three years.

Improveline

The acquisition of Improveline in December 2005 represented a further significant step in the development of our permanent repair networks. The acquisition extended our relationships with five leading Household Insurers across the building repair trades and brought the knowledge and experience associated with managing a directly employed network of permanent repair operatives.

Homeserve
0800 29 30 31

what our partners say...

"Homeserve Warranties have designed a unique warranty offer for our customers covering their new flooring against accidental damage & stains. This exclusive service covers both wood and laminate flooring. The enthusiasm, commitment and willingness of both companies will result in the ultimate goal of Floors-2-Go which is to offer excellent customer service."

Andy Acton, Commercial Director, Floors-2-Go

Since its acquisition we have increased the number of branches from four to eight and the number of directly employed engineers has increased from 155 to 187. Prior to acquisition, Improveline successfully developed and implemented leading mobile data technology for on site survey, job costing and management, automatically updating the workflow management system to ensure maximum efficiency. This technology has the ability to keep the Household Insurer constantly up to date with our progress during the claims cycle and will be directly transferable to a number of our other businesses. Improveline was recently awarded a pilot test of 500 claims under delegated authority for all property repairs on behalf of a major Household Insurer operating a building repair model similar to that used for Liverpool Victoria.

Fire and Flood Restoration

Chem-Dry, acquired in April 2005, provides a fire and flood restoration service on behalf of Household Insurers together with carpet and upholstery cleaning services. This business often provides the first repair service into a home following a disaster, placing us in a unique position to offer a fully integrated service through to a permanent building repair.

The business, which operates a national network of over 230 franchisees, has performed well in the year. As part of our strategy to increase the proportion of work we complete using our own directly employed operatives, we acquired two franchises during the year and one in April 2006, to complement the existing three company owned franchises. These acquisitions are being integrated and we plan to make further acquisitions over the coming year using the same integration model.

During the year we have successfully developed and introduced innovative technology to extract water from the air, reducing drying time by up to 75%, and reducing claim costs and duration. We are currently developing remote monitoring of this drying process to reduce engineer visits and further enhance our productivity.

Chem-Dry recently launched a trial of carpet inspection, cleaning and replacement on behalf of one Household Insurer, and has two further trials due to start shortly. Carpet replacement is estimated to cost insurers over £200m per annum and we are well placed to significantly reduce this by providing a high quality clean as a cost effective alternative to replacement, or where that is not possible, ensuring that the replacement is like for like and cost effective.

what our partners say...

"It made a lot of sense to go with a company that had already proven how to do it right and were experts in the field. That way, we were able to participate without being distracted from our core business. They know what they're doing, they do it right and that allows me not to worry about this program."

Rick Fox, Vice President Customer Operations, Aqua America

Claims Management

Homeserve Claims Management provides claims handling for our own policy holders and a home assistance helpline for emergency repairs for Household Insurers and other customers in the financial sector. It operates a national subcontract network which covers a broad range of trades, complemented by our directly employed networks for plumbing and drains, gas and permanent repairs. We managed 650,000 repairs during the year (2005: 520,000) and received over 2.4m inbound calls (2005: 2m).

During the year we awarded our 40 best performing plumbing and drainage contractors Premier Contractor status. In return for greater repair volumes, Premier Contractors are expected to invest in systems to accept electronic deployment and job management in order to speed up contractor arrival times and provide full visibility of a claim from start to finish so that the process can be more effectively managed at the same time as improving customer satisfaction levels. 80% of our plumbing and drainage repairs are electronically deployed at pre agreed authority levels by type of repair. During this coming year we plan to trial the use of hand held devices for individual contractor's engineers to further improve efficiency and service. We also expect to trial Homeserve's red vehicle liveries with a number of selected Premier Contractors over the coming months.

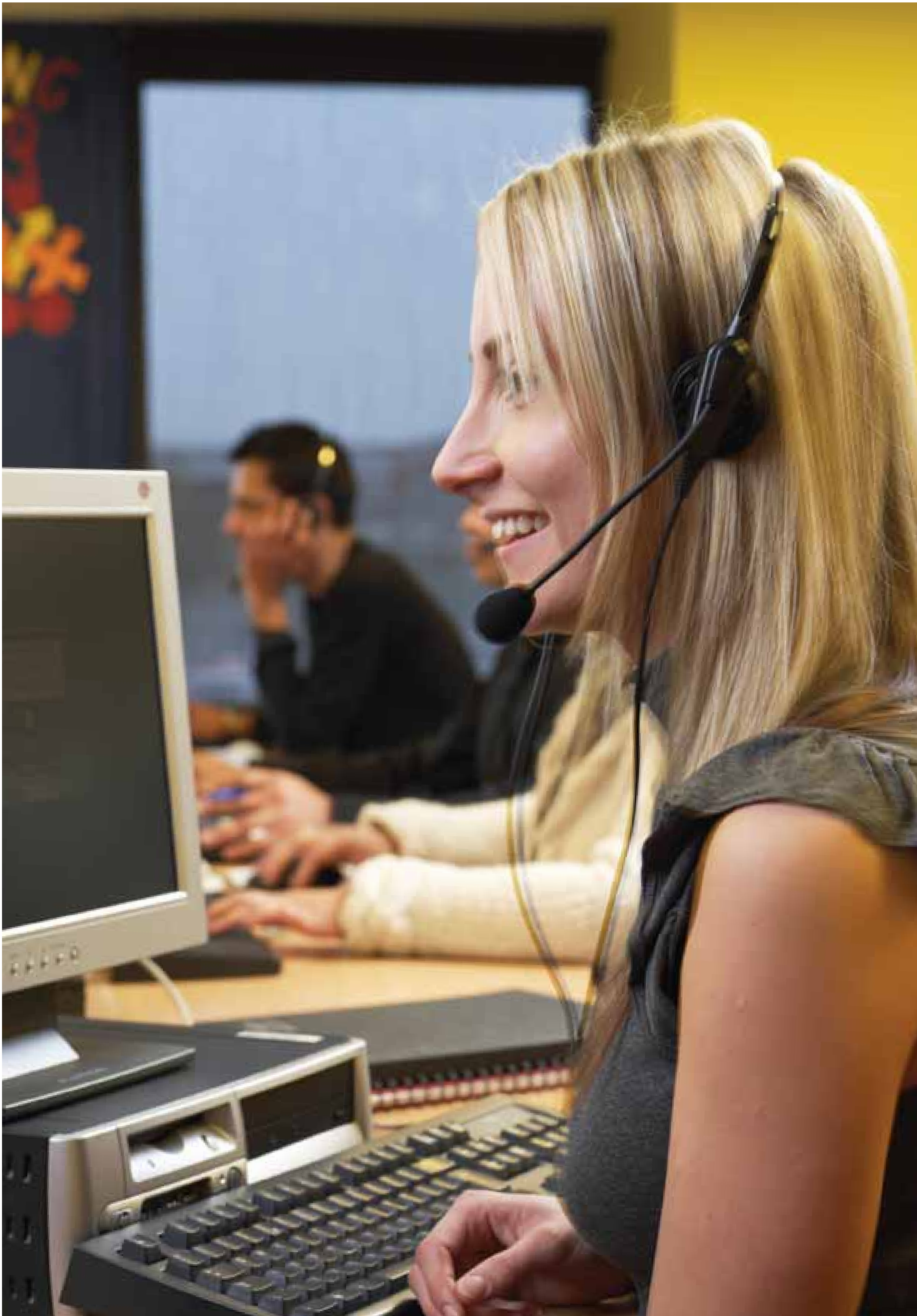
In November and December 2005 Royal and Sun Alliance and DAS respectively outsourced their domestic emergency claims handling, contractor network management and some out of hours support to Homeserve. These are expected to generate additional revenues of up to £0.9m.

Overview

This has been another exceptional year for Homeserve both for Policy Membership, which achieved record levels of new policies in the UK and internationally, and Emergency Repair where our comprehensive range of trades have been brought together into a single offering working on behalf of Household Insurers.

We will continue to focus on increasing market penetration for our Policy Membership business in the UK and internationally, where we believe there is a significant market opportunity. Our Emergency Repair offering is unique in the market and we plan to strengthen our position as a leading provider by increasing the proportion of repairs we perform using directly employed operatives and seeking to secure further outsourced multi trade contracts from Household Insurers.

Richard Harpin
Chief Executive
22 May 2006



Financial Review

Andrew Belk Finance Director

These results have been prepared in accordance with International Financial Reporting Standards (IFRS), with the prior year comparatives restated from those previously reported under United Kingdom Generally Accepted Accounting Policies.

Group Results

£'million	2006	2005
Revenue	367.0	220.7
Operating profit*	54.4	42.2
Amortisation of acquisition intangibles	(3.6)	(0.3)
Exceptional bad debt charge	—	(2.8)
Operating profit	50.8	39.1
Interest	(0.8)	(0.3)
Profit before tax	50.0	38.8

Total revenue has increased by 66% to £367.0m (2005: £220.7m) reflecting continued growth across our businesses with acquisitions contributing £65m.

Operating profit* has increased by 29% to £54.4m (2005: £42.2m). Operating profit* excluding the contribution from the acquisitions in the year of £3.8m, is £50.6m (2005: £42.1m), representing growth of 20%. The impact of recording the fair value of share scheme awards has reduced operating profit by £2.1m (2005: £1.0m) and remains well within our guidance of 5% of operating profit.

The amortisation of intangible assets on acquisitions amounts to £3.6m (2005: £0.3m) and principally relates to customer and other contracts held by the acquired entities at the time of acquisition. In 2005, an exceptional bad debt charge of £2.8m was incurred following the appointment of an administrator to Courts plc in November 2004. There are no exceptional charges in 2006.

Operating profit has increased by 30% to £50.8m (2005: £39.1m).

The net interest charge for the year amounts to £0.8m (2005: £0.3m), which was covered 70 times by operating profit*.

The effective rate of tax for 2006 is 31.1% (2005: 30.4%) and has increased principally as a result of the additional investment in our international operations.

Earnings per share* for continuing operations is 59.2p (2005: 47.2p) an increase of 25%.

Total basic earnings per share, including discontinued operations in 2005, amounts to 55.1p (2005: 11.6p).

outstanding...

"...Homeserve generated cash from operations of £55.6m..."

Segmental Analysis

Homeserve reports its results under two primary segments: Policy Membership and Emergency Repair.

£'million	2006	2005
Revenue		
Policy Membership	161.4	128.2
Emergency Repair	218.1	100.2
Elimination of intra-group revenue	(12.5)	(7.7)
	367.0	220.7
Operating profit*		
Policy Membership	41.3	37.7
Emergency Repair	13.1	4.5
	54.4	42.2

The Policy Membership business achieved an operating profit* of £41.3m (2005: £37.7m), an increase of 9%. This is after International investment of £2.6m (2005: £1.1m) and an operating loss of £1.5m (2005: £1.4m profit) in Retail Warranties. Homeserve GB increased its operating profit* by 20%.

The Emergency Repair businesses achieved an operating profit* of £13.1m (2005: £4.5m), an increase of 192%, including £3.9m from acquisitions made during the year and the full year contribution from acquisitions made in the previous year.

Glass, Locks, Plumbing and Drains, originally called Highway and acquired in 2002, achieved an operating profit*, which will result in a final earn-out payment of £13.7m. This is in line with our original estimate at the time of acquisition but is ahead of that provided at 31 March 2005 of £4.1m, reflecting the strong performance in the year.

Operating margins* have decreased during the year to 15% (2005: 19%) as a result of the increased investment in our International businesses, the operating loss at Retail Warranties and higher proportion of Emergency Repair revenue, where margins are lower. Within Policy Membership, operating margin* decreased to 25% (2005: 29%). The Emergency Repair businesses increased operating margin* to 6% (2005: 4%), where operating improvements in Glass, Locks, Plumbing and Drains have more than compensated for the impact of the growth in our subcontract and franchise operations where margins are typically lower.

The adjustment necessary to eliminate intra-group revenue has increased to £12.5m (2005: £7.7m) reflecting the increased activity undertaken by our repair trades on behalf of Policy Membership customers.

* excludes amortisation of acquisition intangibles of £3.6m (2005: £0.3m) and exceptional bad debt charge of £nil (2005: £2.8m) as set out in this review and notes 4 and 13.

Financial Review

Dividends

The Board is proposing a final dividend of 13.9p per share. This, combined with the Group's interim dividend of 6.1p per share brings the total for the year to 20.0p per share, an increase of 25%. The final dividend if approved, will be paid on 7 August 2006 to members on the register on 2 June 2006.

Key Performance Indicators

In order to assist in the management of the business and to provide evidence of achieving its strategies, the Board regularly reviews a number of key financial and non-financial performance indicators. These are as follows:

	2006	2005
Group-wide - continuing		
Profit before tax*	£53.6m	£41.9m
Earnings per share*	59.2p	47.2p
Policy Membership		
Policy numbers (total)	5.7m	4.2m
Retention rates	87%	88%
Emergency repair		
Completed repairs	1.1m	0.9m
Operating margin	6%	4%

Acquisitions

Homeserve has completed a number of acquisitions during the year, investing £34.7m, net of cash acquired of £4.7m with estimated deferred consideration of £4.0m.

Chem-Dry UK Limited and its related businesses were acquired for cash consideration of £16.1m, net of cash acquired of £2.6m on 14 April 2005. Chem-Dry is a group of companies involved in fire and flood restoration and upholstery cleaning and operates through a national network of franchisees and directly employed engineers. Goodwill amounting to £6.8m arose as a result of this acquisition.

United Water LeakGuard Inc trading as LeakGuard was acquired for cash consideration of £1.2m on 19 May 2005. LeakGuard markets policies in the USA under the brand name United Water in a similar way to those sold by Homeserve GB in the UK. No goodwill arose on this acquisition.

National Property Solutions Limited (NPS) was acquired for consideration of £2.6m, of which £0.5m was cash consideration, on 2 August 2005. The remaining consideration, which comprised loan notes is expected to be paid during the year ending 31 March 2007. NPS manages insured home assistance policies on behalf of third party insurers. Goodwill of £2.2m arose on the acquisition.

Recommend Limited, trading as Improveline, was acquired on 16 December 2005 for initial cash consideration of £15.9m, net of cash acquired of £2.0m. Further consideration, up to a maximum of £4.0m is payable in the period to 31 March 2008, dependent upon the future performance of the business. Improveline provides permanent repairs to households on behalf of Household Insurers through a network of directly employed and subcontract engineers. Goodwill of £9.1m arose on this acquisition.

In addition, during the year a number of smaller acquisitions have been completed relating to trades and assets for a combined consideration of £0.9m. Goodwill of £0.2m arose on these acquisitions.

All of the above acquisitions have performed well following their acquisition, exceeding our original acquisition performance expectations.

The trading performance of Glass, Locks, Plumbing and Drains (formerly Highway Emergency Services Limited) has been such that additional consideration is now due to certain of its vendors amounting to £13.7m. This additional payment increases the total cost of this acquisition to £47.6m, with a corresponding increase to goodwill and is in line with the original estimate made at acquisition in July 2002.

After the year end, the business and assets of the glazing division of Pilkington Building Products was acquired for cash consideration of £6.5m on a debt and cash free basis.

Cash Flow

£'million	2006	2005
Continuing Operations:		
Cash generated by operations	55.6	42.9
Interest, tax, dividends	(25.3)	(19.4)
Net capital expenditure	(15.7)	(7.8)
Acquisitions/disposals	(36.0)	(1.2)
Share purchases	(8.2)	(8.4)
Financing	3.5	6.2
Total Continuing Operations	(26.1)	12.3
Discontinued operations, net cash flow	1.4	(3.0)
Net movement in cash and bank borrowings	(24.7)	9.3

Financial Review

Homeserve generated cash from operations of £55.6m. This represents a cash flow conversion rate of 103% (2005: 102%). Overall there was a net movement in cash and bank borrowings of £24.7m outflow (2005: £9.3m inflow) after interest, tax and dividends of £25.3m, net capital expenditure of £15.7m, acquisitions and disposals of £36.0m, purchase of shares by the Homeserve Employee Trust of £8.2m, other financing inflows of £3.5m and inflows of £1.4m relating to the former Commercial Outsourcing businesses.

Net Debt

Net debt at the year end was £16.3m (2005: net cash of £11.2m). Homeserve manages its liquidity principally through a combination of overdrafts and short and medium term revolving credit facilities. Substantially all of the Group's borrowings and undrawn facilities are at floating rates linked to LIBOR. At 31 March 2006, the group had undrawn, committed facilities amounting to £74.2m.

Consolidated Balance Sheet

The net assets of the Group have increased to £201m (2005: £177m).

Pensions

The actuarial deficit on the defined benefit pension scheme is now included on the Group's balance sheet. At the year end, the deficit amounted to £1.2m (2005: £2.6m). During the year, an additional contribution was made by the Group amounting to £2.0m in order to reduce the deficit in the scheme. This payment is not recognised in the income statement, but rather reduces the deficit recorded on the balance sheet. In addition, the Group has agreed to increase its contribution rate to 20% (2005: 16.3%) of active members' pensionable pay to further improve the funding position. Due to the limited number of active members in the scheme, this does not significantly increase the Group's charge and will not have a significant impact on the income statement in future years.

Financial Risk

As part of its ordinary activities, Homeserve is exposed to a number of financial risks, including liquidity risk, credit risk, interest rate risk and foreign exchange risk. The Group has policies and procedures on how each of these risks will be monitored and managed.

Liquidity risk relates to the Group's ability to meet the cash flow requirements of the operations, while avoiding excessive levels of debt. The Group's borrowings are principally in the form of short and medium term revolving credit facilities, which can be drawn down on demand, providing flexible access to debt when required. The amount of any committed undrawn facilities is closely monitored by the Board on a regular basis.

Credit risk principally relates to trade receivables from customers. Detailed policies and procedures for the assessment of all customers are in place including reviewing credit history and setting appropriate credit limits before trading commences.

Interest rate risk and foreign exchange rate risk are not considered to represent significant risks at this time due to the low levels of net debt held in the business and the absence of significant foreign currency transactions. However, these risks are kept under constant review and policies exist to mitigate them should they increase in significance.

Other risks and uncertainties

There are a number of other risks and uncertainties that could have a material impact on the Group's future performance.

Commercial relationships

Homeserve has close commercial relationships with a number of utility companies, Household Insurers, household appliance manufacturers and furniture retailers. The loss of these contractual commercial relationships could have a significant effect on the Group's future profitability and cash flows. This risk is managed through regular reviews and contact with the senior management of these customers in order to ensure that we respond to their needs and deliver the service that they expect.

Competitor risk

There are a number of other businesses that provide services that are similar to those of the Group and as such could compete in one or more of our chosen markets. In order to address this risk a regular review of the market and our position is undertaken and the activities of the other participants are closely monitored. The development of innovative products and solutions, addressing the needs of our customers is seen as paramount to maintaining our competitive advantage.

Financial Review

Acquisitions

The Group continues to expand through a combination of organic growth and acquisitions. The ability to effectively manage and integrate the acquired businesses represents a particular risk. Prior to making any acquisition approach a detailed assessment of the market and our existing position, together with that of the target, is undertaken. In addition, the ability to integrate the acquisitions into the existing operation is considered at the outset. We have a dedicated acquisitions team which involves and coordinates functional managers from our existing businesses and draws on the services of independent advisers when necessary. Immediately post acquisition a full internal controls benchmarking assessment is undertaken and the Group's internal control requirements are communicated and implemented as soon as practicable. The performance of acquisitions is reported and reviewed by the Board on a monthly basis.

Financial Reporting Policies

Listed companies in the UK are now required to present their financial statements in accordance with International Financial Reporting Standards. Accordingly, the accounts for the year ended 31 March 2006 have been prepared in accordance with IFRS and the comparatives have been restated.

Full details of the impact of the transition to IFRS is available on our website, a summary of which is included in Note 57 to these financial statements.

Other than in respect of the transition to IFRS, no other accounting policies have been changed during the year.

Andrew Belk
Group Finance Director
22 May 2006

success...

"...our employees are key to the current and future success of Homeserve..."

It is recognised that part of Homeserve's future success will depend on taking into account the interests of all of the stakeholders in our business including employees, customers, shareholders and the wider community. Homeserve is committed to improving its corporate responsibility activities and will continue to report on them.

Employees

Our employees are key to our success. The decision to appoint a Group HR Director in January 2006 supports our aim of becoming a recognised employer of choice. We aim to attract, develop, retain and motivate the best people to ensure we achieve our business objectives.

As Homeserve develops we place even greater emphasis on our channels of communication. Holding employee meetings ensures we keep our teams apprised of business developments, allows us to gain feedback from them, and act upon this in a timely manner. 'Homelife' our in-house magazine, is produced quarterly and is sent to all employees. This contains business news from across the Group as well as featuring updates and personal interest articles about our people.

Our annual management conference provides an opportunity to bring together the key influencers from all Homeserve businesses and was particularly useful as a mechanism for communicating the important messages arising from the rebranding of the businesses under the Homeserve brand in April 2005.

We recognise how important it is to offer a career path for our people. Our performance management review process includes discussing personal development plans so training needs can be identified, supported by our training teams in each business. A key focus is to support the training of our service engineers to ensure they have not only the skills required to perform the task, but also to understand how to deliver exceptional customer service. In addition to the programmes already in place, we intend to develop apprenticeship schemes during the coming year.

For our management population, development plans are more personalised to individual needs. By nurturing and developing our talent pool we have succession plans in place and are able to fill senior management roles in line with our growth plans.

Corporate and Social Responsibility

We believe in sharing the success of the business with our people. A Save As You Earn Scheme is operated across the Group and is a great mechanism for involving our employees in Homeserve's performance.

All employees are offered membership of a pension scheme with staff presentations being used where operationally possible to encourage full discussion of this important issue. Access is also provided to independent financial advice where required.

Homeserve GB featured for the fifth year in a row in the Sunday Times 100 Best Companies to work for. It ranked 73rd this year which is an excellent result for a business where a high proportion of staff work in a call-centre environment which traditionally has a poor reputation for employee satisfaction. Feedback from the survey is reviewed and allows us to continue to improve the working environment.

Health & Safety

Homeserve remains committed to high standards of health and safety across its business activities. A consistently good safety record is achieved through strong leadership at board level, robust health and safety management systems, the active involvement of employees, and the routine monitoring and audit of safety performance. The financial and other positive business benefits from fewer lost time injuries and reduced risks and liabilities are self-evident.

Corporate objectives and standards

Homeserve's strategy for health and safety promotes compliance with minimum standards to achieve corporate objectives. A full-time Health and Safety Adviser supports the businesses in formulating policy and in developing health and safety management systems to meet statutory obligations and to protect employees and others affected by our activities.

Our businesses operate autonomously in accordance with local health and safety policies and procedures. Each business has appointed a board member to act as champion for health and safety at board level, overseeing arrangements for the effective implementation of working practices which meet or exceed statutory requirements. Andrew Belk is the nominated Board director responsible for reporting on health and safety.

Corporate and Social Responsibility

Compliance is monitored against minimum corporate standards through routine internal health and safety audits at Group level, which evaluate performance in 15 key areas:

- Health and safety management
- Risk assessment and control
- Plant and equipment
- Employee information and consultation
- Use of hazardous substances
- Personal protective equipment
- Fire and security
- Incidents and injuries
- Monitoring and reporting
- Welfare and the working environment
- Training and competence
- Safety of the public and special risks
- Occupational health
- Working time
- Control of contractors

An ongoing programme of audits identifies areas for improvement. Priority action programmes are developed for each business, with progress monitored and reported to individual boards.

Good health and safety performance requires both the commitment and competence of managers and the engagement of employees. Excellent progress has been made in training operational managers in safety management. Local health and safety committees help raise the profile through employee involvement and ownership.

Over the past year, a significant reduction in Homeserve's overall exposure to risk has resulted from greater attention at Board and senior management level to health and safety systems and procedures. Areas of greater risk continue to be given priority.

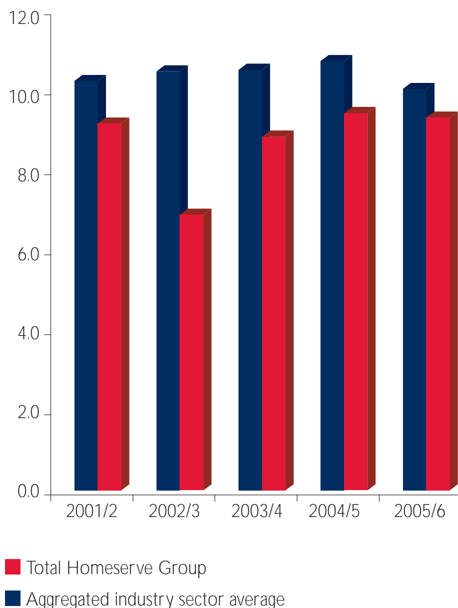
Performance

Homeserve has continued to maintain a good standard of health and safety performance throughout 2005/6. There were 78 recorded incidents requiring first aid, hospital treatment or time lost from work: most involving cuts, bruises or muscular strains. Of these, 38 were sufficiently serious to require a formal statutory report to HSE, although none resulted in life-threatening or disabling injuries. Most of the more serious incidents involved cuts in the Glass and Locks business, and a campaign is currently being mounted to focus on the prevention of such injuries in future.

These incidents resulted in 498 working days lost through absence, slightly higher in total on the previous year but lower as a rate per employee (now 0.05% of the working days available). Unsurprisingly, 94% of the incidents and 82% of the total lost working time occurred within the Emergency Repair businesses.

Corporate and Social Responsibility

Reportable Incident Rate for Homeserve over the past 5 years together with comparable industry sector statistics*



*Aggregated Industry Sector Average based on statistical data from the service and construction sectors aggregated in proportions similar to those represented within Homeserve businesses.

With adjustment for employee numbers and excluding the now disposed of commercial businesses from the statistics, the Reportable Incident Rate remains consistent with the commendable trend of recent years, comparing favourably with an aggregated statistical average from the relevant industry sectors.

There were no statutory enforcement notices and no prosecutions against any Homeserve business. Visits made by HSE and Local Authority inspectors to Homeserve Claims Management and to several branches of the Glass and Locks business, and by Fire Officers to Homeserve Warranties and Chem-Dry found either no deficiencies, or a few minor non-compliances which were satisfactorily addressed within the required timescale.

Progress and developments

New acquisitions

Potential acquisitions are subjected to thorough health and safety scrutiny at due diligence stage to assess any future operational or liability implications, and identify priority actions. The acquisition of Improveline was completed during the year. A review undertaken shortly after the acquisition highlighted a few areas for attention, including a need to develop greater management ownership of health and safety procedures rather than to rely on external consultants. Immediate action was taken on acquisition, with the recruitment of a full time Health and Safety Manager now in progress. An action plan for addressing the remaining issues is in place.

Corporate and Social Responsibility

Health and safety management training

Excellent progress has been made on the provision of health and safety training for key managers. Within the Emergency Repair division, where the risks are greater, over 50% of managers have now completed safety management training to the IOSH Managing Safely or equivalent standard. Courses are planned for the remainder throughout 2006, with a pooling of arrangements to help maximise cost-effectiveness.

Work at Height

The Work at Height Regulations have had a significant impact on some of the businesses in the Emergency Repair division, prompting a thorough review of working practices. They have required more robust risk assessment procedures, the greater use of platforms and access equipment for work at height, and more effective measures to prevent falls where the use of ladders is unavoidable.

Group Health and Safety Forum

A new Group Health and Safety Forum was established during the year. Quarterly meetings of representatives from each business are chaired by the Group Health and Safety Adviser to promote common standards and practices, to pool ideas and expertise, and to share practical health and safety solutions across all of our businesses. The benefits from this initiative are already in evidence.

Publicity

The activities of listed companies are inevitably under public scrutiny by HSE and others because of their greater visibility and recognisable branding. The recent publicity given to Homeserve's work through the BBC TV series of 'Disaster Masters' programmes drew a number of comments, both favourable and critical. Following screening of the second series, HSE inspectors raised some questions over the glazing practices and ladder use depicted in some scenes. After a formal reply to the issues raised, it was pleasing to note that a very favourable response was received, indicating that HSE were completely satisfied with the information provided and assurances given. Close monitoring of site activities continues to ensure that working methods and practices remain consistent with statutory requirements and good industry practice.

Corporate and Social Responsibility

The Way Ahead

The primary focus for 2006/7 continues to be on audit, and on reviewing progress in areas already identified for attention. The consolidation of existing systems and procedures and sharing of best practice will also feature strongly in the year's programme of work. Priorities include:

- Post-acquisition support for the newer businesses to assist integration into Homeserve.
- Continued quarterly reviews of overall risk evaluation across the businesses in the light of the ongoing audit programme and progress in implementing actions to address areas of weakness.
- Assisting each business to greater autonomy and maturity in local health and safety expertise.
- Continued development of safety management systems through improved management training.
- Attention to the ongoing programme of health and safety audits.
- Promoting the sharing of experience and practical solutions through the Health and Safety Forum.

Our companies continue to improve in health and safety competence and expertise. Instances of significant non compliance are few, and are addressed promptly when highlighted through audit. Overall practices are considered appropriate to the nature and level of risk within each business.

Health and safety is fundamental to Homeserve's continuing success. The promotion of good working practices consistent with cost-effective measures to ensure compliance with statutory requirements and good industry practice remains a key focus for future activity.

Customers

Excellent customer service is key to Homeserve's success. We aim to ensure that all customers enjoy a high quality service. Homeserve GB attempts to call all customers within 48 hours of a claim to ensure they were fully satisfied and this initiative is also being rolled out across some of the other businesses including Homeserve Warranties. Satisfaction rates for Homeserve GB consistently run at above 90% and any dissatisfaction expressed on these calls is followed up with both the customer and the engineer where appropriate.

A noteworthy measure of satisfaction is that customer retention, already high, is higher amongst those customers who have recently made a claim than those who have not. We recognise that our customers have diverse needs and are committed to developing procedures to meet them. One initiative is the development of documentation in alternative formats, such as braille and large print. We are committed to maintaining and improving customer service levels across the Group and procedures are constantly reviewed and refined.

Corporate and Social Responsibility

We use a variety of channels to sell our products and services and seek to apply the same high standard of care to all of them. Particular care is taken in outbound sales to ensure that customers gain a full understanding of the service being provided and all outbound sales calls are recorded and the recordings retained.

Environment

Homeserve and its businesses are committed to environmental sustainability. Our businesses are largely service based and therefore their exposure to environmental risk is low. However, we recognise that Homeserve has a responsibility to act in a way that respects the environment and as such, all our businesses are encouraged to incorporate an awareness of environmental issues into decision-making processes.

Recycling of office materials is encouraged and local initiatives are devised to help staff take a more responsible view of resources such as the recycling of toner cartridges. Where the business is not exclusively office based such as Homeserve Emergency Services, efforts are undertaken to manage and recycle waste such as PVC and glass.

Community and Charitable Giving

Homeserve is committed to assisting charities that have a direct impact on the communities in which its businesses operate.

We encourage employees to support charities of their choice and they can contribute to those charities in a tax efficient manner through the Give As You Earn Scheme.

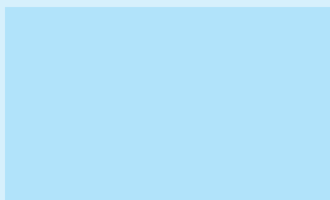
Employee support for high profile charity campaigns is also encouraged and during the year, employees at Homeserve GB in Walsall organised a number of fund raising events for Cancer Research UK including a sponsored slim, dress down days and a 'celebrity' ball.

As a large employer, Homeserve's businesses can offer a great contribution to the efforts of the Blood Donor campaigns and this is regularly promoted to staff.

Being a responsible corporate citizen within our communities is valued by our staff and by potential recruits to the company. Homeserve operates a generous local sponsorship programme offering financial support to school, sports or charity projects that benefits the community in areas of either education, health or issues of well being. In addition, funds were made available to a number of community sports teams nominated by employees.

Directors’ Biographical Details

Board



Brian Whitty (52), FCA •
Executive Chairman since April 2004 following six years as Chief Executive and three years as Finance Director. Previously Finance Director of ACT Group plc.

Richard Harpin (41), BA (Hons) CdipAF
Chief Executive since April 2004. Appointed to the Board in May 2001 and previously Chief Executive of the original Homeserve business having founded Home Service in conjunction with South Staffordshire Group in 1993. Previously a Brand Manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

Justin Jewitt (52), BA (Hons) †*•✧
Appointed to the Board in 2003. Senior non-executive Director of NHS Shared Business Services and a Director of a number of private companies. Previously Chief Executive of Nestor Healthcare Group plc and Managing Director of two of BET’s business services companies. He is visiting professor of healthcare at Glamorgan University.

Andrew Belk (42), BSc (Hons) ACA
Group Finance Director since September 2002, having previously been commercial director of the original Homeserve business. Previously Chief Executive Officer of a UK telecoms company and a corporate finance Director with Andersen.

John Maxwell (61), CA, CCMI †*•✧
Appointed as Senior Independent Director in April 2004. Previously Director General/Chief Executive of The Automobile Association and an executive Director of Prudential Corporation plc. Currently a non-executive Director of a number of companies including Royal & Sun Alliance plc and Provident Financial plc. He is also chairman of DX Services plc.

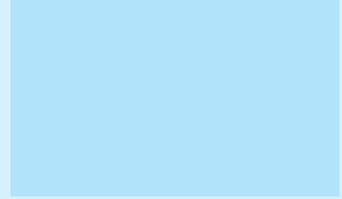
Barry Gibson (54) †*•✧
Appointed to the Board in April 2004. Currently senior non-executive Director of William Hill plc and National Express plc. Previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and non-executive Director of Somerfield plc.

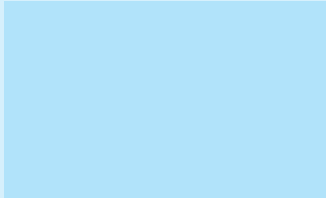
Ian Carlisle (44)
Appointed to the Board in November 2004. Joined the executive team in June 2003 as Chief Operating Officer of Homeserve Assistance and Chief Executive Officer of Highway. Previously Managing Director of Autoglass Ltd and Divisional Commercial Director at Marks & Spencer plc.

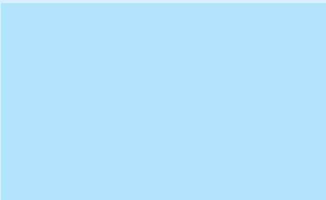
Emma Thomas (39), MA
Appointed Group Company Secretary in March 2005. A solicitor, she was previously Group Company Secretary of Nestor Healthcare Group plc, Assistant Secretary of Kingfisher plc and Company Secretary of Hazlewood Foods plc.

Directors' Biographical Details

Executive Board







Rachael Hughes (35), BA (Hons) Δ
Appointed as Managing Director of Homeserve Europe in 2005 having been Managing Director of Doméo, Homeserve's joint venture with Generale des Eaux Services in France, since its launch in June 2001. Previously Managing Director of CHEP Argentina SA following a total of seven years with CHEP Equipment Pooling Systems in North and South America and GKN Group in the UK.

Jonathan King (45), BSc (Hons) Δ
Appointed as Chief Executive Officer of Home Service USA in 2005 following 4 years as Managing Director of Homeserve GB and a year as Business Development Director. He previously worked in retail marketing with the Boots Company as Group Brand Manager for No.7 Cosmetics.

Jeremy Middleton (45), BA (Hons) Δ
Non-executive Director of the original Homeserve business since set up in 1993. Director of the Marketing Department Ltd since 1991, a management consultancy specialising in new business development.

Edward Fitzmaurice (43), MBA, BE (Hons) Δ
Joined the Executive Board in April 2005 as Chief Executive of Homeserve Warranties from Dixons Store Group PLC where he was the Managing Director of Mastercare. Previously he worked in consultancy and engineering.

Claire Tiney (45), BA (Hons) Δ
Joined as Group HR Director in January 2006. She has 10 years experience as an HR Director. She was previously HR Director at Mothercare Plc, WH Smith High Street, and Waterstone's Booksellers.

Key:

† Non executive
* Audit Committee (Chairman: John Maxwell)
• Nomination Committee (Chairman: Brian Whitty)
✧ Remuneration Committee (Chairman: Justin Jewitt)
Δ Executive Board only

Directors and Advisers

Directors	Brian Howard Whitty, FCA, Executive Chairman Richard David Harpin, BA (Hons), CdipAF John Hunter Maxwell, CA, CCMI Andrew John Belk, BSc (Hons), ACA Ian Carlisle John Michael Barry Gibson Justin Allen Spaven Jewitt, BA (Hons)
Secretary	Caroline Emma Roberts Thomas, MA
Registered Office	Cable Drive, Walsall WS2 7BN Telephone: 01922 426262 Registered in England, Number 2648297
Stockbrokers	JPMorgan Cazenove Ltd 20 Moorgate, London EC2R 6DA
Financial Advisers	UBS Investment Bank 1 Finsbury Avenue, London EC2M 2PP
Financial PR Advisers	Tulchan Communications Group Ltd 6th Floor, Kildare House, 3 Dorset Rise, London EC4Y 8EN
Auditors	Deloitte & Touche LLP Four Brindleyplace, Birmingham B1 2HZ
Legal Advisers	Martineau Johnson No. 1 Colmore Square, Birmingham B4 6AA Wragge & Co LLP 55 Colmore Row, Birmingham B3 2AS Slaughter & May One Bunhill Row, London EC1Y 8YY
Bankers	HSBC Bank plc 130 New Street, PO Box 68, Birmingham B2 4JU Royal Bank of Scotland plc 2 St Philips Place, Birmingham B3 2RB
Registrars	Computershare Investor Services PLC PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

The directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2006.

Principal activities and review of business

During the year the Group was engaged in the provision of insured repair solutions and emergency services to the home. Details of Group activities and a review of the business are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 22.

Details of the Key Performance Indicators used by the directors to assist in the management of the business and to provide evidence of the achievement of its strategies are included on page 26 in the Financial Review.

A description of the principal risks and uncertainties facing the Group are included on pages 29 and 30 in the Financial Review.

Information relating to the environment and employees is included in the Corporate Social Responsibility report on pages 31 to 39.

Financial results and dividends

The Group's results are shown in the Group income statement on page 64. The directors are recommending the payment on 7 August 2006 of a final dividend of 13.9 pence per ordinary share to shareholders on the register at the close of business on 2 June 2006 which, together with the interim net dividend of 6.1 pence per ordinary share paid on 3 January 2006, results in a total net dividend for the year of 20.0 pence per share (2005: 16.0p). For further details of the dividend see note 12 to the accounts.

Directors

The directors who held office during the year were;

Brian Whitty, Richard Harpin, Andrew Belk, Ian Carlisle, Barry Gibson, Justin Jewitt and John Maxwell, all of whom served throughout the year.

Richard Harpin, Justin Jewitt and Barry Gibson retire by rotation and, being eligible, offer themselves for re-election. Mr Harpin serves under a contract of employment terminable on 12 months notice by either party. Messrs Jewitt and Gibson serve under three-year renewable letters of appointment which provide for liquidated damages limited to the payment of a maximum of one year's fees in the event of termination by the Company.

The beneficial interests of the directors in the shares of the Company and the options held as at 31 March 2006 and 22 May 2006 are set out in the Remuneration Report. None of the directors serving during the year had a beneficial interest in the share capital of any subsidiary company.

Each of the directors confirms that as far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that he has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The following special business will be transacted at the Annual General Meeting of the Company, to be held at 30 Old Broad Street, London, EC2N 1HQ on 28 July 2006 at 10.00am.

Special business - Allotment of shares and pre-emption rights

There will be proposed at the Annual General Meeting a renewal of the directors' general authority to allot shares up to a maximum nominal amount ("the Section 80 Amount") and the directors' authority to issue shares for cash without applying the statutory pre-emption rights up to a maximum nominal amount ("the Section 89 Amount"). The directors confirm that they presently have no intention to issue more than 7½% of the issued ordinary share capital shown in the latest published annual accounts by way of non pre-emptive issues for cash in any rolling three year period.

They also confirm that, in the event of an issue of shares other than on a pre-emptive basis, the amount of the discount (if any), at which equity is issued for cash other than to shareholders, will be limited to a maximum of 5% of the middle of the best bid and offer prices immediately prior to the announcement of an issue or proposed issue.

Directors' Report

Special business - Authority to purchase own shares

Approval will be sought for the Company to renew the authority contained in the Articles of Association to purchase its own ordinary shares. The Board has no firm intention that the Company should make purchases of its own shares if the proposed authority becomes effective, but would like to be able to act quickly if circumstances arise in which such a purchase would be desirable. Purchases will only be made on the London Stock Exchange and only in circumstances where the Board believes that they are in the best interests of the shareholders generally and would result in an increase in earnings per share. Any shares purchased would be cancelled.

Further details of the resolutions to be proposed at the Annual General Meeting can be found in the Notice of Meeting.

Auditors

A resolution proposing the reappointment of Deloitte & Touche LLP as auditors and authorising the Board to fix their remuneration will be put to the Annual General Meeting.

Fixed assets

Capital expenditure on tangible fixed assets amounted to £14.5m during the year.

Donations

Charitable donations of £28,000 (2005: £37,000) were made during the year. No political contributions were made in either year.

Payment of creditors

The Group's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. Trade creditors at 31 March 2006 represent 64 days of purchases during the year (2005: 63 days) for the Group and 45 for the Company.

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 22 May 2006, except for the following:

	Ordinary Shares	Percentage
Richard Harpin	10,852,459	16.8%
Invesco Perpetual	9,597,576	14.9%
Jeremy Middleton	2,913,397	4.5%

Taxation status

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

Employment policies

It is the Group's policy that all persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes, regardless of physical ability, age, gender, sexual orientation, religion or ethnic origin.

Homeserve applies employment policies that are fair and equitable for all employees and which ensure entry into and progression within the Company are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. Homeserve's training and development policies make it clear that it will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties.

Employee involvement

Homeserve attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting its performance and the market in which it operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report.

Internal circulars and newsletters are issued on a regular basis and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable. Further details of Homeserve's policies and practices relating to employee involvement may be found on pages 31 and 32 of this report.

By Order of the Board

Emma Thomas
Company Secretary
22 May 2006

Corporate Governance

Homeserve complied throughout the year with the provisions set out in the Combined Code published by the UK Financial Reporting Council in July 2003 ('the Code') except where indicated in this report.

The manner in which the Company applies the principles of good governance contained in the Code is described in the appropriate parts of this Report and Accounts. Thus the application by the Company of the Code's principles relating to remuneration matters at pages 50 to 61 should be read in conjunction with the statement below. A review of the Group's position and prospects is set out in the Chairman's Statement, the Chief Executive's Review and Financial Review on pages 2 to 30.

The Board

The Board of directors leads and controls the Company by holding at least nine meetings a year at which its current and forecast performance is reviewed and monitored. Regular reports on monthly performance and other matters of importance to the Group ensure that the Board is supplied in a timely manner with the information necessary to make informed judgments. In addition, the Board holds regular meetings to devise and discuss the Company's medium and long term strategic focus and management development strategy. Regular informal presentations are given and meetings held in order to apprise directors of issues of importance affecting the Group.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to election by the Company's shareholders at the Annual General Meeting immediately following his appointment and is subject to re-election at least every three years thereafter.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference of the various committees to which it has delegated its authority in certain matters. Matters reserved to the Board include the recommendation or approval of dividends, the approval of final and interim financial statements, major financial commitments, the acquisitions of significant companies or businesses, appointments to the Board and its committees, the Company's future strategy and its internal controls. It also provides that the Board receive regular updates from the chairmen of its committees.

During the year the Board was led by Brian Whitty, the Executive Chairman, who also served as a member of the Board's Nomination Committee.

The Chairman's responsibilities are clearly defined in a written specification agreed by the Board and which makes clear the division of responsibilities between the Executive 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. His executive responsibilities include major strategic acquisitions, relations with shareholders and those relating to property, legal and governance matters.

The Board has established a formal procedure for directors wishing to seek independent legal and other professional advice and all members of the Board have access to the advice and services of the Company Secretary.

The day-to-day running of Homeserve's business is delegated to an Executive Board, also led by Brian Whitty, and which includes Richard Harpin, Chief Executive, Andrew Belk, Group Finance Director and Ian Carlisle, Chief Executive of the Emergency Repair division. Other members of the Executive Board, together with autobiographical details, are listed on pages 40 and 41.

Richard Harpin, the Chief Executive, is responsible for leading business development, operational issues and marketing. He is also responsible for all operational public relations and tactical acquisitions.

During the year, three independent non-executives with extensive business, finance and marketing backgrounds, provided the Board with a breadth of experience and with independent judgement. John Maxwell served as the Company's independent senior non-executive director. The Board is currently in the process of selecting a further independent non-executive director.

Corporate Governance

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates; and has recently adopted a formal policy on the induction and training of directors. Newly appointed Board members are required to undergo an induction programme and have the opportunity to receive formal training. During the year, the Group's non-executive directors have met with various members of the Group's management teams and have visited several of the operating businesses. Further training for directors is available and offered as appropriate.

The Board has adopted a formal process for reviewing its own effectiveness and that of its individual members. In addition, it continued to ensure that regular meetings of the non-executive directors were held without the executive directors, and at least once a year, without the Chairman present, in order to evaluate his performance. The evaluation process, which was facilitated by external advisers, was completed at the beginning of the year, comprising one-on-one meetings to discuss the existing and future needs of the Board, its composition and the skills of its members. The results of the process were reviewed by the whole Board in April 2005 and a further review is planned to take place early in the 2006/7 financial year.

Committees

The Board operates a number of committees to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference. These comprise the Nomination, Audit and Remuneration Committees.

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by Brian Whitty and also comprises Barry Gibson, Justin Jewitt and John Maxwell, independent non-executive directors. Other members of the Board may be invited, but are not entitled, to attend its meetings. The Committee draws on the advice of such professional advisers as it considers necessary and, during the year, met to consider the possible appointment of a further director.

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

The Terms of Reference of the Nomination Committee are available on the Company's website.

Audit Committee

The Audit Committee is chaired by John Maxwell, a chartered accountant and the senior independent non-executive director. It comprises only independent non-executive directors; Barry Gibson and Justin Jewitt being its other members.

The Committee meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include agreeing audit strategy, monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors. The external auditors and the Group Finance Director are invited but are not entitled to attend all meetings.

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. 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.

The Terms of Reference of the Audit Committee are available on the Company's website. The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness and that of the external audit process; the results of the review were considered by the Committee in March 2006.

Remuneration Committee

The Committee is chaired by Justin Jewitt. It comprises only independent non-executive directors, Barry Gibson and John Maxwell being its other members.

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other members of the Executive Board, after having consulted with the Chairman and Chief Executive and having received professional advice from remuneration consultants. The Committee is also responsible for approving the grant and exercise of executive long-term incentive arrangements. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality.

The Committee's Terms of Reference are available on the Company's website. The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness; the results of the review were considered by the Committee in March 2006.

The remuneration of non-executive directors is a matter for the Company's Board.

Short biographies of each of the directors, including their membership of the Board's Committees outlined above, may be found on pages 40 and 41.

Relationships with shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chairman and Group Finance Director meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior independent non-executive director, who is available to discuss any questions which investors may have in relation to the running of the Company. The Board encourages shareholders to attend the Annual General Meeting and is always willing to answer questions, either in the meeting itself or, more informally, afterwards. In addition, shareholders may contact Homeserve direct, either through its website or by telephoning its offices.

Attendance at meetings

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held	9	3	5	1
Meetings attended				
B H Whitty	9	-	-	1
R D Harpin	9	-	-	-
A J Belk	8	-	-	-
I Carlisle	9	-	-	-
J H Maxwell	9	3	5	1
J A S Jewitt	9	3	5	1
J M B Gibson	9	2	5	1

Corporate Governance

The Board also recognises the need to ensure that all directors are fully aware of the views of major shareholders about the Group. Copies of all analysts' research relating to the Company are circulated to all directors upon publication, monthly analyses of the Company's shareholder register are made available to the Board and written feedback from shareholders and analysts, prepared by the Group's brokers and public relations advisers is provided to all directors after every significant corporate event and at least twice a year.

Going concern

The directors confirm that, after reviewing the Group's budget for 2006/7, the three year operating plan and projected cash flows, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an established internal control framework in place, which is continually reviewed and updated taking into account the changing nature of the Group's operations. This process has been in place for the whole of the year and up to the date of approval of the Annual Report and Accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a regular basis. Executive Board meetings are held on a monthly basis at which the Group's senior managers report on the progress of the companies or discipline for which they are responsible and share best practice.

- A clearly defined organisation structure is in place with clear lines of accountability and appropriate division of duties. The Group's financial regulations specify authorisation limits for individual managers, with all material transactions being approved by the Board.

- Three year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.

- The Group has a dedicated Internal Audit function which reports directly to the Audit Committee and a formal audit plan is in place to address the key risks across the Group.

- Financial results and cash flows, including a comparison with budgets and forecasts, are reported to the Board on a monthly basis, with variances being identified to initiate action to mitigate them.

- Appropriate treasury policies are in place.

- The Committee has adopted a formal "whistleblowing" policy for employees who wish to raise any issues of concern relating to the Company's activities on a confidential basis.

- A mechanism exists to extend the Group's formal risk management processes to any significant new business acquired or begun by the Company 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.

- At least twice a year, the Audit Committee reviews a register summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include:

- At the end of the year, the executive directors compile a report identifying the key risks faced by the Group. This report is considered by the Audit Committee and the Board before the Annual Report and Accounts is approved.
- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.
- At each meeting the Audit Committee reviews reports of the executive directors and the internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.
- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Remuneration Report

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 and has been approved by the Board and the Remuneration Committee. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. A resolution to approve the report will be proposed at the Annual General Meeting.

The Act requires the auditors to report on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

Role

The Remuneration Committee is responsible for determining and agreeing with the Board the pay, benefits and contractual arrangements for the executive directors of the Company (including the Chairman) and other members of the Executive Board. It aims to develop and recommend remuneration strategies that drive performance and reward it appropriately. In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code published in July 2003 by the UK Financial Reporting Council ("the Code"). The Committee operates under the delegated authority of the Board and its Terms of Reference are available on the Company's website – www.homeserve.com.

Membership

During the year, the Committee comprised each of the Board's three independent non-executive directors, all of whom served throughout the year.

Meetings

Attendance at Committee meetings held during the year and the number of meetings held is set out on page 47.

Advisers

During the year until February 2006, Kepler Associates, a firm of independent remuneration consultants, served as advisers to the Committee. The Company also instructed Kepler Associates to advise it on certain remuneration matters during the year, for example in relation to the implementation of the new Key Executive Incentive Plan. Other than in relation to advice on remuneration, Kepler has no other connections with the Company.

In February 2006, following a review of its advisers, the Committee appointed New Bridge Street Consultants LLP (NBSC), independent remuneration consultants, to advise on all aspects of senior executive remuneration and to undertake a comprehensive review of the remuneration payable to members of the Executive Board. NBSC has no other connection with the Company other than the provision of advice on executive remuneration. The terms of engagement for NBSC are available on the Company's website.

The Committee has also received assistance from Brian Whitty, the Group's Executive Chairman, Richard Harpin, the Chief Executive, Emma Thomas, the Group Company Secretary and, from the date of her appointment, Claire Tiney, the Group HR Director, all of whom attended meetings of the Committee as required. None took part in discussions in respect of matters relating directly to their own remuneration.

Remuneration Report

Remuneration policy

The Committee's remuneration policy for the remuneration of executive directors and other senior executives is based on the following principles;

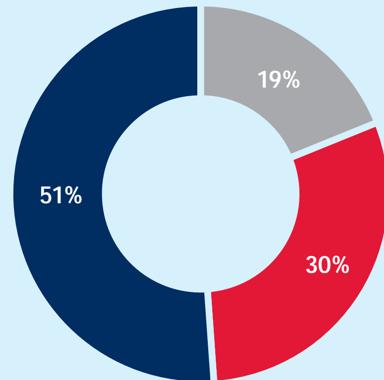
- to provide a remuneration package that is sufficient, but no more than necessary to attract, retain and motivate high calibre executives;
- to align rewards with the Group's performance;
- to reward good performance with remuneration that is in line with that payable by broadly comparable businesses i.e. high-growth companies of similar size and those with similar operating characteristics;
- to reward exceptional performance in such a way as to align the executives' interests with those of the Company's shareholders, delivering upper quartile rewards for upper quartile performance.

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

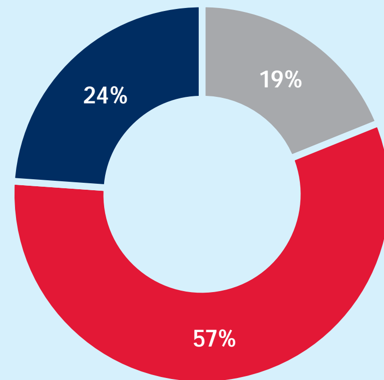
The charts opposite demonstrate the balance between fixed and variable pay at 'on target' and maximum performance levels, in the case of the long term incentive arrangements assuming certain levels of share price growth. Maximum performance assumes the achievement of maximum bonus and full vesting of shares under the Company's long-term incentive arrangements.

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

On-target remuneration



Maximum remuneration



Remuneration Report

Remuneration for executive directors

Summary of components of executive directors' remuneration

Type	Objective	Performance Period	Policy
Basic Salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies	Annual (reviewed on 1 April)	Individual pay is determined by reference to the median pay for FTSE-250 companies for roles of a similar type
Performance-related bonus	To incentivise the delivery of Group and individual performance-related objectives	Annual (determined after the year-end)	Bonuses are determined by reference to the median for FTSE-250 companies, according to the Group's financial (80%) and individual (20%) performance
Pension	To provide benefits comparable with similar roles in similar companies	N/A	Pension benefits are determined by reference to the median for FTSE-250 companies. Only basic salary is pensionable
Other Benefits	To provide benefits comparable with similar roles in similar companies	N/A	Other benefits comprise a fully-expensed car (or cash alternative), private health and (for Messrs Belk and Whitty) long-term sickness cover
Long-term incentives	To drive long-term delivery of the Group's objectives, to align directors' interests with those of the Company's shareholders and to encourage exceptional performance with the opportunity to receive upper quartile rewards	3-5 years	Awards under the ESOP deliver rewards for EPS growth; awards under the LTIP and DBP deliver rewards for TSR growth (subject to satisfactory underlying performance)

The main components of the remuneration package for executive directors are:

Basic salary

Basic salary for each executive director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual. This is normally reviewed annually with any increase usually being effective from 1 April (unless responsibilities change). Salary levels are determined taking into account market data on salary levels for similar positions at comparable companies.

Following the comprehensive review undertaken by NBSC in March 2006, the Committee has determined that the most appropriate comparator group against which to benchmark executive directors' basic salaries is the FTSE-250 Index, taking into account the roles, responsibilities and experience of each director. Accordingly, for the 2006/7 financial year, it agreed to increase executive directors' basic salary by an average of 10.1%, to reflect the continued excellent performance of the business and in order to ensure that salaries are broadly comparable with the median of those payable in FTSE-250 companies.

Annual bonus

The annual bonus is designed to drive and reward excellent short term operating performance of the Company and encourage real year-on-year growth in profitability. No annual bonus is paid unless a very high level of profit performance is achieved. The maximum annual bonus during the year was 75% of basic salary.

During the year, executive directors were able to earn up to 80% of bonus potential for Group financial performance, measured by profit before tax, amortisation and exceptional items. No bonus was payable unless the Company's profits exceeded the Company's budget, equating to a growth in profits of over 20% in comparison with the previous year; the remaining 20% of bonus potential was based on measurable personal targets, relating to the part of the business or function for which the director was responsible.

Following NBSC's review of the remuneration payable to executive directors, the Committee has agreed to increase the maximum bonus potential in 2006/7 to 100% of basic salary. This increase has been agreed on the basis that very demanding performance conditions will continue to apply, which will ensure that significant bonuses will only be payable where performance is well ahead of the budget as determined at the start of the year. In agreeing the increase, the Committee recognises that this level of bonus is in line with the median maximum bonus payable in companies in the FTSE-250 and that the comparable level of improvement in profit growth required is significantly ahead of bonus plans in the majority of FTSE-250 companies. As demonstrated by the disclosure above relating to annual bonus payments for 2005/6, profit-based targets have been set so as to require substantial improvements in profitability and the targets for 2006/7 are similarly challenging.

Any bonus earned in excess of 75% of basic salary must be invested in the Company's Deferred Bonus Plan. This share-based deferral element is designed to align further the interests of the executive directors with shareholders and, as the deferred shares are at risk of forfeiture if the executive leaves, will be highly retentive.

The weighting between business and personal objectives will remain 80% financial : 20% personal. Provided their personal objectives are met in full, the normal "on-target" bonus payable to executive directors in any year is expected to be in the region of 60% of their basic salary.

Long term incentives

For the 2006/7 financial year, the Committee's policy for the provision of long-term incentives to executive directors will be to grant share options under the Executive Share Option Plan (ESOP) and to provide them with the opportunity to voluntarily invest their bonus into the Deferred Bonus Plan (DBP). The policy in respect of levels of grants under both schemes and the performance conditions pertaining to them has been reviewed by the Committee, which considers them to remain appropriate.

Remuneration Report

The ESOP was approved by shareholders in 2001 and is designed to encourage and reward continuing improvement in the Company's performance over the longer term. Its participants are the executive directors and other senior executives who are best placed to influence the Company's performance. Options are granted on an annual basis and become exercisable between three and ten years from the date of grant subject to the achievement of stretching performance criteria. The option price is the market price on the last dealing day prior to the date of grant. Following the introduction of the DBP during 2005, the maximum annual grant normally awarded to executive directors under the ESOP is now 150% of salary, save in exceptional cases, for example on the appointment of a new executive director from outside of the Group.

Options will become exercisable based on the following sliding scale;

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

* EPS is defined as the normalised earnings per share of the Company as defined in FRS14.

Details of awards granted under the ESOP in the year are shown on page 60.

In order to encourage executive directors to build up a personal shareholding in the Company, the DBP was introduced during the year following approval by the Company's shareholders at the Annual General Meeting held in July 2005. Under the terms of the DBP, executive directors are able to invest some or all of their annual bonus into shares and to defer receipt for three years. Matching shares can be earned if the Total Shareholder Return (TSR) of the Company over a three year period exceeds the median of the FTSE-350 index of companies (excluding investment trusts).

The table below demonstrates the vesting of matching shares under the DBP according to TSR growth;

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

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

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

Shares invested in the DBP by executive directors may be withdrawn from the Plan at any time during their appointment but any entitlement to matching shares will be forfeit in such circumstances.

Details of awards granted under the DBP in the year are shown on page 61.

The Committee considers that the mix of the different types of target offered under the ESOP and the DBP provide a good blend of incentives. Share options require the share price to increase in order to provide any benefit and the DBP requires investment by executives at the outset, providing strong alignment of interests between executives and shareholders. Similarly, the performance conditions (EPS growth for share options and relative TSR for the DBP) provide a good balance between long-term increases to profitability and relative stock market outperformance. The Committee has ensured that a consistent approach is taken to measuring EPS-based performance conditions through the transition from UK GAAP to international accounting standards.

The shares required for share options and awards under the DBP may be fulfilled by the purchase of shares in the market by the Company's employee benefit trust, or through newly issued shares, subject to the dilution limits within each scheme.

The LTIP was approved by shareholders in 2004. One-off awards of 200% of salary were made in that year to executive directors under the LTIP to incentivise them towards specific goals reflecting the Company's aim to deliver exceptional shareholder value over the five years from 2004. Awards were granted as nil cost share options.

The table below demonstrates the vesting of awards under the LTIP according to absolute TSR growth;

TSR Performance	Vesting of award (%)
Below 130%	Nil
130%	35
Between 130% and 180%	35-100 on a straight line basis
180% or more	100

Details of awards under this plan are shown on page 61.

Executive directors may also participate in the Group's Save As You Earn Scheme (where share options are exercisable after three or five years at a discount of up to 20% of the market value of the shares at the time of grant) and in the Share Incentive Plan on the same basis as all other employees. No performance criteria are attached to these schemes.

In 2005, the Key Executive Incentive Plan (KEIP) was introduced in order to incentivise Homeserve's senior executives (other than executive directors) to deliver its stretching growth plans for the three-year period to March 2008. The KEIP is a share option plan, under which options are only exercisable in full in the event that stretching profit targets (significantly in excess of budget) are achieved in 2007/8 and the Company's share price reaches an average of at least £17.50 for a three-month period during the 2008/9 financial year. Once the performance targets have been met, executives may only exercise 50% of the total amount exercisable; the remaining 50% are not exercisable until two years later.

Most grants under the KEIP were made in June 2005, when the Company's share price was £9.61.

Executive directors were not eligible to participate in the KEIP.

Benefits

Non-pension benefits comprise company car and fuel allowance and medical insurance. The range of benefits and their value are considered to be broadly in line with those provided to executive directors in similar companies in the FTSE-250.

Shareholding guidelines

It is the Board's policy that executive directors and certain members of the Company's senior management build up and retain a minimum shareholding in the Company. Each executive director is encouraged to hold shares of at least equal value to his annual basic salary.

Accordingly, if the holding guideline has not been fulfilled at the point of exercise of any option or the vesting of any other long term incentive award, the director must retain 50% of the net proceeds in the Company's shares until the holding requirement is achieved.

Service contracts

The Committee's policy is to offer service contracts with notice periods of one year or less (other than, in exceptional circumstances, where longer initial notice periods may be offered on appointment, and then reduced to one year over time).

All executive directors' contracts of service are terminable on twelve months' notice by either party. Further details of the executive directors' contracts are summarised in the table below:

Name of director	Date of contract
B H Whitty	28 March 1996
R D Harpin	18 January 2002
A J Belk	20 December 2002
I Carlisle	1 April 2005

Liquidated damages are limited to the payment of one year's remuneration, including benefits. Notice periods and payments are not extendable in takeover situations.

Remuneration Report

Pensions

Executive directors currently participate in one of two pension schemes, the Water Companies Pension Scheme (WCPS) or the Homeserve Money Plan (HMP). The normal date of retirement for executive directors is at age 60. Both arrangements are non-contributory for executive directors.

The WCPS is a funded, Inland Revenue approved occupational defined benefit scheme. Brian Whitty, Richard Harpin and Ian Carlisle are members of the WCPS. In respect of these directors, its main features were:

- 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 pensionable salary for Mr Whitty or five times basic salary for Messrs Harpin and Carlisle;
- pension payable in the event of ill health; and
- spouse's pension on death.

Where the benefits provided to executive directors under the WCPS were restricted as a result of the Inland Revenue 'earnings cap' further provision was made either through a funded unapproved retirement benefit scheme (for Mr Whitty) or unapproved money purchase arrangements (for Messrs Harpin and Carlisle) by making a cash payment of 20% of the amount by which the executive director's basic salary exceeded the cap.

The HMP is a funded, Inland Revenue approved occupational defined contribution pension scheme. Andrew Belk is a member of the HMP. In respect of Mr Belk, its main features were:

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

Where the benefits provided to executive directors under the scheme were restricted as a result of the Inland Revenue 'earnings cap' further provision was made by making a cash payment of 20% of the amount by which their basic salary exceeded the cap.

In anticipation of the changes brought about by the Pensions Simplification regime from April 2006, the Board undertook a review of the pension benefits available to all employees of the Company, including executive directors in October 2005. As a result of that review, the Board has agreed that pension benefits to executive directors provided under the WCPS and HMP will continue to be provided, up to a notional 'earnings cap' equivalent to the existing Inland Revenue cap, to be indexed in line with earnings. It also agreed that benefits in respect of earnings in excess of this cap continue to be provided by a cash payment of 20% of the amount by which an executive director's basic pay exceeds the cap.

The Board has also agreed that, with effect from April 2006, no further contributions will be made to the funded unapproved retirement benefit scheme in respect of Mr Whitty. With effect from 6 April 2006, all Mr Whitty's retirement benefits will be provided through the WCPS, on the basis of a pension accrual rate of 45ths of actual basic salary for future service (without any additional lump sum).

Non-executive directors

Non-executive directors serve under letters of appointment for periods of three years which include provisions in respect of liquidated damages limited to the payment of one year's fee. Their fees are determined by the Board within the limits set by the Articles of Association and based on information on fees paid in similar companies. Non-executive directors are not entitled to bonus payments or pension arrangements, nor do they participate in the Company's long term incentive plans.

During the year, following a review of market practice for similar roles in FTSE-250 companies, the fee structure for non-executive directors was revised to reflect the time commitment and responsibility for carrying out non-executive duties. The basic fee for serving as a non-executive director was set at £30,000 per annum, the fee for chairing a committee of the Board was set at £10,000 and the fee payable to members of each committee who are not the Chair agreed at £2,500. An additional fee of £5,000 is payable to the senior independent non-executive director.

Details of their current three year appointments are as follows:

Name of director	Date of appointment
J M B Gibson	6 April 2004
J A S Jewitt	1 September 2003
J H Maxwell	6 April 2004

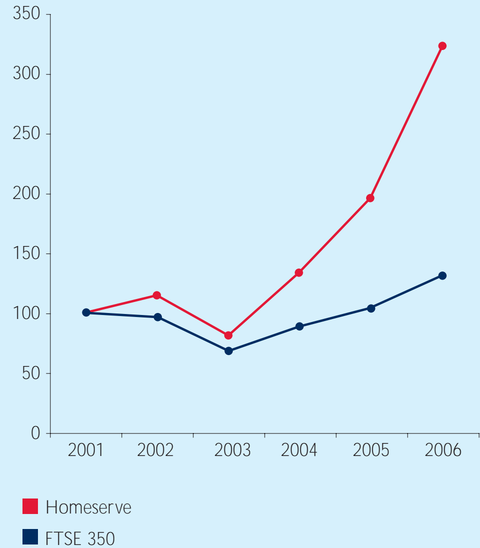
Executive Board

The following table sets out the base salaries of executive members of the Executive Board (other than executive directors) on a banded basis at 31 March 2006.

Base salary range	Number of employees
£200,001 - £250,000	2
£150,001 - £200,000	1
£100,000 - £150,000	2

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-350 Index (also measured by TSR) for the five years ended 31 March 2006. This comparator has been chosen as it is used in respect of the Deferred Bonus Plan.



Remuneration Report

Audited information

Directors' emoluments

	Basic Salary	Benefits	Bonus	Compensation for loss of office	Total Emoluments 2006	Total Emoluments 2005
	£'000	£'000	£'000	£'000	£'000	£'000
Executive						
B H Whitty	350	30	231	—	611	601
R D Harpin	325	30	224	—	579	503
A J Belk	230	25	155	—	410	365
I Carlisle*	270	23	186	—	479	135
R I Harley*	—	—	—	—	—	444
Non Executive						
J H Maxwell*	48	—	—	—	48	40
J A S Jewitt	43	—	—	—	43	32
J M B Gibson*	35	—	—	—	35	25
L C N Bury*	—	—	—	—	—	85
J R Harris*	—	—	—	—	—	25
Total 2006	1,301	108	796	—	2,205	—
Total 2005	1,113	96	762	284	—	2,255

* Ian Carlisle was appointed on 30 November 2004.
Robert Harley resigned on 24 March 2005 and his emoluments for 2005 included £174,000 in respect of compensation for loss of office
Messrs Maxwell and Gibson were appointed on 6 April 2004
Messrs Bury and Harris resigned on 6 April 2004

Taxable benefits comprise company car and fuel allowance, medical insurance and life assurance

Directors' pension

Three directors were members of the Company's defined benefit pension scheme (2005: 3). The following directors had accrued entitlements under the scheme as follows:

	Accrued pension 31 March 2006	Increase in accrued pension in the year	Accrued pension 31 March 2005	Transfer value of increase
	£'000	£'000	£'000	£'000
B H Whitty	14	2	12	25
R D Harpin	14	6	8	61
I Carlisle	4	2	2	16

The following table sets out the transfer value of the director's accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Scheme – Transfer Values (GN 11)" published by the Institute of Actuaries and the Faculty of Actuaries.

	Transfer value 31 March 2006 £'000	Contributions made by the director £'000	Increase in transfer value in the year net of contributions £'000	Transfer value 31 March 2005 £'000
B H Whitty	250	—	78	172
R D Harpin	145	—	81	64
I Carlisle	42	—	22	20

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

Four directors were members of money purchase schemes (2005: 5). Contributions paid by the Company in respect of such directors were as follows:

	2006 £'000	2005 £'000
B H Whitty	313	283
R D Harpin	44	35
A J Belk	46	39
I Carlisle	33	8
R I Harley	—	14

Directors' shareholdings

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

	31 March 2006	31 March 2005
B H Whitty	82,480	58,938
R D Harpin	10,852,459	10,827,697
A J Belk	15,576	4,037
I Carlisle	9,699	2,090
J H Maxwell	20,000	10,000
J A S Jewitt	3,021	3,021
J M B Gibson	6,675	3,675

There were no changes in the directors' interests in shares between 31 March and 22 May 2006.

Directors' options and long term incentives

Details of the share options held by directors under SAYE Schemes are as follows:

	31 March 2006	Granted during year	Exercised during year	31 March 2005	Option price	Date granted	Date exercisable from
B H Whitty	3,524	-	-	3,524	466.0p	10.12.02	1.2.08
A J Belk	-	-	2,027	2,027	466.0p	10.12.02	1.2.06
	1,018	1,018	-	-	918.0p	23.12.05	1.3.09
R D Harpin	-	-	5,144	5,144	328.0p	21.12.00	1.2.06
	1,753	1,753	-	-	918.0p	23.12.05	1.3.11
I Carlisle	1,744	-	-	1,744	543.0p	30.12.04	1.3.08

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

The price of an ordinary share on 1 February 2006 when Messrs Belk and Harpin exercised their options was £14.35.

Remuneration Report

Details of the share options held by directors under the Executive Share Option Plan are as follows:

	31 March 2006	Granted during year	Exercised during year	31 March 2005	Option price	Date granted
B H Whitty	—	—	150,000	150,000	366.5p	3.6.98
	—	—	30,000	30,000	377.5p	23.6.00
	72,500	—	—	72,500	550.0p	17.7.01
	65,000	—	—	65,000	589.0p	8.7.02
	80,000	—	—	80,000	470.0p	1.7.03
	99,500	—	—	99,500	661.0p	27.5.04
	55,000	55,000	—	—	961.0p	28.6.05
R D Harpin	49,000	—	—	49,000	550.0p	17.7.01
	44,000	—	—	44,000	589.0p	8.7.02
	60,000	—	—	60,000	470.0p	1.7.03
	83,000	—	—	83,000	661.0p	27.5.04
	51,000	51,000	—	—	961.0p	28.6.05
A J Belk	12,500	—	—	12,500	550.0p	17.7.01
	17,500	—	—	17,500	589.0p	8.7.02
	36,000	—	—	36,000	466.0p	13.11.02
	50,000	—	—	50,000	470.0p	1.7.03
	59,000	—	—	59,000	661.0p	27.5.04
	36,000	36,000	—	—	961.0p	28.6.05
I Carlisle	42,500	—	—	42,500	470.0p	1.7.03
	65,000	—	—	65,000	661.0p	27.5.04
	42,500	42,500	—	—	961.0p	28.6.05

Executive Share Options are exercisable between three and ten years from the date of grant subject to the satisfaction of the performance targets disclosed in the policy section.

For options granted after 2004 retesting is not permitted but for options granted before this date retesting of the performance criteria is permitted in years four and five with performance measured from a fixed date.

The price of an ordinary share on 2 August 2005 when Mr Whitty exercised his options was £10.48.

In previous years, awards equivalent to up to 200% of salary were granted to executive directors. Following the introduction of the DBP during 2005, the normal maximum annual grant under the ESOP is now 150% of salary, save in exceptional cases, for example on the appointment of a new executive director from outside of the Group.

Awards granted under the ESOP will lapse on the date that an executive leaves the Company's employment, except in the case of retirement, illness, redundancy or death, where the Committee has a discretion to allow options to be retained by the executive subject to such performance conditions (if any) as it wishes to impose.

There were no changes in the options held between 31 March and 22 May 2006.

EPS growth is calculated by the Company and independently verified by NBSC. As at March 2006, the Company's year-on-year EPS growth during the period since the date of options granted in 2003, 2004 and 2005 respectively is in each case in excess of 10%. If this level of performance were to continue until the date on which each grant becomes exercisable, all options would be exercisable in full.

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

	31 March 2006	Awarded during year	Lapsed during year	Vested during year	31 March 2005
B H Whitty	99,500	—	—	—	99,500
R D Harpin	83,000	—	—	—	83,000
A J Belk	59,000	—	—	—	59,000
I Carlisle	65,000	—	—	—	65,000

Awards will only vest in full if the Company's absolute TSR exceeds 180% by the fifth anniversary of the date of grant and the annual average EPS growth in the five year period exceeds RPI by at least 10% pa. No part of the award will vest if absolute TSR growth is less than 130% over the 5 year performance period.

TSR is independently calculated by NBSC and verified by the Committee. At March 2006, NBSC has estimated that the Company's absolute TSR growth in the period since the date of award is 139%. Accordingly, if no further increase in the Company's TSR occurs in the remainder of the performance period, 46.8% of the maximum number of options would be exercisable.

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

	31 March 2006	Awarded during year	Lapsed during year	Vested during year	31 March 2005
B H Whitty	70,626	70,626	—	—	—
R D Harpin	58,854	58,854	—	—	—
A J Belk	28,536	28,536	—	—	—
I Carlisle	22,827	22,827	—	—	—

The performance conditions attached to the conditional awards are the same as those set out in the policy section of the report on page 54. The price of an ordinary share on 2 August 2005, when the awards were made, was £10.48.

At March 2006, the Company's TSR performance in the period from the date of grant of awards under the DBP to executive directors is slightly below the upper decile in comparison with the comparator Group. If this performance were unchanged at the end of the performance period, the number of matching shares available to each participant would be 2.95.

The market price of the Company's shares at 31 March 2006 was £14.50 (2004: £8.92½). During the year the price ranged from £8.58 to £16.35.

Any ordinary shares required to fulfil entitlements under the current schemes are provided by the 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 2006, amounted to 1,994,544 ordinary shares.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings and share options.

By Order of the Board

Justin Jewitt
Chairman of Remuneration Committee
22 May 2006

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

Independent auditors' report to the members of Homeserve plc

We have audited the Group financial statements of Homeserve plc for the year ended 31 March 2006 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement, the related notes 1 to 41 and note 57. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of Homeserve plc for the year ended 31 March 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Independent Auditors' Report

We report to you our opinion as to whether the Group financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the Group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

Separate opinion in relation to IFRS

As explained in note 2 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Birmingham
22 May 2006

Group Income Statement

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Continuing Operations			
Revenue	3	367,001	220,711
Operating costs:			
Amortisation of intangible assets on acquisition	15	(3,658)	(310)
Exceptional operating costs#	6	—	(2,787)
Other operating costs		(312,919)	(178,472)
Operating costs	5	(316,577)	(181,569)
Share of results of joint ventures	18	328	—
Operating profit		50,752	39,142
Investment income	8	702	536
Finance costs	9	(1,478)	(856)
Profit before tax, exceptional operating costs# and amortisation of intangible assets on acquisition		53,634	41,919
Continuing Operations			
Amortisation of intangible assets on acquisition	15	(3,658)	(310)
Exceptional operating costs#	6	—	(2,787)
Profit before tax		49,976	38,822
Tax	10	(15,527)	(11,818)
Profit for the year from continuing operations		34,449	27,004
Discontinued Operations			
Loss for the year from discontinued operations	11	—	(19,803)
Profit for the year being attributable to equity holders of the parent	5	34,449	7,201
Earnings per share			
From continuing operations			
Basic	13	55.1p	43.5p
Diluted	13	53.6p	42.7p
From continuing and discontinued operations			
Basic	13	55.1p	11.6p
Diluted	13	53.6p	11.4p

Relates to exceptional bad debt charge in the prior year as detailed in note 6

Group Statement of Recognised Income and Expense

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Exchange differences on translation of foreign operations	32	120	—
Actuarial losses on defined benefit pension scheme	38	(422)	(372)
Current tax on additional pension contribution		468	—
Deferred tax on items taken directly to equity	22	(415)	151
Net expense recognised directly in equity		(249)	(221)
Profit for the year		34,449	7,201
Total recognised income and expense for the year attributable to equity holders of the parent		34,200	6,980

Group Balance Sheet

31 March 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Goodwill	14	187,022	159,262
Other intangible assets	15	31,824	7,661
Property, plant and equipment	16	30,727	18,717
Interests in joint ventures	18	1,192	864
Deferred tax asset	22	—	613
		250,765	187,117
Current assets			
Inventories	19	5,708	1,985
Trade and other receivables	20	127,913	88,556
Cash and cash equivalents	20	17,081	14,753
		150,702	105,294
Total assets		401,467	292,411
Current liabilities			
Trade and other payables	24	(133,339)	(80,911)
Current tax liabilities		(10,164)	(8,990)
Obligations under finance leases	23	—	(30)
Bank overdrafts and loans	21	(33,411)	(3,507)
		(176,914)	(93,438)
Net current (liabilities)/assets		(26,212)	11,856
Non-current liabilities			
Other financial liabilities	25	(18,785)	(19,530)
Retirement benefit obligation	38	(1,156)	(2,578)
Deferred tax liabilities	22	(3,503)	—
		(23,444)	(22,108)
Total liabilities		(200,358)	(115,546)
Net assets		201,109	176,865
Equity			
Share capital	26	8,075	7,987
Share premium account	27	29,998	26,576
Merger reserve	28	70,992	70,992
Own shares reserve	29	(16,668)	(8,447)
Share incentive reserve	30	1,626	1,200
Capital redemption reserve	31	1,200	1,200
Currency translation reserve	32	120	—
Retained earnings	33	105,766	77,357
Total equity		201,109	176,865

The financial statements were approved by the board of directors and authorised for issue on 22 May 2006. They were signed on its behalf by:

Andrew Belk
Group Finance Director
22 May 2006

Group Cash Flow Statement

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net cash from operating activities	35	41,046	31,514
Investing activities			
Interest received		702	536
Disposal of subsidiary undertakings	11	(1,342)	19,031
Proceeds on disposal of property, plant and equipment		301	458
Purchases of intangible assets	15	(1,572)	(2,161)
Purchases of property, plant and equipment	16	(14,468)	(6,086)
Increase in investment in joint ventures		—	(864)
Acquisition of subsidiary undertakings	34	(34,674)	(19,389)
Net cash flow from discontinued investing activities	11	669	(1,084)
Net cash used in investing activities		(50,384)	(9,559)
Financing activities			
Dividends paid		(10,688)	(9,318)
Repayments of borrowings		(2)	(1,180)
Repayments of obligations under finance leases		(30)	(335)
Purchase of own shares		(8,221)	(8,447)
Proceeds on issue of share capital		3,510	7,744
Increase/(decrease) in bank overdrafts		27,097	(5,082)
Net cash flow from discontinued financing activities	11	—	(1,081)
Net cash from/(used in) financing activities		11,666	(17,699)
Net increase in cash and cash equivalents		2,328	4,256
Cash and cash equivalents at beginning of year		14,753	10,497
Cash and cash equivalents at end of year		17,081	14,753

Notes to the Accounts

year ended 31 March 2006

1. General information

Homeserve plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 42. The nature of the Group's operations and its principal activities are set out in note 4 and in the Chief Executive's Review on pages 6 to 22.

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 International Financial Reporting Standards (IFRSs) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 57.

The financial statements have also been prepared in accordance with IFRSs, adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. There are no adjustments required to these financial statements in respect of standards that have been issued but not yet enacted. In addition, at this time standards that have been issued but not yet enacted are not expected to have an impact on the Group.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

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

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Investments in joint ventures

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment annually or more frequently if there is an indication that it may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Revenue recognition

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

Policy Membership businesses

Revenue in respect of the Policy Membership businesses include amounts receivable from the sale of policies, stated net of commissions payable and Insurance Premium Tax.

Revenue is recognised on the sale of a policy except where an obligation exists to provide future services where an appropriate proportion of monies received in advance are treated as deferred income and recognised over the relevant period. Revenue from contracts of reinsurance is recognised on a straight-line basis over the life of the policies. All associated costs are charged to the income statement as incurred. If claims costs under reinsurance contracts are expected to exceed revenue, the shortfall would be charged to the income statement immediately.

During the year, estimates regarding revenue recognition on certain promotional policies were aligned with those of our standard policies, resulting in an increase in revenue and profit of £750,000.

Emergency Repair businesses

Revenue in the Emergency Repair businesses represents amounts receivable, excluding VAT, from the sale of goods and services and is recognised on completion of the obligations relating to the work.

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.

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Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

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

Borrowing costs

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

Operating profit

Operating profit is stated after charging all operating costs and after the share of results of joint ventures 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 benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

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

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

Taxation

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

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

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

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

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

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

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

Property, plant and equipment

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

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

Computer equipment	3 - 5 years
Motor vehicles	3 years (with 25% residual value)
Furniture, fixtures and equipment	7 years
Buildings	25 - 50 years

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

Intangible assets

Intangible assets that are acquired on acquisition of a subsidiary undertaking or business are stated at their fair value and are amortised over their useful lives as follows:

Customer relationships/databases	3 – 7 years
Franchise assets	3 – 15 years

Computer software and the related licences are stated at cost and amortised over their useful lives of 3 – 5 years.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. 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.

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year ended 31 March 2006

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

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

Financial liabilities and equity

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

Borrowings

Interest-bearing loans and overdrafts are 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 their nominal value.

Equity instruments

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

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provision, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes model or Monte Carlo Simulation models depending on the type of scheme.

The Group also provides employees with the ability to purchase the Group's ordinary shares at a discount to the current market value through Save As You Earn schemes. The Group records an expense, based on its estimate of the discount related to shares expected to vest on a straight-line basis over the vesting period.

Judgements

Revenue recognition

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

Estimation uncertainty

Impairment of goodwill

The annual impairment assessment in respect of goodwill requires estimates of the value in use of cash generating units to which goodwill has been allocated to be calculated. 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 £187,886,000 (2005: £160,126,000).

3. Revenue

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

	Note	2006 £'000	2005 £'000
Provision of services		367,001	220,711
Investment income	8	702	536
		367,703	221,247

Revenue from discontinued operations relating to the provision of services amounts to £2,188,000 (2005: £60,179,000).

4. Business and geographical segments

Business segments

For management purposes, the Group is organised into two operating divisions, Policy Membership and Emergency Repair. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Policy Membership

Provision of underwritten cover for a range of domestic emergencies including plumbing and drains, electrical wiring, gas, central heating, electrical and other appliances and furniture.

Emergency Repair

Provision of claims repairs on behalf of Household Insurers and our policy holders, from fire and flood restoration, glazing, locks, window and door frames, drainage repairs and permanent building repairs.

In addition, the Group was previously involved in Commercial Outsourcing. Amounts recorded in respect of 2006 relate to the completion of activities under a single contract, which was terminated in the prior year. Discontinued operations represent the Commercial Outsourcing operations only and contributed revenue of £2,188,000 in 2006 and profit before tax of £nil.

Segment information about these businesses is presented below.

	Policy Membership 2006 £'000	Emergency Repair 2006 £'000	Consolidated 2006 £'000
Revenue			
Total revenue	161,394	218,106	379,500
Intra-segment sales	—	(128)	(128)
	161,394	217,978	379,372
Inter-segment sales			(12,371)
External sales			367,001

Intra-Group sales are charged at prevailing market prices.

	Policy Membership 2006 £'000	Emergency Repair 2006 £'000	Consolidated 2006 £'000
Result			
Segment result before joint ventures and amortisation of intangible assets on acquisition	41,005	13,077	54,082
Share of results of joint ventures	328	—	328
	41,333	13,077	54,410
Amortisation of intangible assets on acquisition	(422)	(3,236)	(3,658)
Operating profit	40,911	9,841	50,752
Investment income			702
Finance costs			(1,478)
Profit before tax			49,976
Tax			(15,527)
Result of discontinued operations			—
Profit for the year being attributable to equity holders of the parent			34,449

Other information	Policy Membership 2006 £'000	Emergency Repair 2006 £'000	Consolidated 2006 £'000
Capital additions	9,911	6,129	16,040
Depreciation and amortisation	2,617	6,624	9,241
Balance sheet			
Assets			
Segment assets	239,341	160,934	400,275
Interests in joint ventures	1,192	—	1,192
Total assets	240,533	160,934	401,467
Liabilities			
Total liabilities	(149,190)	(51,168)	(200,358)

	Policy Membership 2005 £'000	Emergency Repair 2005 £'000	Commercial Outsourcing 2005 £'000	Discontinued Operations 2005 £'000	Consolidated 2005 £'000
Revenue					
Total revenue	128,197	100,243	60,673	(60,673)	228,440
Intra-segment sales	—	—	(494)	494	—
	128,197	100,243	60,179	(60,179)	228,440
Inter-segment sales					(7,729)
External sales					220,711

Intra-Group sales are charged at prevailing market prices.

Result					
Segment result, before exceptional bad debt charge and amortisation of intangible assets on acquisition	37,766	4,473	1,844	(1,844)	42,239
Amortisation of intangible assets on acquisition	(297)	(13)	—	—	(310)
Exceptional bad debt charge (note 6)	(2,787)	—	—	—	(2,787)
Operating profit	34,682	4,460	1,844	(1,844)	39,142
Investment income					536
Finance costs					(856)
Profit before tax					38,822
Tax					(11,818)
Result of discontinued operations (note 11)					(19,803)
Profit for the year being attributable to equity holders of the parent					7,201

Discontinued operations represent the Commercial Outsourcing operations only.

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4. Business and geographical segments (continued)

Other information	Policy Membership 2005 £'000	Emergency Repair 2005 £'000	Commercial Outsourcing 2005 £'000	Consolidated 2005 £'000
Capital additions	4,580	3,209	2,012	9,801
Depreciation and amortisation	2,572	2,477	2,154	7,203
Balance sheet				
Assets				
Segment assets	132,141	136,726	22,680	291,547
Interests in joint ventures	864	—	—	864
Total assets	133,005	136,726	22,680	292,411
Liabilities				
Segment liabilities	(68,054)	(32,533)	(14,959)	(115,546)

The segment results from discontinued operations are equal to the result from discontinued operations disclosed in note 11, which provides a reconciliation to the net loss from discontinued operations.

Geographical segments

The Group's operations are principally located within the United Kingdom.

The following table provides an analysis of the Group's sales by geographical destination:

	Sales revenue by geographical market	
	2006 £'000	2005 £'000
United Kingdom	365,144	219,918
United States	1,857	793
	367,001	220,711

Revenue from the Group's discontinued operations related solely to the United Kingdom.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
United Kingdom	399,931	290,737	15,993	9,780
United States	1,536	1,674	47	21
	401,467	292,411	16,040	9,801

5. Profit for the year

Profit for the year from continuing operations has been arrived at after charging:

	2006 £'000	2005 £'000
Included in operating costs:		
Depreciation of property, plant and equipment	4,115	3,732
Cost of inventories recognised as expense	19,696	16,093
Amortisation of software licences	1,468	1,007
Staff costs (see note 7)	102,877	64,815
Auditors' remuneration for audit services	220	130
Amortisation of customer relationship intangibles	2,128	176
Amortisation of customer database intangibles	422	134
Amortisation of franchise asset intangibles	1,108	—
Other operating costs	184,543	95,482
	316,577	181,569

Amounts payable to Deloitte & Touche LLP and their associates by the company and its UK subsidiary undertakings in respect of non-audit services were £252,000 (2005: £201,000).

A more detailed analysis of auditors' remuneration is provided below.

	2006 £'000	2005 £'000
Audit services:		
Statutory audit - continuing operations	220	130
Statutory audit - discontinued operations	—	5
Audit-related regulatory reporting	70	10
	290	145
Further assurance services	48	27
Tax services:		
Compliance services	45	35
Advisory services	89	129
	134	164
	472	336

A description of the work of the Audit Committee is set out in the Corporate Governance statement on page 46 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

6. Exceptional operating costs

The exceptional costs of £2,787,000 in the prior year are in respect of a provision for bad and doubtful debts and relate to the Policy Membership business.

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year ended 31 March 2006

7. Staff costs

The average monthly number of employees (including executive directors) for continuing operations was:

	2006 Number	2005 Number
Policy Membership	1,090	1,054
Emergency Repair	2,749	1,782
	3,839	2,836

	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	90,006	57,445
Social security costs	11,142	6,338
Other pension costs (see note 38)	1,729	1,032
	102,877	64,815

8. Investment income

	2006 £'000	2005 £'000
Interest on bank deposits	702	536

9. Finance costs

	2006 £'000	2005 £'000
Interest on bank overdrafts, revolving credit facilities and loans	1,478	851
Interest on obligations under finance leases	—	5
	1,478	856

10. Tax

	Continuing Operations		Discontinued Operations		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Current tax	16,552	12,610	—	512	16,552	13,122
Deferred tax (note 22)	(1,025)	(792)	—	(10)	(1,025)	(802)
	15,527	11,818	—	502	15,527	12,320

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the charge to domestic income tax, £nil (2005: £502,000) related to profits arising in the Commercial Outsourcing division and Water Supply Operations which were disposed of during the prior year. No tax charge or credit arose on the disposal of the relevant subsidiaries in either year.

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

	2006 £'000	2005 £'000
Profit before tax	49,976	38,822
Tax at the UK corporation tax rate of 30% (2005: 30%)	14,993	11,647
Tax effect of expenses that are not deductible in determining taxable profit	240	266
Adjustments in respect of prior years – current tax	(502)	137
Adjustments in respect of prior years – deferred tax	301	(502)
Effect of overseas losses	593	270
Tax effect of share of results of joint venture	(98)	—
Tax expense for the year	15,527	11,818

There is no material difference between the attributable tax expense charged against the discontinued operations in the prior year and tax at the UK corporation tax rate of 30%. No attributable tax has been credited against the loss on disposal of discontinued operations in the prior year of £21,005,000 (note 11).

11. Discontinued operations

In the year ended 31 March 2005, Homeserve plc undertook a significant programme of restructuring which demerged the Water Supply Operations and disposed of the Commercial Outsourcing division to a number of separate purchasers. The disposals were effected in order for management to focus on its core activities. The demerger of the Water Supply Operations was completed on 6 April 2004 with the majority of the remaining Commercial Outsourcing businesses disposed of during the year ended 31 March 2005. Amounts recorded in respect of 2006 relate to the completion of activities under a single contract, which was terminated during the prior year.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	2006 £'000	2005 £'000
Revenue	2,188	60,179
Expenses	(2,105)	(58,335)
Operating profit	83	1,844
Finance costs	(83)	(140)
Profit before tax	—	1,704
Attributable tax expense	—	(502)
Loss on disposal of discontinued operations	—	(21,005)
Attributable tax expense	—	—
Net loss attributable to discontinued operations	—	(19,803)

	2006 £'000	2005 £'000
Loss for the year:		
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	141	2,154
Wages and salaries	1,282	20,881
Social security costs	136	2,300
Other pension costs	24	641
Auditor's remuneration for audit services	—	5

	2006 Number	2005 Number
The average monthly number of employees (including executive directors) for discontinued operations was:	78	890

The major classes of assets and liabilities disposed of during 2005 were as follows:

	2005 £'000
Property, plant and equipment	203,667
Inventories	5,698
Trade and other receivables	24,787
Cash and cash equivalents	2,927
Trade and other payables	(160,921)
Related goodwill^	38,979
	115,137

^ Goodwill includes £26,709,000 previously classified as discontinued operations at 31 March 2004.

During the year, the Commercial Outsourcing division generated £766,000 (2005: £776,000 utilisation) of the Group's net operating cash flows, generated £669,000 (2005: £1,084,000 utilisation) in respect of investing activities and paid £nil (2005: 1,081,000) in respect of financing activities. A loss of £21,005,000 arose on the disposal of the Commercial Outsourcing division, being the net cash proceeds of disposal of £21,616,000 less the carrying amount of the subsidiary's net assets and attributable goodwill. Total consideration received in cash, net of disposal costs, in 2005 was £21,958,000. Cash and cash equivalents disposed of with these businesses was £2,927,000.

The effect of discontinued operations on segment results is disclosed in note 4.

12. Dividends

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2005 of 10.9p (2004: 8.8p) per share	6,830	4,494
Interim dividend for the year ended 31 March 2006 of 6.1p (2005 : 5.1p) per share.	3,858	3,203
	10,688	7,697
Proposed final dividend for the year ended 31 March 2006 of 13.9p (2005 : 10.9p) per share.	8,744	6,830

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13. Earnings/(loss) per share

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

	Continuing Operations £'000	Total £'000	Continuing Operations £'000	Total £'000
Profit for the period	34,449	34,449	27,004	7,201
Amortisation of intangible assets on acquisition	3,658	3,658	310	310
Exceptional operating costs - bad debt charge	—	—	2,787	2,787
Loss on disposal of discontinued operations	—	—	—	21,005
Tax impact arising on exceptional operating costs and amortisation	(1,097)	(1,097)	(836)	(836)
Adjusted profit for the period	37,010	37,010	29,265	30,467
Weighted average number of shares (000's)				
Basic		62,474		62,062
Dilutive impact of share options		1,741		1,175
Diluted		64,215		63,237

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

13. Earnings/(loss) per share (continued)

	2006	2005
From continuing operations		
Adjusted Basic	59.2p	47.2p
Adjusted Diluted	57.6p	46.3p
From continuing and discontinued operations		
Adjusted Basic	59.2p	49.1p
Adjusted Diluted	57.6p	48.2p
From discontinued operations		
The loss per share for discontinued operations is as follows:		
Basic loss per share	—	(31.9p)
Diluted loss per share	—	(31.9p)

In 2005 the exercise of share options was non-dilutive for loss per share of discontinued operations calculated for statutory purposes.

14. Goodwill

	£'000
Cost	
At 1 April 2004	94,009
Recognised on acquisition of subsidiaries	77,523
Derecognised on disposal of subsidiaries	(12,270)
At 1 April 2005	159,262
Recognised on acquisition of subsidiaries (note 34)	18,220
Goodwill recognised on additional deferred consideration	9,450
At 31 March 2006	187,022
Accumulated impairment losses	
At 1 April 2004, 1 April 2005 and 31 March 2006	—
Carrying amount	
At 31 March 2006	187,022
At 31 March 2005	159,262

Due to the performance of Homeserve Emergency Services Limited (formerly Highway Emergency Services Limited), additional consideration amounting to £13,678,000 is now due under the terms of the 2002 acquisition agreement. At 31 March 2005 the additional consideration was estimated at £4,138,000 resulting in additional goodwill of £9,540,000 being recognised in 2006. This amount will be paid in cash during the year ending 31 March 2007.

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

	2006 £'000	2005 £'000
Warranties	43,432	43,432
Other Policy Businesses (comprising several CGUs and including minority interest buyout (note 28))	75,737	73,368
Total Policy Membership Business	119,169	116,800
Emergency Services	38,983	29,459
Improveline	9,093	—
Property Repairs	9,533	9,533
Chem-Dry	7,027	—
Other Emergency Repair Businesses (comprising several CGUs)	3,217	3,469
Total Emergency Repair Business	67,853	42,462
	187,022	159,262

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next three years and extrapolates cash flows based on an estimated growth rate of 2.5%.

The pre tax rate used to discount the forecast cash flows for all CGUs is 11.3%.

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year ended 31 March 2006

15. Other intangible assets

	Acquired on acquisition					
	Customer relationships £'000	Customer databases £'000	Franchise assets £'000	Total intangible assets on acquisition £'000	Software licenses £'000	Total £'000
Cost						
At 1 April 2004	—	—	—	**—**	4,985	**4,985**
Additions	—	—	—	**—**	2,161	**2,161**
Acquisition of subsidiary	3,329	746	—	**4,075**	6	**4,081**
At 1 April 2005	3,329	746	—	**4,075**	7,152	**11,227**
Additions	—	—	—	**—**	1,572	**1,572**
Disposals	—	—	—	**—**	(7)	**(7)**
Acquisition of subsidiary	14,293	3,790	9,470	**27,553**	167	**27,720**
At 31 March 2006	17,622	4,536	9,470	**31,628**	8,884	**40,512**
Accumulated amortisation						
At 1 April 2004	—	—	—	**—**	2,249	**2,249**
Charge for the year	176	134	—	**310**	1,007	**1,317**
At 1 April 2005	176	134	—	**310**	3,256	**3,566**
Charge for the year	2,128	422	1,108	**3,658**	1,468	**5,126**
Disposals	—	—	—	**—**	(4)	**(4)**
At 31 March 2006	2,304	556	1,108	**3,968**	4,720	**8,688**
Carrying amount						
At 31 March 2006	15,318	3,980	8,362	**27,660**	4,164	**31,824**
At 31 March 2005	3,153	612	—	**3,765**	3,896	**7,661**

Intangible assets recognised on acquisition represent non-monetary assets separately identifiable from goodwill and include customer relationships, customer databases and franchise assets.

16. Property, plant and equipment

	Infra-structure assets £'000	Fixed plant £'000	Operational structures £'000	Land and buildings £'000	Furniture, fixtures and equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost								
At 1 April 2004	152,731	66,553	26,877	30,839	32,997	40,858	13,889	**364,744**
Additions	—	—	—	1,648	2,240	2,362	1,390	**7,640**
Disposals	—	—	—	(134)	(748)	(1,953)	(468)	**(3,303)**
Acquisition of subsidiary	—	—	—	23	123	121	—	**267**
Demerger	(152,731)	(66,553)	(26,877)	(17,230)	(19,975)	(22,406)	(4,049)	**(309,821)**
Disposal of subsidiary	—	—	—	(3,545)	(8,518)	(8,603)	(7,298)	**(27,964)**
At 1 April 2005	—	—	—	11,601	6,119	10,379	3,464	**31,563**
Additions	—	—	—	8,568	1,044	3,350	1,506	**14,468**
Acquisition of subsidiary	—	—	—	1,815	160	539	106	**2,620**
Disposals	—	—	—	(90)	(1,072)	(702)	(2,101)	**(3,965)**
At 31 March 2006	—	—	—	21,894	6,251	13,566	2,975	**44,686**
Accumulated depreciation								
At 1 April 2004	65,006	24,639	4,844	4,193	11,671	25,511	7,174	**143,038**
Charge for the year	—	—	—	624	2,017	1,935	1,310	**5,886**
Disposals	—	—	—	(40)	(379)	(1,425)	(617)	**(2,461)**
Demerger	(65,006)	(24,639)	(4,844)	(2,704)	(4,402)	(13,860)	(1,952)	**(117,407)**
Disposal of subsidiary	—	—	—	(717)	(6,235)	(5,631)	(4,128)	**(16,711)**
Provision for loss on disposal	—	—	—	—	501	—	—	**501**
At 1 April 2005	—	—	—	1,356	3,173	6,530	1,787	**12,846**
Charge for the year	—	—	—	776	899	1,898	683	**4,256**
Disposals	—	—	—	(79)	(950)	(611)	(1,503)	**(3,143)**
At 31 March 2006	—	—	—	2,053	3,122	7,817	967	**13,959**
Carrying amount								
At 31 March 2006	—	—	—	19,841	3,129	5,749	2,008	**30,727**
At 31 March 2005	—	—	—	10,245	2,946	3,849	1,677	**18,717**

The depreciation charge of £4,256,000 (2005: £5,886,000) includes £141,000 (2005: £2,154,000) relating to discontinued operations. The net book value of discontinued operations at 31 March 2006 is £nil (2005: £537,000).

The carrying amount of the Group's fixtures and equipment includes an amount of £nil (2005: £412,000) in respect of assets held under finance leases.

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. Interests in joint ventures

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

	Doméo £'000	Doméo Assistance £'000	2006 Total £'000	Doméo £'000	Doméo Assistance £'000	2005 Total £'000
Result						
Non-current assets	758	41	799	190	—	190
Current assets	8,263	477	8,740	5,003	—	5,003
Total assets	9,021	518	9,539	5,193	—	5,193
Current liabilities	(8,352)	(617)	(8,969)	(6,100)	—	(6,100)
Net assets	669	(99)	570	(907)	—	(907)
Group share, 49%	328	(49)	279	(444)	—	(444)
Amount recognisable	328	—	328	—	—	—
Goodwill	864	—	864	864	—	864
Carrying amount	1,192	—	1,192	864	—	864
Revenues						
Total revenue	8,718	88	8,806	5,171	—	5,171
Total profit/(loss) after tax	1,576	(122)	1,454	(73)	—	(73)
Amount recognisable†	328	—	328	—	—	—

† The investment in the Doméo joint venture was increased from 40% to 49% during 2005.

The Group's share of the above results is only £328,000 (2005: £nil) reflecting the net liabilities of the Doméo joint venture during 2005 and part of 2006, and the net liabilities position of Doméo Assistance in 2006.

19. Inventories

	2006 £'000	2005 £'000
Raw materials	928	123
Work-in-progress	3,260	662
Finished goods	1,520	1,200
	5,708	1,985

20. Other financial assets

Trade and other receivables

	2006 £'000	2005 £'000
Amounts receivable for the provision of services	84,141	57,043
Other debtors	38,213	28,235
Loans to joint ventures	683	652
Prepayments and accrued income	4,876	2,626
	127,913	88,556

The average credit period taken on provision of services is up to 65 days reflecting continuous payment methods within Policy Membership businesses. No interest is charged on the receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.7million (2005: £0.6million). This allowance has been determined by reference to past default experience.

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £17,081,000 (2005: £14,753,000) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

21. Bank overdrafts and loans

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

	2006 £'000	2005 £'000
Bank overdrafts and revolving credit facilities	30,294	3,197
Loan notes	3,117	310
	33,411	3,507
The borrowings are repayable as follows:		
On demand or within one year	33,411	3,507

	2006 %	2005 %
The weighted average interest rates were paid as follows:		
Bank overdrafts and revolving credit facilities	5.2	5.2
Loan notes	4.1	4.7

Revolving credit facilities are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate the fair value of the Group's borrowings as follows:

	2006 £'000	2005 £'000
Bank overdrafts and revolving credit facilities	30,294	3,197
Loan notes	3,117	310
	33,411	3,507

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

i. Bank overdrafts are repayable on demand.

ii. The Group has revolving credit facilities with a number of banks totalling £100 million (2005: £100 million). Of these facilities, £30 million expire within one year and £70 million expire in more than one year, but less than two years.

iii. Loan notes are repayable on demand, subject to a minimum initial maturity of 6 months.

iv. All of the Group's borrowings are at floating rates at margins of between 0.1% and 1% above LIBOR.

At 31 March 2006, the Group had available £74.2million (2005: £95.5million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

22. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year.

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share schemes £'000	Acquired intangible assets £'000	Acquired property £'000	Total £'000
At 1 April 2004	(17,689)	3,843	585	—	(597)	(13,858)
(Charge)/credit to income	343	(109)	454	69	35	792
(Charge)/credit to equity	127	47	—	—	(23)	151
Credit to equity	—	—	1,040	—	—	1,040
Acquisition of subsidiary	33	—	—	(977)	—	(944)
Disposal of subsidiary	600	—	—	—	—	600
Demerger of subsidiary	15,948	(3,116)	—	—	—	12,832
At 1 April 2005	(638)	665	2,079	(908)	(585)	613
(Charge)/credit to income	(235)	—	299	961	—	1,025
(Charge)/credit to equity	—	(427)	—	—	12	(415)
Credit to equity	—	—	2,052	—	—	2,052
Acquisition of subsidiary	—	—	—	(6,778)	—	(6,778)
At 31 March 2006	(873)	238	4,430	(6,725)	(573)	(3,503)

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:

	2006 £'000	2005 £'000
Deferred tax liabilities	(8,171)	(2,131)
Deferred tax assets	4,668	2,744
Net deferred tax (liability)/asset	(3,503)	613

At the balance sheet date, the Group has unused tax losses of £8.9 million (2005: £3.4 million) available for offset against future profits and which can be carried forward indefinitely. The increase in the year includes those acquired with subsidiaries during the year of £5.2 million. No deferred tax asset has been recognised due to the uncertainty of their future recovery.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2005: £nil).

Temporary differences arising in connection with interests in joint ventures are insignificant.

23. Obligations under finance leases

	Present value of lease payments	
	2006 £'000	2005 £'000
Amounts payable under finance leases:		
Within one year	—	30
	—	30

In the prior year the Group leased certain of its fixtures and equipment under finance leases with average lease terms of three to four years. For the year ended 31 March 2005, the average effective borrowing rate was 15%. Interest rates were fixed at the contract date. All leases were on a fixed repayment basis and no arrangements were entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

24. Current liabilities – Trade and other payables

	2006 £'000	2005 £'000
Trade creditors and accruals	58,147	35,043
Deferred consideration	13,678	888
Payments in advance	214	208
Taxes and social security, excluding current tax	3,358	2,265
Other creditors	57,942	42,507
	133,339	80,911

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 64 days (2005: 63 days).

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

25. Non current liabilities – Other financial liabilities

	Deferred income £'000	Deferred consideration £'000	Total £'000
At 1 April 2005	15,109	4,421	19,530
Movement in year	(516)	(229)	(745)
At 31 March 2006	14,593	4,192	18,785

Deferred consideration relates to future amounts payable on the acquisition of Homeserve Emergency Services Limited in 2002. The movement in the year represents the reclassification of the liability to less than one year and the acquisition of Improveline.

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

26. Share capital

	2006 £'000	2005 £'000
Authorised:		
70,400,000 ordinary shares of 12½p each	8,800	8,800
Issued and fully paid:		
64,603,000 ordinary shares of 12½p each (2005: 63,901,000 ordinary shares of 12½p each)	8,075	7,987

The Company has one class of ordinary shares which carry no right to fixed income.

Share capital represents consideration received for the nominal value of 12½p per share on all issued and fully paid shares.

During the year the Company issued 702,222 shares for total consideration of £3,510,000.

27. Share premium account

	Share premium account £'000
Balance at 1 April 2004	18,902
Premium arising on issue of equity shares	7,573
Transfer from retained earnings	101
Balance at 31 March 2005	26,576
Premium arising on issue of equity shares	3,422
Balance at 31 March 2006	29,998

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

28. Merger reserve

	Merger reserve £'000
Balance at 1 April 2004	—
Increase in merger reserve	70,992
Balance at 1 April 2005 and 31 March 2006	70,992

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

29. Own shares reserve

	Own shares reserve £'000
Balance at 1 April 2004	—
Acquired in the year	(8,447)
Balance at 31 March 2005	(8,447)
Acquired in the year	(8,221)
Balance at 31 March 2006	(16,668)

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 certain of the options under the Group's share options schemes and are recognised at cost. The Employee Benefit Trust holds 1,994,544 shares (2005: 1,191,314 shares).

30. Share incentive reserve

	Share incentive reserve £'000
Balance at 1 April 2004	236
Share based payment charges in the year	964
Balance at 31 March 2005	1,200
Share based payment charges in the year	2,058
Share options exercised in the year	(1,632)
Balance at 31 March 2006	1,626

The share incentive reserve represents the cumulative charges to income under IFRS 2 'Share Based Payments' on all share options and schemes granted after 7 November 2002 that had not vested as at 1 January 2005, net of share option exercises.

31. Capital redemption reserve

	Capital redemption reserve £'000
Balance at 1 April 2004, 31 March 2005 and 31 March 2006	1,200

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

32. Currency translation reserve

	Currency translation reserve £'000
Balance at 1 April 2004 and 31 March 2005	—
Movement in the year	120
Balance at 31 March 2006	120

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

33. Retained earnings

	Retained earnings £'000
Balance at 1 April 2004	133,183
Dividends	(7,697)
Dividend in specie	(56,474)
Total statement of recognised income and expense	6,980
Transfer to share premium	(101)
Deferred tax asset on share option gains taken directly to equity	1,040
Tax on items taken directly to reserves	426
Balance at 1 April 2005	77,357
Dividends	(10,688)
Total statement of recognised income and expense	34,200
Share options exercised in the year	1,632
Deferred tax asset on share option gains taken directly to equity	2,052
Tax on exercised share options taken directly to equity	1,333
Less exchange differences	(120)
Balance at 31 March 2006	105,766

34. Acquisition of subsidiaries

On 14 April 2005, the Group acquired 100% of the share capital of Chem-Dry UK limited, Chem-Dry Northern & Southern Limited and Chem-Dry Midlands & London Limited (together "Chem-Dry"). Chem-Dry is a Group of companies involved in fire and flood restoration and upholstery cleaning.

On 19 May 2005, the Group acquired a number of policies in the USA through the acquisition of 100% of the share capital of United Water LeakGuard Inc.

On 2 August 2005, the Group acquired 100% of the share capital of National Property Solutions Limited (NPS Ltd), a company which manages insured home assistance policies.

On 16 December 2005, the Group acquired 100% of the share capital of Recommend Limited, trading as Improveline, for initial cash consideration of £17.9m with deferred consideration of up to £4.0m. Improveline provides domestic property repair and improvement services for property owners, insurers and managers.

All these transactions have been accounted for by the purchase method of accounting.

Subsequent to the year end on 21 April 2006, the Group acquired certain of the trade and assets from Pilkington United Kingdom Limited relating to the glazing division of Pilkington Building Products. The business undertakes glazing repairs on a nationwide basis.

34. Acquisition of subsidiaries (continued)

The fair value of the identifiable assets and liabilities of the acquisitions were:

	Chem-Dry £'000	United Water LeakGuard Inc £'000	National Property Solutions Limited £'000	Recommend Limited (t/a Improve-line) £'000	Total £'000	Pilkingtons £'000
Net assets acquired:						
Property, plant and equipment	2,339	—	—	281	**2,620**	130
Other intangible assets	88	—	69	10	**167**	—
Inventories	614	—	—	2,596	**3,210**	66
Trade and other receivables	8,244	—	418	4,154	**12,816**	2,274
Cash and cash equivalents	2,637	19	50	1,992	**4,698**	2
Trade and other payables	(12,114)	(16)	(1,690)	(3,552)	**(17,372)**	(2,009)
Deferred tax liability	(2,916)	—	(656)	(3,137)	**(6,709)**	—
	(1,108)	3	(1,809)	2,344	**(570)**	463
Intangible assets identified on acquisition	13,072	1,265	2,185	10,459	**26,981**	—
Goodwill	6,774	—	2,199	9,093	**18,066**	6,037
Total consideration	18,738	1,268	2,575	21,896	**44,477**	6,500
Satisfied by:						
Cash	18,438	1,136	551	17,674	**37,799**	6,345
Deferred consideration	—	—	—	4,000	**4,000**	—
Loan notes	—	—	1,980	—	**1,980**	—
Directly attributable costs	300	132	44	222	**698**	155
	18,738	1,268	2,575	21,896	**44,477**	6,500
Net cash outflow arising on acquisition:						
Cash consideration	18,738	1,268	595	17,896	**38,497**	6,500
Cash and cash equivalents acquired	(2,637)	(19)	(50)	(1,992)	**(4,698)**	(2)
	16,101	1,249	545	15,904	**33,799**	6,498

Total fair value adjustments of £171,000 were made on the acquisition of National Property Solutions reducing the net assets to align accounting policies and reflect the fair value of certain non-current and current assets. There were no fair value adjustments on the other acquisitions completed during the year.

In addition to the net cash outflow arising on acquisition above of £33,799,000, there were further cash outflows in respect of the acquisition of a number of individually immaterial acquisitions amounting to £875,000 resulting in £572,000 of intangible assets and £154,000 of goodwill.

Intangible assets identified on the acquisition of Chem-Dry represents the directors' estimate of the value of the customer relationships and franchise network at acquisition. Intangible assets identified on Recommend Limited represent the directors' estimate of the value of the customer relationships. The intangible assets on United Water LeakGuard and National Property Solutions reflect the the directors' estimate of the value of the acquired customer database lists.

An exercise to determine intangible assets included within goodwill on Pilkingtons is yet to be undertaken. This exercise will be completed for the interim accounts.

Goodwill represents future cross sell opportunities, efficiency savings and synergies and potential new client wins from these acquisitions.

If all the acquisitions had been completed on the first day of the financial year, Group revenues for the period and Group operating profit attributable to equity holders of the parent would have been £394,346,000 and £52,668,000 respectively.

The post acquisition operating profit or loss from these acquisitions in the year ended 31 March 2006 was as follows:

	Chem-Dry £'000	LeakGuard Inc £'000	National Property Solutions Limited £'000	Recommend Limited (t/a Improve-line) £'000	Other £'000	Total £'000
Operating profit	3,401	314	(535)	456	150	3,786

35. Notes to the cash flow statement

	2006 £'000	2005 £'000
Operating profit	50,752	39,142
Adjustments for:		
Depreciation of property, plant and equipment	4,115	3,732
Amortisation of intangible assets	5,126	1,317
Share based payments expense	2,058	964
Share of profits in joint ventures	(328)	—
Loss on disposal of property, plant and equipment and software licences	128	384
Exceptional bad debt charge	—	2,787
Additional pension contributions	(2,000)	—
Operating cash flows before movements in working capital	59,851	48,326
Increase in inventories	(513)	(796)
Increase in receivables	(27,786)	(17,827)
Increase in payables	24,077	13,220
Cash generated by operations	55,629	42,923
Income taxes paid	(13,871)	(10,247)
Interest paid	(1,478)	(386)
Net cash from continuing operating activities	40,280	32,290
Net cash inflow/(outflow) from discontinued operating activities	766	(776)
	41,046	31,514

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

36. Operating lease arrangements

The Group as lessee

	2006 £'000	2005 £'000
Minimum lease payments under operating leases recognised in income for the year	6,384	4,013

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:

	2006 £'000	2005 £'000
Within one year	5,505	3,017
In the second to fifth years inclusive	9,854	11,586
After five years	6,998	8,441
	22,357	23,044

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

37. Share Based Payments

During the year ended 31 March 2006, the Group had 5 share based payment arrangements, which are described below:

i) **Executive Share Option Plan ("ESOP")**
The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

ii) **2005 Key Executive Incentive Plan ("KEIP")**
The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting is dependent upon the Profit Before Tax of the Group for the year ending 31 March 2008 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) **Long Term Incentive Plan ("LTIP")**
The LTIP provides for the grant of nil cost options. The vesting period is five years and is dependent upon the Total Shareholder Return performance of the Group over the five years ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iv) **Deferred Bonus Plan ("DBP")**
The Deferred Bonus Plan enables the individual to defer receipt of their annual cash bonus (up to a maximum of 100%) and to invest an equivalent amount in the ordinary share capital of the Company. The deferred bonus may be matched by the Company dependent upon the Company's relative Total Shareholder Return over a three year period, up to a maximum of 300% of the deferred amount for upper decile performance. The shares cannot normally be exercised for three years and lapse if not exercised within 10 years from the date of grant.

v) **Save As You Earn Scheme ("SAYE")**
The SAYE is open to almost all employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

	ESOP	KEIP	LTIP	DBP(i)	SAYE
2005					
Number					
Outstanding at 1 April	2,728,503	—	—	—	738,722
Granted	819,000	—	381,500	—	320,239
Lapsed	(108,625)	—	—	—	(228,390)
Exercised	(1,097,278)	—	—	—	(299,612)
Outstanding at 31 March	2,341,600	—	381,500	—	530,959
Exercisable at 31 March	581,100	—	—	—	44,969
Weighted average exercise price (£)					
Outstanding at 1 April	4.85	—	—	—	4.28
Granted	6.57	—	—	—	5.43
Lapsed	4.88	—	—	—	4.40
Exercised	4.82	—	—	—	4.13
Outstanding at 31 March	5.47	—	—	—	5.01
Exercisable at 31 March	4.59	—	—	—	3.26
Range of exercise prices for options outstanding at 31 March 2005	£3.67 - £6.61	—	—	—	£3.00 - £5.43
Weighted average remaining contractual life	8	—	4	—	3
Weighted average fair value of options awarded in 2005	£1.85	—	—	—	£2.71
2006					
Number					
Outstanding at 1 April	2,341,600	—	381,500	—	530,959
Granted	498,000	1,408,000	55,000	68,884	245,946
Lapsed	(75,000)	(96,500)	—	—	(134,528)
Exercised	(635,000)	—	—	—	(113,638)
Outstanding at 31 March	2,129,600	1,311,500	436,500	68,884	528,739
Exercisable at 31 March	250,100	—	—	—	1,418
Weighted average exercise price (£)					
Outstanding at 1 April	5.47	—	—	—	5.01
Granted	9.61	10.11	—	—	9.18
Lapsed	6.12	9.61	—	—	5.08
Exercised	4.75	—	—	—	4.23
Outstanding at 31 March	4.43	10.15	—	—	7.10
Exercisable at 31 March	5.14	—	—	—	4.66
Range of exercise prices for options outstanding at 31 March 2006	£3.67 - £6.61	£9.61 - £15.76	—	—	£4.66 - £9.18
Weighted average remaining contractual life	8	10	3	2	4
Weighted average fair value of options awarded in 2006	£3.18	£1.13	—	—	£2.87

Notes: i) The figures in the table relate to the number of deferred options only.

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

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% - 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	4.2% - 5.1%

Levels of early exercises and lapses are estimated using historical averages.

The Group recognised total expenses of £2,058,000 (2005: £964,000) related to equity-settled share-based payment transactions.

38. Retirement benefit scheme

Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £1,191,000 (2005: £819,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2006, contributions of £nil (2005: £nil) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

The Group participates in a defined benefit scheme, the Water Companies Pension Scheme, for qualifying employees. This is a sectionalised final salary scheme and the Group participates in the Homeserve plc Section of the Scheme. The Section funds are administered by the trustees and are independent of the Group's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. The Section has a history of raising pensions in line with price inflation, and these increases are reflected in the measurement of the obligation.

The results of the actuarial valuation as at 1st April 2005 were updated to the accounting date by an independent qualified actuary in accordance with IAS19. As required by IAS19, the value of the defined benefit obligation, the past service cost and the current service cost have been measured using the projected unit credit method.

	Valuation at	
	2006	**2005**
Key assumptions used:		
Discount rate at 31 March	4.9%	5.4%
Retail price inflation	3.0%	2.9%
Expected rate of salary increases	5.0%	4.9%
Future pension increases	3.0%	2.9%
Expected rate of return on scheme assets at 31 March	6.9%	7.7%
Life expectancy of male aged 60 at balance sheet date	25.6 years	25.5 years

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2006 £'000	**2005 £'000**
Current service cost	449	437
Interest cost	549	457
Expected return on scheme assets	(579)	(461)
Past service cost	119	—
Curtailment gain	—	(220)
	538	213

Of the charge for the year, £538,000 (2005: £213,000) has been included in operating costs. Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was £2,207,000 (2005: £667,000).

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

	2006 £'000	2005 £'000
Present value of defined benefit obligations	(13,200)	(9,854)
Fair value of scheme assets	12,044	7,276
Deficit in scheme	(1,156)	(2,578)
Past service cost not yet recognised in balance sheet	—	—
Liability recognised in the balance sheet	(1,156)	(2,578)

This amount is presented in the balance sheet as follows:

	2006 £'000	2005 £'000
Non-current liabilities	(1,156)	(2,578)
	(1,156)	(2,578)

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

	2006 £'000	2005 £'000
At 1 April	9,854	131,586
Demerger of Water Supply business	—	(123,106)
Employer's part of the current service cost	449	437
Interest cost	549	457
Contributions from scheme members	106	121
Actuarial gains and losses	2,050	578
Benefits paid	73	1
Past service cost	119	—
Acquisition of subsidiary	—	(220)
At 31 March	13,200	9,854

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

	2006 £'000	2005 £'000
At 1 April	7,276	118,776
Demerger of Water Supply business	—	(112,650)
Expected return on scheme assets	579	461
Actuarial gains and losses	1,628	206
Contributions from the sponsoring companies	2,382	361
Contributions from scheme members	106	121
Benefits paid	73	1
At 31 March	12,044	7,276

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

The amount recognised outside profit or loss in the statement of recognised income and expense for 2006 is a loss of £422,000 (2005: Loss of £372,000). The cumulative amount recognised outside profit and loss at 31 March 2006 is a loss of £794,000.

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

	Expected return		Fair value of assets	
	2006 %	2005 %	2006 £'000	2005 £'000
Equity instruments	7.4	7.7	10,057	7,198
Debt instruments	—	—	—	—
Other assets	4.2	4.7	1,987	78
			12,044	7,276

The overall expected rate of return on assets for the financial year ending 31 March 2006 was 7.7% pa (2005: 7.9% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Section was invested in at 31 March 2005.

38. Retirement benefit scheme (continued)

The history of experience adjustments is as follows.

	2006 £'000	2005 £'000
Present value of defined benefit obligations	(13,200)	(9,854)
Fair value of scheme assets	12,044	7,276
Deficit in the scheme	(1,156)	(2,578)

	2006	2005
Experience adjustments on scheme liabilities		
Amount of (gain)/loss (£'000)	95	(107)
Percentage of scheme liabilities (%)	1	(1)
Experience adjustments on scheme assets		
Amount of (gain)/loss (£'000)	(1,628)	(206)
Percentage of scheme liabilities (%)	(14)	(3)

In subsequent accounting periods a history (building up to 5 years) of the Section's experience will be illustrated.

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £510,000 plus any Pension Protection Fund levy payable.

39. Events after the balance sheet date

Other than in respect of the acquisition of the trade and certain assets of the glazing division of Pilkington Building Products as detailed in note 34, there have been no events after the balance sheet date.

40. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements (note 51).

Trading transactions

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

	Provision of goods		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Harpin Ltd	—	—	151	110	—	—	—	8
Joint ventures	497	319	—	—	—	—	—	—

Harpin Limited is a related party of the Group because it is controlled by Richard Harpin.

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

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 58 to 61.

	2006 £'000	2005 £'000
Short-term employee benefits	2,205	1,971
Post-employment benefits	506	447
Termination benefits	—	284
Share-based payment	778	409
	3,489	3,111

Directors' transactions

During the year, the Group purchased transport services from Harpin Ltd, a company controlled by Richard Harpin. The total value of purchases amounted to £151,000 (2005: £110,000) and the balance due to Harpin Ltd at the year end amounted to £nil (2005: £8,000).

Except as noted above with Harpin Limited, there were no transactions with directors requiring disclosure.

Under the terms of an agreement entered into between Ian Carlisle and certain of the vendors of Highway Emergency Services Limited ('the vendors'), Mr Carlisle expects to receive a payment of (approximately) £2.1m in January 2007: this sum represents a proportion of the deferred consideration received by the vendors under the terms of the 2002 agreement relating to the acquisition of that company.

41. Insurance Contracts

The Group, through its subsidiary Affinity Partners Limited, enters into contracts of reinsurance with an independent insurance company that underwrites the policies marketed and administered by Homeserve GB Limited. Under these arrangements, Affinity Partners Limited underwrites 50% of the risk and reward associated with these policies ("the policies").

The policies are entered into between the customers of Homeserve GB Limited and an independent insurance company in the United Kingdom only. The policies are principally in relation to underwritten cover for a broad range of domestic emergencies relating to Plumbing and Drains, Electrical Wiring, Water and Gas Supply pipes and Gas Boilers.

Revenue from the reinsurance contracts is recognised on a straight-line basis over the life of the policies (typically 12 months), reflecting the period of benefit to the customer. Where the reinsurance premium is received in advance an appropriate amount is included within deferred income.

The costs associated with the claims received under the contract of reinsurance are recognised as they are incurred. An assessment is made of whether the expected cash inflows under the reinsurance contracts are sufficient to meet the expected future claims costs under the reinsurance contracts. If a shortfall were to arise, this would be charged immediately to the income statement.

The amounts recognised by the Group in respect of reinsurance contracts are as follows:

	2006 £'000	2005 £'000
Revenue	34,916	27,267
Claims costs	(34,761)	(25,455)
Deferred income	9,225	7,757

The principal impact on the amount of claims incurred under the reinsurance contracts relate to weather conditions, which can impact the frequency of claims and the nature of the emergency. In order to assist in managing the risk arising from the policies, the claims costs are fixed for each type of emergency repair.

There is no concentration of insurance risk due to the immaterial size of each of the policies. Neither the policies or the reinsurance contract are exposed to any significant liquidity risk, credit risk, market risk, nor are there any exposures relating to embedded derivatives.

As the policies relate to emergency repairs and generally cover a 12 month period, all cash outflows are expected to occur within 12 months from the date of commencement of the policies.

On a weighted average basis, across all policies, a 1 percentage point increase in claims frequencies would result in additional claims costs of £0.9m.

Independent Auditors' Report

Independent auditors' report to the members of Homeserve plc

We have audited the individual Company financial statements (the "financial statements") of Homeserve plc for the year ended 31 March 2006 which comprise the balance sheet, the cash flow statement, the statement of recognised income and expense and the related notes 42 to 56, and note 58. These individual Company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the Group annual report of Homeserve plc for the year ended 31 March 2006. We have reported separately on the Group financial statements of Homeserve plc for the year ended 31 March 2006 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities. Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the individual Company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the other information contained in the annual report for the above year as described in the contents section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the Company's affairs as at 31 March 2006;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the individual Company financial statements

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
22 May 2006

Company Statement of Recognised Income and Expense

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Actuarial losses on defined benefit pension schemes	38	(422)	(372)
Current tax credit on additional pension contribution		132	—
Deferred tax on items taken directly to equity	49	(427)	47
Net expense recognised directly in equity		(717)	(325)
Profit/(loss) for the year		26,561	(1,412)
Total recognised income and expense for the year attributable to equity holders of the Company		25,844	(1,737)

Company Balance Sheet

31 March 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Investment in subsidiaries	45	108,468	79,468
Deferred tax asset	49	2,129	1,602
		110,597	81,070
Current assets			
Trade and other receivables	46	138,390	137,550
Current tax asset		1,051	—
		139,441	137,550
Total assets		250,038	218,620
Current liabilities			
Trade and other payables	47	(5,821)	(6,448)
Current tax liabilities		—	(645)
Bank overdrafts and loans	48	(64,193)	(52,085)
		(70,014)	(59,178)
Net current assets		69,427	78,372
Non-current liabilities			
Retirement benefit obligation	38	(1,156)	(2,578)
		(1,156)	(2,578)
Total liabilities		(71,170)	(61,756)
Net assets		178,868	156,864
Equity			
Share capital	26	8,075	7,987
Share premium account	27	29,998	26,576
Merger reserve	28	70,992	70,992
Share incentive reserve	55	217	653
Capital redemption reserve	31	1,200	1,200
Retained earnings	56	68,386	49,456
Total equity		178,868	156,864

The financial statements were approved by the board of directors and authorised for issue on 22 May 2006. They were signed on its behalf by:

Andrew Belk
Group Finance Director
22 May 2006

Company Cash Flow Statement

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net cash outflow from operating activities	43	(478)	(6,544)
Investing activities			
Interest received		3,294	3,586
Dividends received from subsidiary		29,475	—
Purchase of own shares		(8,221)	(8,447)
Increased investment in subsidiary		(29,000)	(644)
Net cash used in investing activities		(4,452)	(5,525)
Financing activities			
Dividends paid		(10,688)	(7,697)
Share capital issued		3,510	7,744
Increase in bank overdraft		12,108	12,022
Net cash from financing activities		4,930	12,069
Net movement in cash and cash equivalents		—	—
Cash and cash equivalents at beginning and end of year		—	—

Notes to the Accounts

year ended 31 March 2006

Company only

The following notes 42 to 56 and 58 relate to the Company only position for the year ended 31 March 2006.

42. Significant accounting policies

As provided by s230 of the Companies Act 1985, the Company has not presented its own income statement. The Company's profit for the year was £26,561,000 (2005: loss £622,000).

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

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.

43. Notes to the cash flow statement

	2006 £'000	2005 £'000
Operating loss	(7,767)	(3,266)
Adjustments for:		
Share based payment expense	959	539
Additional pension contributions	(879)	—
Operating cash flows before movements in working capital	(7,687)	(2,727)
Decrease in receivables	6,261	2,301
Decrease in payables	(472)	(4,865)
Cash used in operations	(1,898)	(5,291)
Income taxes received/(paid)	1,420	(1,253)
Net cash outflow from operating activities	(478)	(6,544)

44. Other information

The average monthly number of employees (including executive directors) was:

	2006 Number	2005 Number
	98	75

	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	6,707	3,811
Social security costs	2,163	984
Other pension costs	300	239
	9,170	5,034

The amount paid to the auditors for statutory audit services was £8,000 (2005: £5,000). There were no non-audit fees.

45. Subsidiaries

Details of the Company's subsidiaries at 31 March 2006 are as follows. All companies are accounted for using the acquisition method.

Name of subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of voting interest %	Proportion of power held %
Intermediate Holding Companies			
Homeserve Assistance Limited	England	100	100
Homeserve Enterprises Limited	England	100	100
Homeserve Investments Limited	England	100	100
Homeserve Resources Limited	England	100	100
Policy Membership			
Homeserve Care Solutions Limited	England	100	100
Homeserve Retail Warranties Limited	England	100	100
Regency Finance & Insurance Services Limited	England	100	100
Regency Finance & Insurance Services (Administration) Limited	England	100	100
Homeserve Warranties Limited	England	100	100
Homeserve GB Limited	England	100	100
Homeserve International Limited	England	100	100
Affinity Partners Limited	Guernsey	100	100
Home Service USA Corp	USA	100	100
Homeserve Ibérica	Spain	100	100
Emergency Repair			
Homeserve At Home Limited	England	100	100
Homeserve Claims Management Limited	England	100	100
Homeserve Emergency Services Limited	England	100	100
Homeserve Property Repairs Limited	England	100	100
Chem-Dry Midlands and London Limited	England	100	100
Chem-Dry Franchising Limited	England	100	100
Chem-Dry UK Limited	England	100	100
Concept Document Recovery Limited	England	100	100
Homeserve Servowarm Limited	England	100	100
Recommend Limited (trading as Improveline)	England	100	100

The movement in investments is as follows:

	Total £'000
Cost and net book value	
At 1 April 2004	24,003
Increased investment in existing subsidiary	664
Increased investment on the acquisition of the minority interest	72,442
Demerger of Water Supply Operation	(17,641)
At 1 April 2005	79,468
Increased investment in existing subsidiary	29,000
At 31 March 2006	108,468

46. Financial assets

Trade and other receivables

	2006 £'000	2005 £'000
Accounts receivable from Group companies	120,813	127,269
Other debtors	17,315	9,944
Prepayments and accrued income	262	337
	138,390	137,550

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

Credit risk

The Company's principal financial assets relate to amounts due from subsidiary undertakings which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its receivables from subsidiary undertakings. No allowance for doubtful debts are considered necessary based on prior experience and the directors' assessment of the current economic environment.

The Company has no significant concentration of credit risk, with exposure spread over a large number of subsidiary undertakings.

47. Financial liabilities

Trade and other payables

	2006 £'000	2005 £'000
Trade creditors and accruals	1,161	1,220
Amounts payable to Group companies	3,360	3,487
Taxes and social security, excluding corporation tax	297	151
Other creditors	1,003	1,590
	5,821	6,448

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days (2005: 45 days).

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

48. Bank overdrafts and loans

	2006 £'000	2005 £'000
Bank overdrafts and revolving credit facilities	64,193	52,085

Details of the borrowing facilities are given in note 21 to the accounts.

49. Deferred tax

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior year.

	Retirement benefit obligations £'000	Share schemes £'000	Total £'000
At 1 April 2004	3,843	487	4,330
(Charge)/credit to income	(109)	253	144
Credit to equity	—	197	197
Credit to equity	47	—	47
Demerger of subsidiary	(3,116)	—	(3,116)
At 1 April 2005	665	937	1,602
Credit to income	—	299	299
Credit to equity	—	655	655
Charge to equity	(427)	—	(427)
At 31 March 2006	238	1,891	2,129

50. Post balance sheet events

There were no post balance sheet events between the balance sheet date and the signing of the accounts.

51. Related parties

	Provision of services		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Harpin Ltd	—	—	122	110	—	—	—	8
Subsidiary companies	5,353	3,228	—	—	5,353	—	—	—

Harpin Limited is a related party of the Group because it is controlled by Richard Harpin.

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

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

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

53. Share based payments

During the year ended 31 March 2006, the Company had 5 share based payment arrangements, which are described below:

i) Executive Share Option Plan ("ESOP")

The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

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

The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting is dependent upon the Profit Before Tax of the Group for the year ending 31 March 2008 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) Long Term Incentive Plan ("LTIP")

The LTIP provides for the grant of nil cost options. The vesting period is five years and is dependent upon the Total Shareholder Return performance of the Group over the five years ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iv) Deferred Bonus Plan ("DBP")

The Deferred Bonus Plan enables the individual to defer receipt of their annual cash bonus (up to a maximum of 100%) and to invest an equivalent amount in the ordinary share capital of the Company. The deferred bonus may be matched by the Company dependent upon the company's relative Total Shareholder Return over a three year period, up to a maximum of 300% of the deferred amount for upper decile performance. The shares cannot normally be exercised for three years and lapse if not exercised within 10 years from the date of grant.

v) Save As You Earn Scheme ("SAYE")

The SAYE is open to almost all employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

	ESOP	KEIP	LTIP	DBP(i)	SAYE
2005					
Number					
Outstanding at 1 April	1,278,500	—	—	—	592,000
Granted	285,500	—	241,500	—	86,427
Lapsed	(228,375)	—	—	—	(181,436)
Exercised	(98,625)	—	—	—	(277,819)
Outstanding at 31 March	1,237,000	—	241,500	—	219,172
Exercisable at 31 March	412,500	—	—	—	44,969
Weighted average exercise price (£)					
Outstanding at 1 April	4.79	—	—	—	4.19
Granted	6.61	—	—	—	5.43
Lapsed	4.73	—	—	—	4.33
Exercised	4.89	—	—	—	4.09
Outstanding at 31 March	5.21	—	—	—	4.68
Exercisable at 31 March	4.48	—	—	—	3.26
Range of exercise prices for options outstanding at 31 March 2005	£3.69 - £5.92	—	—	—	£3.00 - £5.43
Weighted average remaining contractual life	8	—	4	—	3
Weighted average fair value of options awarded in 2005	£1.85	—	—	—	£2.71
2006					
Number					
Outstanding at 1 April	1,237,000	—	241,500	—	219,172
Granted	172,000	229,000	—	52,672	34,501
Lapsed	(10,000)	—	—	—	(51,735)
Exercised	(450,000)	—	—	—	(72,113)
Outstanding at 31 March	949,000	229,000	241,500	52,672	129,825
Exercisable at 31 March	296,500	—	—	—	568
Weighted average exercise price (£)					
Outstanding at 1 April	5.21	—	—	—	4.68
Granted	9.61	10.86	—	—	9.18
Lapsed	7.16	—	—	—	4.82
Exercised	4.37	—	—	—	3.94
Outstanding at 31 March	4.70	10.86	—	—	6.24
Exercisable at 31 March	5.56	—	—	—	4.66
Range of exercise prices for options outstanding at 31 March 2006	£3.67 - £6.61	£9.61 - £15.76	—	—	£4.66 - £9.18
Weighted average remaining contractual life	8	10	3	2	3
Weighted average fair value of options awarded in 2006	£3.18	£1.13	—	—	£2.87

Note: i) The figures in the table relate to the number of deferred options only.

The estimated fair values are calculated by applying a Black Scholes option pricing model for the ESOP and Share Save schemes and Monte Carlo simulations for the 2005 KEIP, LTIP and Deferred Bonus Plan. The assumptions used in the models are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% - 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	4.2% - 5.1%

Levels of early exercises and lapses are estimated using historical averages.

The Company recognised total expenses of £959,000 (2005: £539,000) related to equity-settled share-based payment transactions.

54. Retirement benefit schemes

Details of the Company only defined contribution and defined benefit schemes are provided in note 38.

55. Share incentive reserve

	Share incentive reserve £'000
Balance at 1 April 2004	113
Share based payment charges in the year	540
Balance at 1 April 2005	653
Share based payment charges in the year	959
Share options exercised in year	(1,395)
Balance at 31 March 2006	217

56. Retained earnings

	Retained earnings £'000
Balance at 1 April 2004	68,623
Dividends	(7,697)
Dividend in specie	(10,368)
Total statement of recognised income and expense	(1,737)
Deferred tax on share option gains taken directly to equity	197
Tax on items taken directly to equity	438
Balance at 1 April 2005	49,456
Dividends	(10,688)
Total statement of recognised income and expense	25,844
Deferred tax on share option gains taken directly to equity on share based schemes	655
Tax on exercised share options taken directly to equity	1,202
Share options exercised in the year	1,395
Tax on items taken directly to equity	522
Balance at 31 March 2006	68,386

57. Explanation of transition to IFRSs

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2005 and the date of transition to IFRSs was therefore 1 April 2004.

IFRS 1 'First-time Adoption of International Financial Reporting Standards'

IFRS 1 establishes the transitional requirements for the preparation of financial statements in accordance with IFRS for the first time. The general principle is that the IFRS effective at the first-time adoption reporting date (31 March 2006 for the Group) are to be applied retrospectively to the opening IFRS balance sheet (1 April 2004), the comparative period (year ended 31 March 2005) and the reporting period (year ended 31 March 2006).

Outlined below is the Group's position in relation to key exemptions and exceptions that are available under IFRS.

Share-based Payment

IFRS 2 'Share-based Payments' has only been applied to grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005. Accordingly, IFRS 2 has not been applied to the grants of equity instruments before 7 November 2002 or for those instruments that have vested or lapsed prior to 1 January 2005.

Employee benefits

Under IAS 19 'Employee Benefits', the Group is required to reflect its obligations or surpluses under defined benefit pension schemes on the balance sheet. The Group has elected under IFRS 1 to recognise all cumulative actuarial gains and losses on defined benefit pension schemes at the date of transition to IFRS.

On transition to IFRS, the Group has recognised the full IAS 19 liability in respect of Homeserve's share of the Water Companies Pension Scheme.

Business combinations

The Group has adopted the exemption not to apply IFRS 3 'Business Combinations' in respect of acquisitions occurring prior to 1 April 2004. Accordingly, the Group will adopt IFRS 3 to the extent that it applies to acquisitions post 1 April 2004 only. Acquisitions before that date will be recorded as under UK GAAP.

Cumulative translation differences

The Group has adopted the exemption to set cumulative translation differences for all foreign operations to zero at 1 April 2004. The gain or loss on a subsequent disposal of any foreign operation will exclude translation differences that arose before 1 April 2004, but will include later translation differences.

Notes to the Accounts

year ended 31 March 2006

57. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 1 April 2004 (date of transition to IFRSs)

Note		UK GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
f, g	Property, plant and equipment	186,242	25,976	212,218
g	Goodwill	108,223	(14,214)	94,009
	Intangible assets	—	2,736	2,736
d	Interests in joint ventures	(674)	674	—
	Total non-current assets	293,791	15,172	308,963
g	Trade and other receivables	90,221	(8,951)	81,270
g	Inventories	6,887	(2,331)	4,556
g	Cash and cash equivalents	10,497	(3,596)	6,901
	Total current assets	107,605	(14,878)	92,727
g	Non current assets classified as held for sale	—	38,580	38,580
	Total assets	401,396	38,874	440,270
	Bank overdrafts and interest-bearing loans	(99,343)	—	(99,343)
a, g	Trade and other payables	(111,895)	18,634	(93,261)
	Obligations under finance leases	(4,661)	—	(4,661)
	Other financial liabilities	(23,690)	—	(23,690)
b	Retirement benefit obligations	—	(12,810)	(12,810)
	Current tax liability	(9,014)	—	(9,014)
e	Deferred tax liability	(9,627)	(4,231)	(13,858)
g	Liabilities directly associated with non current assets classified as held for sale	—	(17,580)	(17,580)
	Total liabilities	(258,230)	(15,987)	(274,217)
	Net assets	143,166	22,887	166,053
	Issued capital	6,366	—	6,366
	Share premium	18,902	—	18,902
	Capital redemption reserve	1,200	—	1,200
	Retained earnings	110,532	22,651	133,183
c	Share incentive reserve	—	236	236
	Minority interest	6,166	—	6,166
	Total equity	143,166	22,887	166,053

Note		£'000
	Total equity UK GAAP	143,166
a	Dividend not recognised as liability until declared	8,874
b	Retirement benefit obligation	(12,810)
c	Deferred tax asset on share scheme charges taken directly to reserves	349
d	Derecognition of provision for joint venture losses	674
e	Derecognition of discount on deferred tax provision	(8,062)
f	Revaluation of infrastructure assets	38,200
g	Impairment of disposed business	(7,820)
		19,405
	Tax effect of the above	3,482
	Total adjustment to equity	22,887
	Total equity IFRS	166,053

Notes to the reconciliation of equity at 1 April 2004

a) Under IAS 10 'Events After the Balance Sheet Date', liabilities for proposed dividends are not recorded until the dividend is announced. This adjustment represents the reversal of the final proposed dividend for 2004.

b) IAS 19 'Employee Benefits' requires defined benefit pension scheme surpluses or deficits to be reflected on the balance sheet. This adjustment represents the deficit on the Group's scheme at 1 April 2004.

c) Gains associated with share option schemes generate deferred tax assets which can offset the income statement charge under IFRS2 'Share Based Payments'. The deferred tax credit taken to the income statement is restricted to the cumulative income statement charge under IFRS2. Any additional deferred tax asset is taken directly to reserves. This adjustment represents the surplus deferred tax asset over the £236,000 IFRS 2 charge.

d) Under IAS 31 'Interest in Joint Ventures', provision for the Group's share of joint venture losses are not recognised if the recognition of such losses reduces the Group's share of the joint venture's net assets below zero. This adjustment represents the reversal of the provision previously reported under UK GAAP.

e) Under IAS 12 'Income Taxes', deferred tax liabilities cannot be discounted as permitted by UK GAAP. The Group historically adopted a policy of discounting and this adjustment represents the reversal of the cumulative discount on deferred tax provisions.

f) The methodology used by all Water companies under UK GAAP to account for infrastructure assets is not consistent with IFRS and hence restatement is required. The adjustment represents the increase in valuation of the infrastructure assets, with a corresponding increase in reserves.

g) Under IFRS 5 'Non Current Assets Held for Sale and Discontinued Operations', the assets and liabilities of the Commercial Outsourcing business, many of which met the definition of a 'disposed group' at 1 April 2004, have been restated to the lower of the carrying amount and fair value less costs to sell. This adjustment represents the write down of the net assets based on expected net proceeds at 1 April 2004. In addition, they are separately disclosed as assets and liabilities held for disposal as at 1 April 2004.

Further details of the Group's IFRS adjustments can be found in the publication 'Homeserve plc – Transition to International Financial Reporting Standards', announced on 28 November 2005 and available on our website www.homeserve.com.

Notes to the Accounts

year ended 31 March 2006

57. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 31 March 2005

Note		UK GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
d	Property, plant and equipment	22,613	(3,896)	18,717
b,c,d,g	Goodwill	154,008	5,254	159,262
d	Intangible assets	—	7,661	7,661
g	Interest in joint ventures	(428)	1,292	864
	Deferred tax asset	—	613	613
	Total non-current assets	176,193	10,924	187,117
	Trade and other receivables	88,556	—	88,556
	Inventories	1,985	—	1,985
	Cash and cash equivalents	14,753	—	14,753
	Total current assets	105,294	—	105,294
	Total assets	281,487	10,924	292,411
	Bank overdrafts and interest-bearing loans	(3,507)	—	(3,507)
a,e	Trade and other payables	(88,591)	7,680	(80,911)
	Obligations under finance leases	(30)	—	(30)
	Other financial liabilities	(19,530)	—	(19,530)
f	Retirement benefit obligations	—	(2,578)	(2,578)
	Current tax liability	(9,037)	47	(8,990)
h,l	Deferred tax liability	(511)	511	—
	Total liabilities	(121,206)	5,660	(115,546)
	Net assets	160,281	16,584	176,865
	Issued capital	7,987	—	7,987
	Share premium	26,576	—	26,576
	Merger reserve	70,992	—	70,992
	Capital redemption reserve	1,200	—	1,200
	Retained earnings	61,973	15,384	77,357
e	Share incentive reserve	—	1,200	1,200
	Own shares	(8,447)	—	(8,447)
	Total equity	160,281	16,584	176,865

Note		£'000
	Total equity UK GAAP	160,281
a	Dividend not recognised as liability until declared	6,830
b	Goodwill not amortised after date of transition	10,406
c	Goodwill written off on disposal	(1,085)
d	Intangible asset amortisation	(310)
e	Reclassification of Long Term Incentive Plan share scheme charge liability to equity	510
f	Reduction in the pension charge	362
f	Retirement benefit obligation	(2,578)
g	Derecognition of provision for joint venture losses	323
h	Derecognition of discount on deferred tax provision	(127)
k	Operating lease incentive	(22)
	Deferred tax asset on share scheme charges taken directly to reserves	879
		15,188
	Tax effect of the above	1,396
	Total adjustment to equity	16,584
	Total equity IFRS	176,865

Reconciliation of Income Statement for 2005

	UK GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
Revenue	220,711	—	220,711
Operating costs (excluding exceptional operating costs)	(187,697)	8,915	(178,782)
Operating profit before exceptional operating costs	33,014	8,915	41,929
Exceptional operating costs	(2,787)	—	(2,787)
Operating profit	30,227	8,915	39,142
Finance income	536	—	536
Finance costs	(856)	—	(856)
Profit before tax	29,907	8,915	38,822
Tax expense	(12,187)	369	(11,818)
Net profit	17,720	9,284	27,004
Loss for the period from discontinued operations	(39,032)	19,229	(19,803)
(Loss)/profit for the period	(21,312)	28,513	7,201

Notes to the Accounts

year ended 31 March 2006

57. Explanation of transition to IFRSs (continued)

Reconciliation of profit or loss for 2005

Note		Continuing Operating Profit £'000	Profit before tax £'000	Profit for the period £'000
	Profit/(loss) previous GAAP	30,227	29,907	(21,312)
i	Additional charge for share based payments	(454)	(454)	—
h	Derecognition of discount on deferred tax provision	—	—	(127)
g	Derecognition of provision for joint venture losses	18	18	18
b	Goodwill amortisation	9,321	9,321	10,406
	Operating lease incentive	(22)	(22)	(15)
f	Retirement benefit obligation	362	362	253
d	Intangible asset amortisation	(310)	(310)	(310)
	Deferred tax on intangible assets	—	—	144
c	Goodwill on disposed businesses previously written off to reserves	—	—	11,409
j	Reversal of provision for discontinued operations	—	—	6,735
	Total adjustment to profit	8,915	8,915	28,513
	Profit IFRS	39,142	38,822	7,201

Notes for the reconciliation of equity at 31 March 2005 and for the reconciliation of profit or loss for 2005

a) Under IAS 10 'Events After the Balance Sheet Date', liabilities for proposed dividends are not recorded until the dividend is announced. This adjustment represents the reversal of the 2005 final proposed dividend.

b) IFRS 3 'Business Combinations' prohibits the amortisation of goodwill as it is considered to have an indefinite life. This adjustment represents the reversal of the goodwill amortisation charge under UK GAAP for the year ended 31 March 2005.

c) The adjustment represents the additional loss on disposal of the Commercial Outsourcing division following the reversal of the goodwill amortisation charge associated with these businesses noted above. The income statement adjustment represents the derecognition of the loss on disposal of goodwill previously written off to reserves.

d) Franchise assets, customer databases and customer relationships which meet the criteria of identifiable non-monetary assets are classified as an intangible asset in accordance with IAS 38 'Intangible Assets' and amortised over their useful economic life.

The effect of this is to reclassify assets from goodwill, in respect of acquisitions post 1 April 2004, to other intangible assets. The adjustment to reserves reflects the amortisation charge in the period. Net assets are not affected by the reclassification.

IAS 38 also requires software applications or licences that are not an inherent part of the IT hardware, for example the operating system, to be recognised as an intangible asset. The effect of this is to reclassify assets from property, plant and equipment to other intangible assets. Net assets are not affected by this adjustment.

e) Previously under UK GAAP, the share scheme charges to the income statement were held as long term liabilities. IFRS permits the reclassifications of these charges to equity. This adjustment represents the increase in equity on Long Term Incentive Plan share charges to 31 March 2005.

f) IAS 19 'Employee benefits' requires defined benefit pension scheme surpluses or deficits to be reflected on the balance sheet. This adjustment represents the shortfall on the Group's scheme as at 31 March 2005 and the reduced charge to the income statement in the period when implementing IAS 19 compared to IFRS 17.

g) Under IAS 31 'Interest in Joint Ventures', provision for the Group's share of joint venture losses are not recognised if the recognition of such losses reduces the Group's share of the joint venture's net assets below zero. This adjustment represents the reversal of the provision previously reported under UK GAAP. In addition, goodwill on the acquisition of joint ventures is reclassified out of goodwill and into interests in joint ventures.

h) Under IAS 12 'Income Taxes', deferred tax liabilities cannot be discounted as permitted by UK GAAP. The Group historically adopted a policy of discounting and this adjustment represents the reversal of the cumulative discount on deferred tax provisions.

In addition, goodwill on the acquisition of joint ventures is reclassified out of goodwill and into interests in joint ventures

i) IFRS 2 'Share Based Payments' requires the recognition of an expense in relation to all share-based payments such as the Group's share and share option schemes. The adjustment represents the additional charge of share based payments in the period.

j) This adjustment represents the reversal of prior period provisions for discontinued operations as noted above in the notes for the reconciliation of equity at 1 April 2004, (g).

k) IAS 17 'Leases' operating lease incentives must be spread over the full term of the lease rather than over the period to the first rent review. This adjustment represents additional charges over the reduced period.

Explanation of material adjustments to the cash flow statement for 2005

There have been no material adjustments to the cash flows of the Group as a result of the implementation of IFRS.

58. Explanation of transition to IFRSs – Company only

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2005 and the date of transition to IFRSs was therefore 1 April 2004.

Reconciliation of equity at 1 April 2004 (date of transition to IFRSs)

Note		UK GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
	Investments	34,003	(10,000)	24,003
b,c	Deferred tax asset	—	4,330	4,330
	Total non-current assets	34,003	(5,670)	28,333
	Trade and other receivables	121,406	10,000	131,406
	Total current assets	121,406	—	131,406
	Total assets	155,409	4,330	159,739
	Bank overdrafts and interest-bearing loans	(40,063)	—	(40,063)
a	Trade and other payables	(15,938)	4,523	(11,415)
b	Retirement benefit obligations	—	(12,810)	(12,810)
	Current tax liability	(246)	—	(246)
	Total liabilities	(56,247)	(8,287)	(64,534)
	Net assets	99,162	(3,957)	94,415
	Issued capital	6,366	—	6,366
	Share premium	18,902	—	18,902
	Capital redemption reserve	1,200	—	1,200
	Retained earnings	72,694	(4,071)	68,623
	Share incentive reserve	—	114	114
	Total equity	99,162	(3,957)	95,205

Note		£'000
	Total equity UK GAAP	99,162
a	Dividend not recognised as liability until declared	4,494
b	Retirement benefit obligation	(12,810)
c	Deferred tax asset on share scheme charges taken directly to reserves	487
		(7,829)
	Tax effect of the above	3,872
	Total adjustment to equity	(3,957)
	Total equity IFRS	95,205

58. Explanation of transition to IFRSs - Company only (continued)

Notes for the reconciliation of equity at 1 April 2004

a) Under IAS 10 'Events After the Balance Sheet Date', liabilities for proposed dividends are not recorded until the dividend is announced. This adjustment represents the reversal of the 2003/4 final proposed dividend.

b) IAS 19 'Employee Benefits' requires defined benefit pension scheme surpluses or deficits to be reflected on the balance sheet. This adjustment represents the shortfall on the Group's scheme as at 1 April 2004.The adjustment is net of deferred tax.

c) Gains associated with share option schemes generate deferred tax assets which can offset the income statement charge under IFRS2 'Share Based Payments'. The deferred tax credit taken to the income statement is restricted to the cumulative income statement charge under IFRS2. Any additional deferred tax asset is taken directly to reserves.

Further details of the Group's IFRS adjustments can be found in the publication 'Homeserve plc – Transition to International Financial Reporting Standards', announced on 28 November 2005 and available on our website www.homeserve.com.

Reconciliation of equity at 31 March 2005

Note		UK GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
e	Investment	18,476	60,992	79,468
c	Deferred tax asset	—	1,602	1,602
	Total non-current assets	18,476	62,594	81,070
f	Trade and other receivables	119,104	18,446	127,550
	Total current assets	119,104	18,446	127,550
	Total assets	137,580	81,040	218,620
	Bank overdrafts and interest-bearing loans	(52,085)	—	(52,085)
a,b	Trade and other payables	(14,179)	7,731	(6,448)
c	Retirement benefit obligations	—	(2,578)	(2,578)
	Current tax liability	(645)	—	(645)
	Total liabilities	(66,909)	5,153	(61,756)
	Net assets	70,671	86,193	156,864
	Issued capital	7,987	—	7,987
	Share premium	26,576	—	26,576
e	Merger reserve	—	70,992	70,992
	Capital redemption reserve	1,200	—	1,200
	Retained earnings	43,355	6,101	49,456
d	Share incentive reserve	—	653	653
f	Own shares	(8,447)	8,447	—
	Total equity	70,671	86,193	156,864

Note		£'000
	Total equity UK GAAP	70,671
a	Dividend not recognised as liability until declared	6,830
b	Reclassification of Long Term Incentive Plan share scheme charge liability to equity	510
c	Reduction in the pension charge	362
c	Retirement benefit obligation	(2,578)
	Reclassification of purchase of own shares as a receivable	8,447
e	Recognition of merger reserve on minority interest buy out	70,992
	Deferred tax asset on share scheme charges taken directly to reserves	937
		85,500
	Tax effect of the above	693
	Total adjustment to equity	86,193
	Total equity IFRS	156,864

Reconciliation of Company only Income Statement for 2005

	UK GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
Continuing Operations			
Revenue	3,895	—	3,895
Operating costs	(7,494)	333	(7,161)
Loss from operations	(3,599)	333	(3,266)
Investment income	3,586	—	3,586
(Loss)/profit before tax	(13)	333	320
Tax	(1,652)	(80)	(1,732)
Loss for the year	(1,665)	253	(1,412)

	Operating loss	Loss before tax	Loss for the period
Loss UK GAAP	(3,599)	(13)	(1,665)
Additional charge for share based payments	(29)	(29)	—
Reduction in pension scheme charge	362	362	253
Total adjustment to profit	333	333	253
(Loss)/profit IFRS	(3,266)	320	(1,412)

Notes to the Accounts

year ended 31 March 2006

Notes for the reconciliation of equity at 31 March 2005 and for the reconciliation of profit or loss for 2005

a) Under IAS 10 'Events After the Balance Sheet Date', liabilities for proposed dividends are not recorded until the dividend is announced. This adjustment represents the reversal of the 2005 final proposed dividend.

b) Previously under UK GAAP, the share scheme charges to the income statement were held as long term liabilities. IFRS permits the reclassifications of these charges to equity. This adjustment represents the increase in equity on Long Term Incentive Plan share charges to 31 March 2005.

c) IAS 19 'Employee benefits' requires defined benefit pension scheme surpluses or deficits to be reflected on the balance sheet. This adjustment represents the shortfall on the Group's scheme as at 31 March 2005. The adjustment is net of deferred tax and the reduced charge to the income statement in the period when implementing IAS 19 compared to FRS 17.

d) IFRS 2 'Share Based Payments' requires the recognition of an expense in relation to all share-based payments such as the Group's share and share option schemes. The adjustment represents the charge of share based payments in the period.

e) Under IFRS, the merger reserve recognised in the consolidated accounts on the acquisition of the minority interest is also recognised in the Company only accounts. Company loans to subsidiary undertakings have been reclassified out of investments to intercompany debtors.

f) Under IFRS, purchase of own shares in the Company only accounts is classified as a receivable from the Homeserve plc Employee Benefit Trust rather than within reserves under UK GAAP.

Five Year Summary

2002 - 2006

Continuing Operations

	IFRS		UK GAAP		
	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Revenue					
Policy Membership	161,394	128,197	100,337	81,434	56,401
Emergency Repair	218,106	100,243	73,079	43,450	6,504
Intra-Group	(12,499)	(7,729)	(4,180)	(3,617)	(2,624)
Revenue	367,001	220,711	169,236	121,267	60,281
Profit					
Policy Membership	41,333	37,766	29,701	22,283	13,422
Emergency Repair	13,077	4,473	2,683	1,714	695
	54,410	42,239	32,384	23,997	14,117
Amortisation of acquisition intangibles	(3,658)	(310)	—	—	—
Amortisation of goodwill	—	—	(5,574)	(4,550)	(256)
Exceptional costs	—	(2,787)	(6,616)	—	—
Operating profit	50,752	39,142	20,194	19,447	13,861
Net interest	(776)	(320)	113	75	77
Profit before tax	49,976	38,822	20,307	19,522	13,938

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRSs. The principal differences between UK GAAP and IFRSs are explained in note 57 to the accounts which provides an explanation of the transition to IFRSs.

Shareholder Analysis

31 March 2006

Number of shares	Number of shareholders	% of total shareholders	% of shares
1 – 1,000	1,381	59.3	0.7
1,001 – 10,000	672	28.8	3.4
10,001 – 500,000	256	11.0	35.6
500,001 – 1,000,000	8	0.3	8.4
Over 1,000,000	13	0.6	51.9
	2,330	100.0	100.0

Unit trusts	38
Private investors	24
Other	15
Pension funds	9
Unknown	8
Insurance companies	6
	100

Shareholder Information

2006

28 July Annual General Meeting

7 August Final dividend for the year ended 31 March 2006 to be paid

November Interim results for the six months ending 30 September 2006 to be announced

2007

January Interim dividend for the year ending 31 March 2007 to be paid

May Preliminary announcement of results for the year ending 31 March 2007

June 2007 Report and Accounts to be circulated

Shareholder helpline

Homeserve's shareholder register is maintained by Computershare Investor Services PLC who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses. If you have a query about your shareholding in Homeserve, you should contact Computershare by telephone on 0870 702 0000 or in writing to PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.

Website

The Homeserve website at www.homeserve.com provides news and details of the Group'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.

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