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Homeserve plc
Annual Report & Accounts 2008

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Homeserve at a glance

Our strategy

Our ability to provide quality solutions for household emergencies, maintenance and repairs is our value proposition and is what defines us.

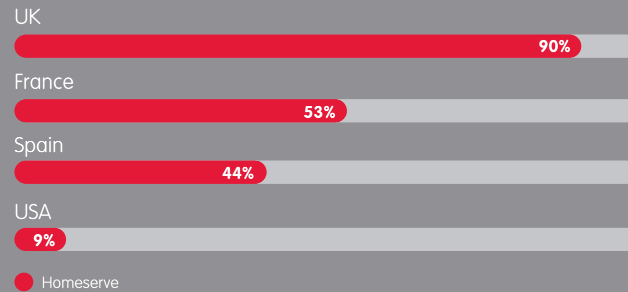
Because our service makes great sense to homeowners in the UK and 3 million customers know membership is an affordable way to buy total peace of mind.

Because we are supported by a national trade network, we can deliver high quality services to households.

Because we develop partnerships with utilities and household insurers we have access to a broad customer base through their trusted brands, while our partners can offer additional value services to their customers.

And because of our impressive performance in France and the United States of America, we know that the Homeserve model can be rolled out overseas too.

We see the continuation of all these strategies going forward. Clearly focused for future growth and providing powerful points of difference in our sector.



8,110,000 policies worldwide

Supported by a multi-trade network.

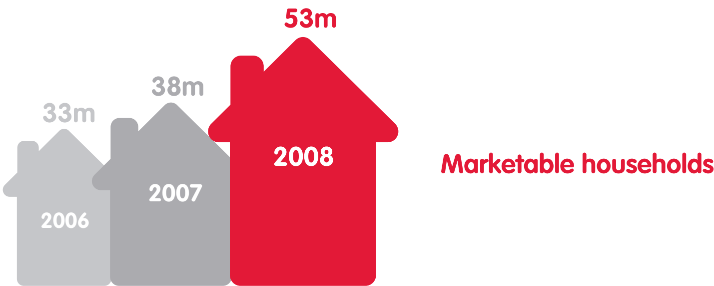
Total Revenue# **£569m**

Total Operating Profit# **£91.0m**

	UK	Europe	USA
Revenue	£528m	£33m	£8m
Operating Profit	£91.4m	£1.8m	
Operating Loss			(£2.2m)
No. of employees	5,019	160	119
No. of tradesmen	1,200		
No. of policies	6,570,000	1,180,000	360,000
Jobs completed	1,401,000	254,000	16,000

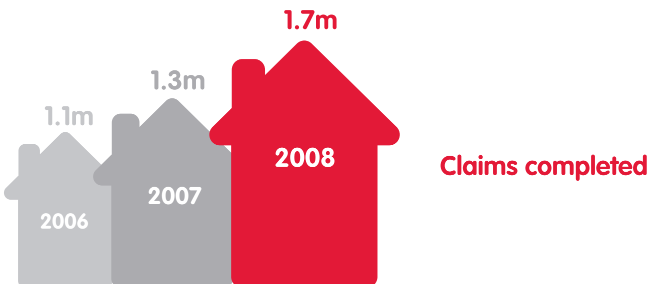
See note 5 to the Accounts

Homeserve provides complete emergency call out and insured repair solutions. With access to over 9,000 skilled tradesmen worldwide and a high quality customer service team all just one phone call away, we give all our customers the peace of mind they need in their busy lives.



Marketable households

Gross new policies sold



Claims completed

For our latest financial information, go to www.homeserve.com

2008 Highlights

- **8.1m policies and access to 53m households worldwide**
- **30% growth in UK Membership profits:**
  - **1.6m gross new utility policy sales and 85% retention rate**
  - **Warranties recovery to substantial profits**
  - **Revised underwriting arrangements**
- **UK Emergency Services operating profits* up 10% with margins held back due to volatility of insurer lead volumes**
- **Expansion of International continues in France, Spain and USA:**
  - **10 year marketing agreement with Endesa in Spain**

Revenue (£)

Operating profit* (£)

Profit before tax* (£)

Profit before tax (£)

Earnings per share^ (p)

Earnings per share (p)

* Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional operating costs, see Financial Review and notes 5 and 13.
^ Excluding amortisation of acquisition intangibles and exceptional operating costs, see Financial Review and notes 5, 6 and 13.

For our latest financial information, go to www.homeserve.com

Chairman's statement

Homeserve has delivered another strong set of results with earnings per share* growth of 25% and operating margins* increasing by 1.7 percentage points to 16.4%. All our Policy businesses have made significant progress with the expansion of our international businesses in France and USA and continued growth in our UK Membership business. We are also announcing a ten year marketing agreement with Endesa Energia S.A. in Spain, who supply 9.2m households and takes our affinity partner household coverage to over 50m.

Our UK Emergency Services business has grown revenues and operating profit* by 10%, though has had a more challenging year, with operating margins* remaining unchanged predominantly due to the volatile level of lead volumes from the UK insurers. We have implemented plans for improved margins over the coming year.

Results

Revenues from continuing operations increased 16% to £555m (2007: £477m). Profit before tax* increased by 26% to £85.3m (2007: £67.7m) and earnings per share^ increased by 25% to 93.0p (2007: 74.7p).

As reported in our interim results, we incurred £2.2m of one-off exceptional costs resulting from the aborted acquisition of Domestic & General Group plc. On a statutory basis, profit before tax increased by 18% to £71.8m (2007: £61.1m) and total basic earnings per share increased by 17% to 79.0p (2007: 67.3p).

Dividend

Continuing our policy of increasing dividends in line with earnings growth, the Board is proposing a final dividend of 21.85p per share to be paid on 1 August 2008 to shareholders on the register on 30 May 2008. This brings the total dividend for the year to 31.25p, a year on year increase of 25%.

Business developments

In the UK, our Membership business continues its strong organic growth. We have achieved our target of selling 1.6m gross new utility policies in the year and our retention rate remains high at 85% (2007: 86%). Revenues increased by 12% to £211m (2007: £188m) and operating profit* increased by 30% to £73.9m (2007: £56.7m). The improvement in operating margin* results from the continuing recovery in our warranties operation and improved underwriting arrangements with IPA.

Brian Whitty
Executive Chairman

Chairman's statement

Our international operations are now approaching profitability, with a £2m improvement compared to last year. Doméo, our French joint venture, has had another very successful year, increasing its total number of policies by 37% to 1.2m and trebling its contribution to our operating profit to £1.8m.

Our entry into the Spanish market is progressing well and we are delighted to announce a ten year marketing agreement with Endesa Energia S.A.. This deal is also combined with an agreement to purchase 28,000 home assistance policies and was accelerated by the acquisition of the Reparalia repair network. Endesa is a major power company supplying over 9m households and will provide us with an excellent platform to develop our policy business in Spain. We plan to undertake significant marketing in the second half of the year.

The USA has made significant progress increasing the number of affinity partner households available to us by 90% from 4.9m to 9.3m, and achieving very good results from the initial mailings to the customers of our new water company partners.

Our UK Emergency Services business has increased revenues by 10% from £297m to £326m and operating profit* to £17.5m (2007: £16.0m). Whilst our subcontract and franchised networks responded well to the summer floods, the volatility of insurance claims over the last 12 months has impacted our higher margin directly employed networks. As a result margins have not progressed during the year, but we have robust plans underway to develop margins in this business over the coming year.

Employees

We now have over 5,200 employees, which includes 1,200 directly employed engineers. Our employees remain committed and dedicated and have once again contributed significantly to another excellent year and I should like to thank them for this hard work.

Prospects

Our international operations continue to represent a significant opportunity for future earnings growth. Policy and profit performance in France evidences our ability to replicate our UK Membership model overseas. Our continued progress in the USA and Spain demonstrates the potential for further development of our affinity partner household reach.

With the signing of our agreement with Endesa, 58% of our affinity partner households are now outside the UK. The penetration of policies in these markets is significantly below the levels we have achieved in the UK which provides a significant growth opportunity.

Our UK Membership business continues to perform well, with gross new policy sales and retention rates remaining at high levels. We are examining new ways of leveraging our unique multi trade networks to support the continuing success of our UK Membership business. We are taking the action required to ensure we achieve margin progression in our repair networks over the coming year.

Homeserve remains focused on delivering long term growth and is exploring selective investment opportunities in new business areas to maximise growth in the UK and internationally. Whilst we are carefully monitoring the potential impacts of the current economic climate, our policy businesses continue to show resilience through stable take-up rates from our direct marketing and retention rates remaining high. Overall Homeserve is well positioned for future growth.

Brian Whitty
Executive Chairman
19 May 2008

* Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional operating costs, see Financial Review and notes 5 and 13.
^ Excluding amortisation of acquisition intangibles and exceptional operating costs, see Financial Review and notes 5, 6 and 13.

Business review
Chief Executive's review

Homeserve continues to build a successful international membership business. Through our affinity partner relationships we now have access to 53m households globally (2007: 38m), of which 31m are outside the UK (2007: 16m). We sold 2.3m gross new policies in the year and increased total policies to 8.1m policies (2007: 7.1m) and we carried out over 1.4m domestic emergency repairs last year.

Our membership businesses provide homeowners with peace of mind in the UK, France, Spain and the USA and are supported by repair networks in each country that deliver a high quality service to our members when they experience an emergency. In the UK and Spain, we have also developed partnerships with household insurers, providing them and their customers with access to a complete range of repair trades covering all emergencies covered by a household insurance policy as part of an outsourced emergency repair solution.

Our businesses

Homeserve is managed in four operating divisions – UK Membership, UK Emergency Services, Continental Europe and United States of America.

UK Membership

Our UK affinity branded and warranties business provides cover for utility services, furniture and appliances in the home.

During the year, the business achieved gross new utility policy sales of 1.6m for the third consecutive year with retention rates remaining high at 85% (2007: 86%). On average our customers now hold more than two policies each following the launch of Combined Policies in the year. The integration of our utility branded and warranties businesses is consistent with our goal of providing whole home assistance cover.

Richard Harpin
Chief Executive

As at 31 March 2008, the policy, customer and market performance metrics of our UK Membership business were:

	2008	2007
Number of policies (000):		
- Plumbing & drains and water supply pipe	4,198	3,933
- Electrical	753	766
- Gas and gas supply pipe	607	560
- Manufacturer warranties	226	190
- Other, including housebuilder	782	530
Total policies	**6,566**	**5,979**
Retention rate	85%	86%
Total number of households (m)	24.4	24.4
Affinity partner households (m)	22.0	22.0
Total customers (m)	3.2	3.1
Penetration of affinity partner households	14.3%	14.1%
Policies per customer	2.08	1.92

Customer satisfaction remains a key priority for the business. Satisfaction levels, as measured by our 48 hour call backs, have remained high with overall satisfaction at 95% (2007: 95%). The proportion of customers rating our service as outstanding continues at high levels, increasing to 27% (2007: 26%).

We believe that offering a product range that covers the whole home is an attractive proposition to consumers and differentiates Homeserve from its competitors by linking utility services and appliance cover. We have integrated our utility branded and warranties businesses during the year under a single management structure covering all aspects of our UK Membership business. This provides us with an integrated approach to our UK customers, enabling us to operate more efficiently and target our sales activity more effectively.

15 seconds...

Around the world, **Homeserve** sells a new policy every 15 seconds.

This equates to 6,300 new policies every day.

We have focused our marketing activities during the year on expanding our relationship with existing customers. The launch of Combined Policies last September now enables customers to consolidate their multiple policies into a single policy document and has been particularly successful during the year. Not only has this simplification been positively received by customers, but many have also taken the opportunity to increase the number of products purchased from us. 264,000 customers, representing 8% of our customer base, have now signed up for Combined Policies. On average, these customers have doubled the number of product combinations they hold.

Whilst direct mailing through utility partners continues to be our principal customer contact method, we have been developing new channels, including the internet. Our website now provides customers with the option to purchase policies online, while also booking repair and maintenance jobs through our repair networks.

During the year we introduced 'digital mail packs' enabling event driven marketing messages to be efficiently delivered to both existing and potential customers. These provide a more personalised direct mailing, tailored to the specific circumstances of the customer, resulting in improved response rates. In addition, we are working with Experian, which provides database management services, in order to obtain greater insight into our existing and potential customers.

We continue to invest in new products and channels to broaden our customer base and will be running a number of test programmes during the coming year to assess the most attractive opportunities.

For our latest financial information, go to www.homeserve.com

Continental Europe

France

Doméo, our 49% owned joint venture in France with Veolia, has had an excellent year, trebling its contribution to our profits, selling 0.44m gross new policies and increasing its total policy base by 37% to 1.18m (2007: 0.86m), while maintaining retention rates at the high level of 89% (2007: 88%).

Doméo operates under the Generale des Eaux Services brand across France and has also been successful in securing additional households into which it can market under this brand. In addition, the company has continued to develop affinity relationships with other partners and now has access to households under the brands of Proxitherm, Gaz de Bordeaux, Société des Eaux de Marseille and Butagaz and it administers programmes for Direct Energie. Overall, Doméo has increased the number of affinity partner households to 12.5m from 10.6m.

The principal policies offered by Doméo include plumbing and drains, water supply pipe, water loss, electrics cover, gas supply pipe and boiler cover.

37% increase in policies in France.

Our aim is one single Emergency Services business. Less complex. More efficient. And all round, an enhanced service.

We can do this because of our strategic acquisitions have brought major trades under one roof. And that has given us real competitive advantage.

It has enabled a significant improvement in standards and meant that everyone (our customers and ourselves) has benefited from economies of scale.

It's about converting our network scale into real value.

Driving value in the business through outstanding service and operational excellence.

As at 31 March 2008, the policy, customer and market performance metrics of our French membership business were:

	2008	2007
Number of policies (000):		
- Plumbing & drains and water supply pipe	703	549
- Electrical	116	58
- Other, including water-loss and gas products	362	256
Total policies	**1,181**	**863**
Retention rate	89%	88%
Total number of households (excl apartments) (m)	15.4	15.4
Affinity partner households (excl apartments) (m)	12.5	10.6
Total customers (m)	0.6	0.4
Penetration of affinity partner households	4.4%	4.1%
Policies per customer	2.14	2.00

A key objective of the business is to identify new channels and products so as to maintain the growth rates achieved in recent years. A dedicated business development team has been established and is currently working on a number of new products and testing with potential partners. Initial activity in this area is currently planned with two new partners for September 2008.

Bringing claims handling and the management of our subcontract repair network in-house has improved the credibility of our operations and delivered high customer service, with overall satisfaction levels at 93% (2007: 94%). We have also achieved a reduction in the average cost of carrying out repairs, thereby improving our operating margins.

Spain

We are delighted to report that following successful testing, we have signed a ten year marketing agreement with Endesa Energia S.A., the leading Spanish power provider, supplying 9.2m households, within a total market of 21m. The agreement provides for the marketing of repair, maintenance and assistance products. It also includes an agreement to purchase Endesa's existing 28,000 home assistance policies. The initial product offer will be for electrical wiring with water products offered as a cross sell.

The acquisition of Reparalia in August 2007, one of Spain's leading national home repair networks, gives us scale and credibility in Spain and has accelerated the development of our relationship with Endesa. It operates a repair network of 3,400 self employed engineers through six regional offices and provides the skills and capability required to deliver a quality service. Through its relationships with some of Spain's fastest growing household insurers, including BBVA Seguros, Reparalia provides an outsourced repair solution, handling 201,000 claims per annum.

The signing of the marketing agreement with Endesa provides an exciting investment opportunity and the potential to further develop a new market alongside the UK, France and USA. We are planning to commence marketing in autumn 2008, with an additional net investment of at least £2m this year.

1 in 11 homes...

Homeserve has access to 1 in every 11 households in the USA.

For our latest financial information, go to www.homeserve.com

United States of America

We have made excellent progress during the year with the signing of four new marketing agreements covering an additional 4.4m households and an increase in our total policies to 362,000 (2007: 263,000).

We now have access to 9.3m households, representing 9% of US households, which compares to the 22m affinity partner households in the UK. We trebled policies in our first year with FirstEnergy and within two years at United Water. There is still significant potential for growth given that our average penetration with partners is 3.2%, compared to 14.3% in the UK.

As at 31 March 2008, the policy, customer and market performance metrics of our US Membership business were:

	2008	2007
Number of policies (000):		
- Plumbing & drains and water supply pipe	295	202
- Electrical	44	38
- Other	23	23
Total policies	**362**	**263**
Retention rate	78%	79%
Total number of households (m)	103	103
Affinity partner households (m)	9.3	4.9
Total customers (m)	0.3	0.2
Penetration of affinity partner households	3.2%	4.4%
Policies per customer	1.23	1.23

Customer satisfaction has remained high with overall satisfaction levels at 96% (2007: 95%). The proportion of customers rating our service as outstanding has increased to 41% (2007: 40%).

3,800
domestic emergency repairs completed every day in the UK

Our first mailings under the Louisville and California Water brands were highly successful, with Louisville Water giving us a record new customer take up rate and California Water now giving us our best cross sell rate with existing customers. These results demonstrate the continued importance of both smaller water companies and large energy companies to our future growth plans. Household penetration has temporarily fallen because we have not yet commenced marketing of water heater policies to Progress Energy customers, which starts in June 2008.

We continue to develop our pipeline of prospects covering both power and water companies after the successful completion of four new partnerships during the last year, although there is often a prolonged period to agree the contractual terms of our agreements with partners.

As in France, we brought claims handling in-house during 2006 and have been successful in achieving greater control of the subcontract network, managing to reduce average job values and enhancing the levels of service provided to our policyholders.

UK Emergency Services

Our repair network, which includes directly employed, subcontract and franchised engineers, is unrivalled in its geographic coverage combined with the range of repair trades that it offers. We have the capability to undertake all aspects of repair and replacement for homeowners through their household insurers as well as for our own members.

During the year, our networks completed 1.4m jobs (2007: 1.2m), growing revenues by 10% to £326m. The summer floods generated 20,000 jobs, representing £41m of revenue, which we completed through our predominantly subcontract and franchise networks.

Excluding the floods, there has been a gradual reduction in household claims over recent years resulting in lower underlying volumes in our core trades, including our higher margin directly employed networks. As a consequence of this changing workload mix, operating margins are flat year on year at 5.4%.

* Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional operating costs, see Financial Review and notes 5 and 13.
^ Excluding amortisation of acquisition intangibles and exceptional operating costs, see Financial Review and notes 5, 6 and 13.

We do not intend to replace the unique floods workload by chasing low margin job volumes, but instead are focusing on driving more value from less activity. We have taken a number of actions to improve operating margins, including increasing the level of directly employed where volumes are stable and delivering more value from our franchise and subcontractor relationships. We are also driving efficiencies from our operational support teams.

We acquired the Anglia building repairs business in May 2007 based on its excellent operational and financial performance. We are now in the process of rolling out the Anglia model to the rest of our buildings network with model branches operational in Warrington and Sunbury, and firm plans for the remainder of the network in the next six months. In addition, we are expanding our directly employed first fix plumbing network, where we have a consistently high workload, through continuing to acquire selected premier contractors.

We are continuing to develop the network through working with a smaller group of premier contractors and we have reviewed and revised the value sharing arrangements with all our subcontractors.

In addition to these margin improvement initiatives, we continue to build exciting new partnerships following the success of our relationship with Liverpool Victoria. We are delighted to announce that RBS Insurance has awarded us their contents validation hub for high street commodities including electrical and electronic equipment. Through our contents validation software, which is unique in the market, our household insurance partners are able to benefit from more accurate and cost effective product replacement covering 60% of contents insurance claims, typically providing them with double-digit savings compared to historic replacement solutions.

We are also advancing due diligence with a second hub partner, though the scale of transformation of such a transaction for both parties requires an appropriate level of planning to finalise the agreement.

A clearly differentiated domestic trade network is a critical element of our growth ambitions in our UK businesses. We are confident that the plans already underway will deliver an operating margin improvement of at least one percentage point over the coming year.

Summary

We are continuing to implement our strategy of replicating our proven UK model in carefully selected markets overseas, while also seeking to maximise growth opportunities in the UK. In addition to pursuing the significant organic growth opportunities that exist in our chosen markets, we will continue to undertake selective acquisitions that will accelerate this development.

Richard Harpin
Chief Executive
19 May 2008

Our aim is clear. To be the only contact a household needs for maintenance, repairs or emergencies.

We know this proposition has broad appeal. People like simple solutions and things that make their lives easy. That's why our service is equally attractive to the non-insurance minded and the insurance minded customer.

It makes sense to them and creates an abundance of new customer and product opportunities for us.

Our strategic approach means we are:

- Growing our distribution and reach through new partnerships.
- Increasing our customer base by appealing to new demographic groups.
- Improving our marketing effectiveness.

Always thinking like customers (because we are customers).

TRANSIT
Homeserve
0800 29 30 31

Business review
Financial review

These results have been prepared in accordance with International Financial Reporting Standards (IFRS). Except for the adoption of IFRS7 'Financial Instruments: Disclosures' and IFRS8 'Operating Segments', which require changes to our disclosures, the accounting policies used are consistent with the prior year.

Jonathan Simpson-Dent
Chief Financial Officer

With the exception of IFRS3 Revised, relating to the accounting treatment of acquisition costs in a business combination, accounting standards that have been issued but not yet enacted are not expected to have a significant impact on the Group. If the Group had written off the costs associated with business combinations, as required by IFRS3 Revised, then profits would have been reduced by £2.0m. IFRS3 Revised does not need to be adopted by the Group until the year ending 31 March 2011.

The headline statutory financial results are:

£million	2008	2007
Revenue	554.9	477.4
Operating profit	77.5	63.6
Profit before tax	71.8	61.1
Cash generated by operations	97.4	73.6
Net debt	43.1	27.1
Net assets	265.4	230.4
Earnings per share	79.0p	67.3p
Dividend per share	31.25p	25.0p

Group results
We continue to consider that profit before the amortisation of acquisition intangibles and tax on our joint venture in France represents an important performance measure for monitoring the business. In addition, in the current year, exceptional operating costs of £2.2m are excluded in calculating these pro-forma managerial measures.

The reconciliations between these statutory and pro-forma measures are as follows:

£million	2008	2007
Operating profit (statutory)	77.5	63.6
Amortisation of acquisition intangibles	10.3	6.5
Exceptional operating costs – aborted acquisition	2.2	—
Tax on joint ventures	1.0	0.1
Operating profit*	**91.0**	**70.2**
Profit before tax (statutory)	71.8	61.1
Amortisation of acquisition intangibles	10.3	6.5
Exceptional operating costs – aborted acquisition	2.2	—
Tax on joint ventures	1.0	0.1
Profit before tax*	**85.3**	**67.7**
Earnings per share (statutory)	79.0p	67.3p
Exceptional operating costs – aborted acquisition	2.4p	—
Amortisation of acquisition intangibles	11.6p	7.4p
Earnings per share^	**93.0p**	**74.7p**

Revenues have increased by 16% to £555m (2007: £477m). Operating profit* has increased by 29% to £91.0m (2007: £70.2m) and operating margins* have increased to 16.4% (2007: 14.7%). The acquisitions of Multimaster, Anglia, Reparalia and the policies of California Water completed in the year have increased operating profits* by £3.6m, representing 5% of the year on year growth. Excluding the impact of the acquisitions, revenue increased by 11% and operating profit* increased by 24%.

The operating profit* and margin* improvement for the Group principally relates to the strong performance in our UK Membership business. Revenues in the UK Membership business increased by 12% to £211m (2007: £188m). The continued recovery of our warranties business generated an additional £4m contribution in the year. In addition, underwriting margin improvements following the new IPA agreement have contributed to operating profit* growth of 30% to £73.9m (2007: £56.7m). This agreement also impacts revenue growth in the run off period through to September 2008 as we no longer recognise the underwriting premium on renewals.

Our UK Emergency Services business has seen both revenues and operating profit* increase by 10% to £326m (2007: £297m) and £17.5m (2007: £16.0m) respectively. Additional volumes from the Summer 2007 floods in our predominantly subcontract and franchised networks, combined with lower underlying insurance volumes and a move to more cash settlement in our higher margin directly employed networks have resulted in margins remaining stable at 5.4% (2007: 5.4%).

Continental European businesses more than doubled operating profit* to £1.8m (2007: £0.7m), where our strong result in France, combined with the part year benefit from the acquisition of Reparalia in Spain, has more than offset the additional investment incurred in Spain in undertaking test marketing during the period with Endesa.

Due to the continued growth in the number of policies in the USA, and the promising results from our initial mailings with both Louisville and California Water, our net investment in the USA decreased in the year to £2.2m (2007: £3.2m).

In accordance with IFRS, statutory operating profit, which has increased by 22% to £77.5m (2007: £63.6m), includes the amortisation of acquisition intangibles, £2.2m of exceptional costs from the aborted acquisition of Domestic & General Group plc and our share of the operating result of our joint venture in France. The amortisation of acquisition intangibles amounts to £10.3m (2007: £6.5m) and principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The year on year increase principally reflects the acquisitions of Anglia and Reparalia, both of which were completed in the current year. For our French joint venture, the operating result is defined as profit after tax and hence £1.0m (2007: £0.1m) of taxation is reported within operating profit and profit before tax.

Reported operating profit, after deducting the amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs, were: UK Membership £71.2m (2007: £56.3m), UK Emergency Services £9.3m (2007: £10.4m), Continental Europe £0.1m (2007: £0.6m) and USA, operating loss of £3.1m (2007: £3.6m).

The Group's net interest charge increased in the year to £5.7m (2007: £2.6m) due to the increased spend in the year on acquisitions of £46.1m and the related interest expense on deferred and contingent consideration. The interest charge was covered 16 times by operating profit*.

The effective rate of corporation tax remains consistent with the prior year at 31.4% (2007: 31.3%). With effect from 1 April 2008, the UK tax rate has reduced to 28%. While this reduction has no impact on the current tax charge in the year, deferred tax balances have been reduced to reflect this revised rate, with a one-off reduction to the Group's deferred tax charge amounting to £0.6m, equivalent to 0.8% on the effective tax rate. This has been offset by the increase in overseas losses in Spain and the USA arising from increased interest costs, which are not yet deductible, following the transactions completed in those countries during the year.

Earnings per share^ have increased by 25% from 74.7p to 93.0p. Basic earnings per share have increased to 79.0p from 67.3p.

Cash flow and financing

£million	2008	2007
Continuing operations:		
Cash generated by operations	97.4	73.6
Interest, tax, dividends	(46.2)	(33.4)
Net capital expenditure	(17.6)	(16.5)
Acquisitions/disposals	(46.1)	(30.2)
Share purchases	(7.3)	(8.3)
Financing	3.8	1.4
Net movement in cash and bank borrowings	**(16.0)**	**(13.4)**

We have continued to achieve strong cash conversion, with cash generated from operations amounting to £97.4m (2007: £73.6m), representing a cash conversion ratio of 110% (2007: 106%). In the current year, we entered a new underwriting agreement with IPA which has reduced the costs associated with underwriting our products and provided a working capital benefit of around £15m in the year, of which approximately £10m is permanent. Excluding the impact of these new arrangements, the Group's cash conversion ratio remained strong at 93%.

During the year, we had net capital expenditure of £17.6m (2007: £16.5m) principally in respect of the development and roll out of our integrated claims handling and work flow management systems within our UK Emergency Services business and the completion of a new call centre for our UK Membership business.

Overall, net debt in the year increased by £16.0m to £43.1m (2007: £27.1m), including the impact of acquisitions and disposals of £46.1m (2007: £30.2m). There was a net cash inflow of £30.1m (2007: £16.8m) before acquisitions and disposals, demonstrating the strong cash generative nature of the Group. We continue to have a low level of financial gearing. Our priority is to use our financial leverage to fund strategic acquisitions which accelerate the development of our UK and international businesses.

Acquisitions

Homeserve continues to add to its organic growth through the completion of carefully selected acquisitions. During the year, Homeserve completed a number of acquisitions, investing £46.1m, including deferred consideration of £3.2m relating to acquisitions completed in prior years.

During the year, four significant acquisitions have been completed for cash consideration of £38.7m. Multimaster Limited, Anglia (NW) Limited and Reparalia S.A, were achieved through the acquisition of 100% of the relevant share capital, while the transaction with California Water related to the acquisition of its portfolio of home assistance policies. Including acquisitions completed in prior years, potential further deferred and contingent consideration payments of £16m could be due over the next ten years, of which £8.1m is due within the coming year.

Multimaster is a leading furniture warranty and service provider and, subsequent to its acquisition, has been fully integrated into our existing Warranties business. Anglia (NW) is one of the UK's leading home insurance repairers providing property repair services to many leading household insurers. In particular, the Anglia operating model demonstrates that enhanced margins can be achieved within building repairs through directly employed engineers, the benefits of which are being replicated across our existing branch network.

Reparalia is one of Spain's leading providers of property repair services and emergency claims handling for some of Spain's fastest growing household insurers.

In addition, a number of smaller acquisitions have been completed relating to certain Chem-Dry franchisees and Plumbing & Drainage premier contractors. The total cash consideration, including directly attributable costs, amounted to £4.2m. There are no further payments due in respect of these acquisitions.

The carrying value of goodwill and intangible assets identified on acquisitions completed in the current and previous years has been reviewed for impairment based on the current budgets and operating plans of the businesses. No impairment is considered necessary.

Business review
Financial review

Key Performance Indicators

In order to assist in the management of the business and to provide evidence of perfomance against its strategic priorities, the Board regularly reviews a number of key performance indicators as follows:

	2008	2007
Total Group		
Profit before tax*	£85.3m	£67.7m
Earnings per share^	93.0p	74.7p
Total policy numbers	8.1m	7.1m
UK Membership		
Operating profit*	£73.9m	£56.7m
Retention rates (UK utility branded)	85%	86%
United States of America		
Affinity partner households	9.3m	4.9m
UK Emergency Services		
Operating profit*	£17.5m	£16.0m
Completed repairs	1.4m	1.2m
Operating margin*	5.4%	5.4%

Policy numbers represent the total number of policies held by our utility branded businesses in the UK, France, USA and Spain, together with manufacturer warranties where the customer has purchased an extension to the initial manufacturer guarantee period.

The retention rate currently includes only the UK utility branded policies as this rate has the greatest significance on earnings in the following period. Retention rate is defined as the number of policies renewing divided by the number of active policies in the prior year.

Completed repairs include all repairs performed and closed by our directly employed, subcontract and franchise network during the year in the UK.

* Excluding amortisation of acquisition intangibles, joint venture taxation and exceptional operating costs, see Financial Review and notes 5 and 13.
^ Excluding amortisation of acquisition intangibles and exceptional operating costs, see Financial Review and notes 5, 6 and 13.

Risks and uncertainties

Financial risk

As part of its ordinary activities, Homeserve is exposed to a number of financial risks, principally liquidity risk and credit risk. The Group has policies and procedures on how 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.

Volatility in the credit markets, combined with the growth in our net debt, has increased our interest rate risk. As a result, during the year we entered into a two year fixed rate swap in respect of certain of our borrowings in order to reduce our exposure to variations in short term interest rates.

Foreign exchange rate risk is not considered to represent a significant risk at this time due to the absence of significant foreign currency transactions. However, this risk is kept under constant review and policies exist to mitigate this risk should it increase in significance.

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. The majority of our trade receivable balances are with large household insurers in the UK, while the majority of our membership customers either pay in advance or by continuous payment methods, such as direct debit.

Commercial relationships

Underpinning the success in each of our chosen markets are close commercial relationships with a number of utility companies, household insurers, household appliance manufacturers and furniture retailers. Many of these are long term contractual relationships and the loss of these 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.

Competitors

Additionally, 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 other participants are closely monitored. The development of innovative products and solutions which address the needs of our customers is seen as paramount to maintaining our competitive advantage.

Acquisitions

As part of our overall risk management, all potential acquisitions are subjected to a rigorous review, commencing with a detailed assessment of the target's position in the market. We have a dedicated acquisitions team which involves and coordinates managers from our existing businesses and draws on the services of independent advisers when necessary. The ability to integrate the acquisitions into our existing businesses is considered at the outset. Immediately post acquisition, a full internal controls benchmarking assessment is undertaken and the Group's internal control standards are implemented as soon as practicable. The performance of acquisitions is reported and reviewed by the Board on a monthly basis.

Summary

Homeserve has delivered another set of strong results, with earnings growth and operating margin progression. Our low financial gearing combined with our strong cash generation enables us to access the funds required to fund strategic acquisitions and accelerate the development of our UK and international businesses.

Jonathan Simpson-Dent
Chief Financial Officer
19 May 2008

For our latest financial information, go to www.homeserve.com

Bringing peace of mind to millions of customers across the world.

People are people. And wherever they are, they face similar problems. From Boston Lincolnshire to Boston New England, one time or another, we all discover reliable tradesman are hard to find.

The potential for international expansion, based on our understanding of customers and our ability to mobilise our model, is a realistic expectation for our business.

Each market may be a little different but the underlying principles are similar. And those principles will allow us to apply the expertise developed in the UK, globally.

We're balancing our ambition with good sensible planning; we will only go into a new country if there is a strong potential for policy sales via utilities, appliance manufacturers or retailers.

Our strategic process is underway:

- Developing long-term relationships.
- Building local management teams.
- Investing in claims handling and subcontract network.
- Focusing on our business development resource.

Corporate and social responsibility

We recognise 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 developing its activities in engaging with its stakeholders and will continue to report on its progress in implementing its key initiatives.

Employees

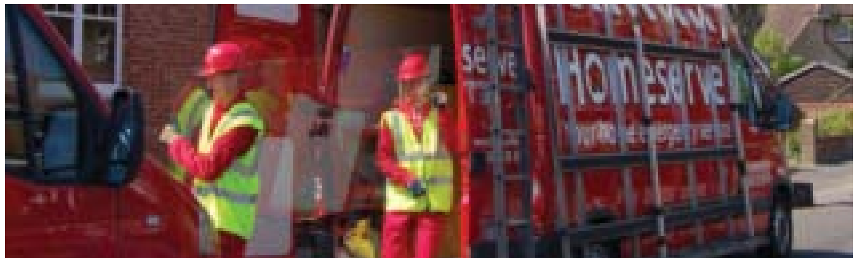
Our employees and the service they provide to our customers are critical to our success. Our aim is to achieve a high level of employee engagement so that we can attract, retain, develop and motivate the best people in order to deliver our business objectives.

Communication and employee involvement play an increasingly important role as Homeserve continues to grow around the world. Elected employee forums are now a regular feature across the business, providing an excellent mechanism to share information about the Group's performance and plans, and to discuss and gain feedback on these plans and initiatives; ensuring more effective implementation and employee engagement.

'Homelife', our internal magazine is produced quarterly and sent to all employees across the Group. It contains news from all of our businesses and helps our employees to learn more about Homeserve. A new Group intranet was launched during the year, ensuring that employees are kept up to date with daily developments, and are able to access day to day information that supports the smooth running of the business. Our annual employee survey continues to be an important mechanism to gain employee feedback and inform our people plans.

We recognise that the provision of Training and Development and career progression are important factors in generating employee commitment. Our performance management review process allows us to identify training needs and provide training solutions in a consistent and targeted manner. The delivery of many of these programmes is carried out by our own training specialists. For all of our employees it is important that they not only have the practical skills necessary for their role, but also the skills they need to enable them to deliver exceptional customer service. The development of our apprenticeship training is also an important part of our future plans.

Access to over
9,000
skilled tradesmen worldwide



A new performance development review process has recently been launched for our management population. This facilitates clear objective setting for all managers, consistent with our business goals and the identification of development needs. The Leadership Excellence Framework continues to play an important part in meeting our training needs along with a range of other development activities such as coaching. In addition the recently established talent review process enables us to review our overall management capability and ensures that we have sufficient management resource to support our growth plans.

We believe in recognising the contribution of our people and providing ways in which they can share in business success. Our 'Homeserve Heroes' recognition programme is now being rolled out following a successful pilot in recent months. A 'Save as you earn' share option scheme is operated across the UK businesses and continues to provide an important mechanism for employees to participate in the success of the business.

The majority of our employees are offered membership of a pension scheme and are encouraged to fully consider this important issue. A range of other benefits are also offered.

Health and safety

Health and safety continues to be a highly regulated area of Homeserve's business. The competitive business climate demands a careful balance to be maintained between safety management ideals and minimal legal compliance, and Homeserve remains committed to sustaining its high standards. Homeserve has achieved a consistently good safety record 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 past year has seen a continuation of the Group's improved corporate approach to health and safety. Better integration of the Group's businesses has improved co-operation, and the Health and Safety Forum, attended by health and safety representatives of each Group company, is a valuable mechanism for sharing best practice across the businesses. Particularly good progress has been made in raising the profile of health and safety across Homeserve as a serious operational driver of the business. Investors, liability insurers and major clients now quite properly expect high standards of performance in health and safety, and we continue to engage actively with them to demonstrate the strength of our practices and policies.

Homeserve's strategy for health and safety promotes compliance at least with minimum standards to achieve its corporate objectives. Each business has appointed a Board member to act as champion for health and safety at subsidiary Board level, overseeing arrangements for the effective implementation of working practices which meet or exceed statutory requirements. Compliance is monitored against minimum corporate standards through routine internal health and safety audits. Jonathan Simpson-Dent is the nominated Homeserve plc director responsible for reporting on health and safety but the Board as a whole remains responsible for health and safety issues across the Group.

All Homeserve businesses employ health and safety specialists with appropriate qualifications and experience to deal with practical issues and to oversee the implementation of safe working procedures. In some areas, the rapid growth of the business through organic expansion and acquisition has generated a need for the better integration of our systems and procedures, and the harmonisation of written policies. This is being treated as a matter of priority, and extensive work is under way to improve the quality and consistency of written health and safety policies and guidelines across the businesses.

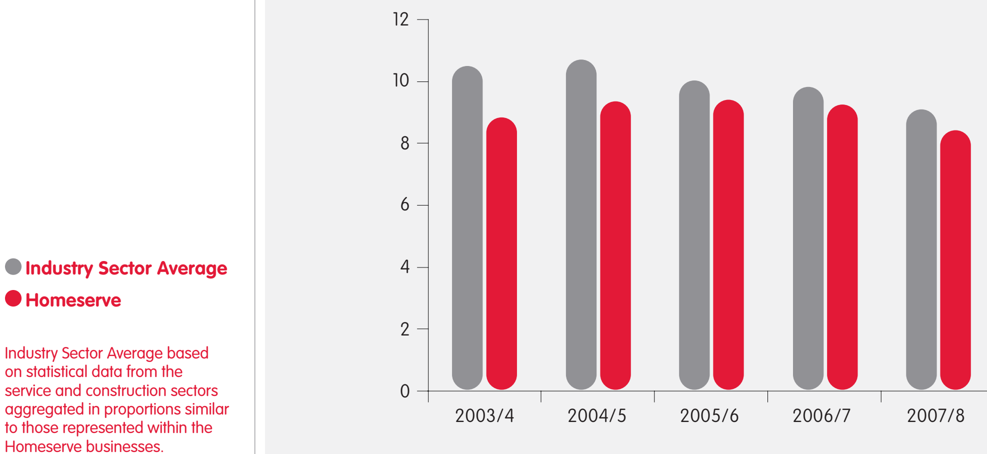
Corporate and social responsibility

Homeserve's overall exposure to health and safety risk has been reduced as a result of greater attention at Board and senior management level to health and safety systems and procedures. The current programme of training all subsidiary company directors through the IOSH 'Safety for Senior Executives' course is proving to be effective in raising the profile of health and safety at a senior level. The training of operational managers in safety management principles and techniques through the IOSH 'Managing Safely' course promotes the commitment and competence of Homeserve's managers in health and safety.

Homeserve has continued to maintain a good standard of health and safety performance throughout the year. Accident and injury performance across the Group as a whole remains stable in line with a longer term improving trend which is generally better than the average for a comparable mix of industry sectors.

During 2007/8, 96 recorded incidents required hospital treatment or substantial time lost from work, most involving cuts, bruises or muscular strains. Of these, 41 were sufficiently serious to require formal statutory reporting to HSE, although none resulted in life-threatening injuries. Most of the more serious incidents involved cuts (predominantly in the glazing business), and muscular strains from manual handling injuries. These areas are being targeted through local campaigns and 'toolbox talks' to help reduce such injuries in future.

451 working days were lost through health and safety-related absence, appreciably down on the previous year (498) and also down as a rate per employee (now 0.09 days lost per employee per year compared with 0.1 last year). The Reportable Incident Rate remains consistent with the recent trend, continuing to compare favourably with an aggregated average from relevant industry sectors.



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

During the year, several Homeserve workplaces and sites were visited by HSE and Local Authority Inspectors, who were generally complimentary of the health and safety standards found there, and the procedures in place to ensure safe working. Recommendations made by the inspectors were mainly of a minor or procedural nature, and they were all addressed as required. Particular commendation was made for documented evidence of regular internal monitoring and audit. One statutory enforcement notice was issued by the Fire Service requiring fire safety improvements at one depot, and the remedial work was satisfactorily completed within the prescribed timescale. There were no other statutory notices, and no cases were referred for prosecution against any Homeserve business during the year.

A major project during the year has been the integration of the safety management systems across all the businesses in UK Emergency Services. This has involved the development of consistent procedures to reflect best practice. Most of the project work is complete, and the remaining documents will be put in place during the coming year. The Group's intranet is now being used to disseminate relevant information widely so that it is freely accessible to all employees.

A new Driver Handbook has been produced for employees who drive on business. Much of this covers the health and safety aspects of vehicle use, and the handbook includes recommendations on the maximum time spent driving, and the use of mobile phones by drivers.

The year also saw the development of a new comprehensive health and safety handbook in a simple pocket-sized format to supplement specific safety training. This covers the key messages for safe working relevant to field-based employees, where communication of health and safety messages is the most difficult to achieve. Another handbook has been developed for office-based employees, covering the main health and safety issues affecting call centre and office work.

National smoking restrictions came in to force during 2007, effectively banning smoking in all enclosed and indoor areas used as places of work. Due to the previous implementation of policies to restrict smoking in Homeserve premises, the transition went smoothly, and all businesses are fully compliant with the new law.

The Group Health and Safety Forum continues as a catalyst for improvement, forging effective working relationships and progression to common health and safety standards and procedures. Local employee forums are now in place in all businesses, and the practical benefits from involving employee representatives are already self-evident, particularly in improved communication and promoting 'ownership' of health and safety.

Homeserve's priority areas for health and safety in 2008/9 include:

- Vehicle and driver safety - Initiatives are being put in place to improve the management of fleet vehicles and checks on drivers' licences and competence, and to review working methods.
- Control and management of contractors - Initiatives are being put in place to improve procedures for the selection and assessment of contractors, and to develop a standard approach to monitoring contractors' health, safety and quality practices.

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- Audit of site practices - Improvements are being made to the provision of health and safety training, employee briefings, and auditing of working practices on site. Each business is developing safety priorities in local business KPIs, and there is an improved regime of routine site audits to monitor working practices more closely.

- Occupational health arrangements will continue to be improved to ensure more consistent pre-employment medical checks, better protection for employees potentially exposed to infectious material, and more effective long term sickness monitoring.

- Reporting of 'near-miss' incidents - The collection of information on 'near misses' and other minor or non-injury incidents which could have potential implications will be strengthened to help highlight important trends and provide a valuable input to the safety management strategy.

Homeserve's continuing expansion through acquisition, and growing competitive pressures on operating costs constantly threaten Homeserve's exposure to risk. The concerns are being addressed positively through pre and post-acquisition reviews and an ongoing programme of health and safety audits.

Homeserve companies continue to develop health and safety competence and expertise, which is fundamental to continuing our business success. The nature of health and safety is that there is always scope for improvement, and the development and promotion of good working practices and cost-effective measures to ensure compliance with statutory requirements remains our key objective.

Environment and climate change

Being environmentally responsible is an integral part of what being a good corporate citizen means to Homeserve.

Last year, we made a commitment to bring together the different practices of our businesses in the UK into an integrated company wide environmental management system. We have made good progress this year on meeting this commitment.

During the year, we adopted our first Group-wide environment policy and published an Environmental Impact Review, which can be viewed on our website. This work is being guided by our newly established Environmental Responsibility Working Group under the chairmanship of Brian Whitty as the Board member responsible for environmental matters. We have also recruited our first Group Environment Manager who has the remit to lead our work in this area, to help further define our objectives, and to develop our action plans.

In 2007, for the first time, we measured our 'carbon footprint' for those aspects of our UK operations under our direct control. This includes the carbon related to the energy we use (electricity, gas, fuel oil); refrigerants used in systems such as air conditioning and business travel (air, rail and company cars).

At 12,750 tonnes of Carbon Dioxide (CO^2) for 2006/7, our direct environmental impact is relatively low. This is in keeping with our expectation as a service company. Our most significant impact is the fleet of vehicles that we operate which accounts for around 70% of our overall carbon footprint.

This information has helped us identify scope for improvement in a number of areas, and we have already begun to take steps to reduce our environmental impact as a result, leading in some cases to cost efficiencies, as well as environmental improvements. For example, we have invested in a sophisticated scheduling system for emergency call-outs that gets an engineer to our customers in the shortest time and distance. This is both environmentally responsible and helps us to improve our standards of customer service.

Being environmentally responsible is part of good management. Climate change continues to be the most pressing environmental issue and has been linked to an increased frequency of extreme weather events. Many of our businesses help households to respond to extreme weather events and our first priority is to respond to their needs quickly and efficiently. We will also continue to play our part in reducing our own environmental impact and to reduce the resources we use.

Environmental management will continue to be a priority for us this year.

Homeserve in the community

Many communities suffered greatly over the course of 2007, hit hard by the flooding which forced a number of families to leave their homes. Homeserve's UK Emergency Services fleet of workers were on hand to help, setting up temporary centres to offer a little welcome respite for those families worst hit, as we set about repairing the damage. During the floods, our teams recorded a huge increase on normal flood claim levels, handling some 20,000 incidents. This was a test for our repair network and call handling centres but the tremendous response and efforts of our employees ensured that our high level of customer service was upheld, even in such testing times.

We have also been actively involved in a number of community initiatives in and around our office locations over the last year. As a member of 'Business in the Community' we have undertaken a number of employee volunteering projects, completing over 20 challenges across the UK this year.

Homeserve has a dedicated resource for developing community programmes at its head office in Walsall. We support local schools and clubs in this area, including sponsoring Walsall FC and managing school reading programmes. We continue to support Old Hall Special School in the building of their sensory garden and the Company has matched pound for pound on all fundraising.

We are currently developing new links with the Learning and Skills Council to support skills development in the West Midlands area.

We are also committed to supporting national charity campaigns and on the night of 14 March 2008 our contact centre was opened to help take some of the thousands of pledges generated for Sport Relief. Over 150 volunteers took huge donations over the night.

We are very active across all of our sites, and offer a local sponsorship programme across the business enabling our employees to sponsor local groups that they have an affiliation with. We have community committees set up in Preston and Weston-super-Mare, who focus on building links with the community and fundraising. Our Preston site has bi-monthly fundraising events, supporting the 'Charity of the Year', which is voted by employees. We support local schools and clubs, including training for Broughton High School, contributions to community events and sponsorship of local youth teams.

We have also launched a partnership this year with the Lancashire Evening Post, the local paper in Preston, whereby we are giving £5,000 away to local community groups. We are planning to run similar schemes in Walsall and Weston-Super-Mare later this year.

At our Weston-Super-Mare site we provide financial support to a number of local schools and clubs, as well as donating IT equipment. We have also supported a number of charities this year including the local Red Cross for floods, Local Miscarriage Association and the Weston Hospice.

Being a responsible business within our communities is valued by both our existing employees and potential recruits and we remain focused on continually building on our community activity.

Directors' biographies

1. Brian Whitty (54) ~
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.

2. Richard Harpin (43)
BA (Hons), CdipAF
Chief Executive since April 2004. Appointed to the Board in May 2001. Founder of Homeserve which was originally a joint venture with South Staffordshire Group set up in 1993. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

3. Jonathan Simpson-Dent (41)
FCA, MA
Joined Homeserve as Chief Financial Officer in March 2007. Previously CFO at General Healthcare Group. Prior to that he spent four years at McKinsey followed by seven years at PepsiCo in a number of senior finance roles. Qualified as a chartered accountant with PriceWaterhouseCoopers.

4. Ian Carlisle (46)
Appointed to the Board in November 2004. Joined Homeserve in June 2003 as Chief Executive of Homeserve Emergency Services. Previously Managing Director of Autoglass Ltd, prior to which he was Divisional Commercial Director at Marks & Spencer plc.

5. Jon Florsheim (48)
Appointed to the Board and as Chief Executive of Homeserve Membership in March 2007. Previously Chief Marketing Officer and Managing Director, Customer Group of British Sky Broadcasting. Prior to joining BSkyB in 1994, he was Marketing Director of Dixons Stores Group (now DSG International plc) and had marketing posts with Tesco.

6. John Maxwell (63) * # ~ °
CA, CCMI, FRSA
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.

7. JM Barry Gibson (56) * # ~ °
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.

8. Ian Chippendale (59) * # ~ °
Appointed to the Board in January 2007. Currently Senior Independent Director of Thus plc. Previously Chairman of RBS Insurance, Group Chief Executive of the Direct Line Group of companies, Chief Executive of Privilege Insurance and Chairman of the Insurance Division of Provident Financial Ltd.

9. Andrew Sibbald (41) *
Appointed to the Board in June 2007. An experienced corporate financier, he is Managing Director and co-founder of Lexicon Partners which specialises in the utility and insurance sectors. Previously Managing Director, Financial Institutions Group, Donaldson, Lufkin & Jenrette and a partner at the Phoenix Partnership.

10. Emma Thomas (41)
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.

11. Jonathan King (47) †
BSc (Hons)
Appointed as Chief Executive of Home Service USA in 2005 following 4 years as Managing Director of the UK Membership business and a year as Business Development Director. He previously worked in retail marketing with the Boots Company as Group Brand Manager for No.7 Cosmetics.

12. Rachael Hughes (37) †
BA (Hons)
Appointed as Chief Executive 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.

13. Jeremy Middleton (47) †
BA (Hons)
Non-executive Director of the original Homeserve business set up in 1993. Previously a Brand Manager with Procter and Gamble and a Management Consultant with PriceWaterhouse. Now acts as a Venture Capitalist specialising in early stage business.

14. Martin Sawkins (52) †
BSc (Hons)
Appointed as Group HR Director in January 2008. Previously Group HR Director of the AA. Prior to the AA he was HR Director for Centrica plc's Home and Road Services, HR and Quality Director for Briden plc and held a number of HR and operations roles with Rover Group Ltd, British Aerospace plc and United Biscuits plc.

15. Trevor Didcock (44) †
MBA, BSc (Hons)
Appointed Group Chief Information Officer in February 2008. Previously Information Systems Director at the AA from 2003 to 2007 and Group IT Director of RAC Motoring Services from 1999 to 2003. Prior to that he held various roles in Esso, J P Morgan and Mars, including 3 years as Head of IT for Mars Confectionery.

Key
* Non-executive
\# Audit Committee (Chairman: John Maxwell)
~ Nomination Committee (Chairman: Brian Whitty)
° Remuneration Committee (Chairman: Barry Gibson)
†Executive Board only

Directors and advisers

Directors
Brian Howard Whitty
Richard David Harpin
John Hunter Maxwell
Ian Carlisle
Ian Hugh Chippendale
Jonathan Joseph Florsheim
John Michael Barry Gibson
Andrew Sibbald
Jonathan Simpson-Dent

Secretary
Caroline Emma Roberts Thomas

Registered office
Cable Drive, Walsall, WS2 7BN
Registered in England No 2648297

Stockbrokers
JP Morgan 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
Slaughter and May
One Bunhill Row, London, EC1Y 8YY

Bankers
HSBC Bank plc
130 New Street, Birmingham, B2 4JU

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

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

Registrars
Computershare Investor Services PLC
PO Box 82, The Pavilions,
Bridgwater Road, Bristol, BS99 7NH

Directors' report

The directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2008.

Principal activities

During the year the Group was engaged in the provision of insured repair solutions and emergency services to the home. Details of the Group's activities and a review of the business are set out in the Chairman's Statement, Chief Executive's Review and Financial Reviews on pages 3 to 21.

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 20 in the Financial Review.

A description of the principal risks and uncertainties facing the Group is included on pages 20 and 21 in the Financial Review.

Information relating to the environment and employees is included in the Corporate Social Responsibility report on pages 24 to 29.

Financial results and dividends

The Group's results are shown in the Group income statement on page 60. The directors are recommending the payment on 1 August 2008 of a final dividend of 21.85 pence per ordinary share to shareholders on the register at the close of business on 30 May 2008 which, together with the interim net dividend of 9.4 pence per ordinary share paid on 3 January 2008, results in a total net dividend for the year of 31.25 pence per share (2007: 25.0p). For further details of the dividend see note 12 to the accounts.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 25. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at a general meeting of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 36. No votes are cast in respect of the shares held in the Employee Benefit Trust and dividends are waived.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Subject to the Companies Acts and any relevant authority of the Company in general meeting, the Company has authority to issue any of the unissued share capital.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the directors are not aware of any agreements between the Company and its directors and employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors' report

Directors

The directors who held office during the year were:

Brian Whitty
Richard Harpin
Ian Carlisle
Jon Florsheim
Jonathan Simpson-Dent
Ian Chippendale
JM Barry Gibson
John Maxwell
Andrew Sibbald (appointed 1 June 2007)

Having been appointed since the publication of the notice for the last Annual General Meeting, Andrew Sibbald will retire from the Board in accordance with Articles of Association and, being eligible, will offer himself for election. Brian Whitty and Richard Harpin retire by rotation and, being eligible, offer themselves for re-election. Messrs Whitty and Harpin serve under contracts of employment terminable on 12 months notice by either party. Mr Sibbald serves under a three year renewable letter of appointment which provides for liquidated damages limited to the payment of a maximum of one year's fees in the event of early termination by the Company.

In respect of the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of directors are described in the Board's terms of reference (which are available on the website) and the Corporate Governance statement on pages 37 to 41.

The beneficial interests of the directors in the shares of the Company and the options held as at 31 March 2008 and 19 May 2008 are set out in the Remuneration Report. None of the directors serving at the year end had a beneficial interest in the share capital of any subsidiary company.

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 on 28 July 2008.

Homeserve 2008 Long Term Incentive Plan

There will be proposed a resolution to adopt a new long term incentive plan.

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.

Authority to purchase own shares

Approval is being 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 detail on the resolutions to be proposed at the Annual General Meeting can be found in the Shareholder Circular.

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 £10.1m (2007: £12.6m) during the year.

Donations

Charitable donations of £37,000 (2007: £34,000) 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 2008 represented 67 days of purchases during the year (2007: 65 days) for the Group and 45 for the Company (2007: 45 days).

Substantial shareholdings

As far as the directors are aware, no person had a beneficial interest in 3% or more of the voting share capital at 19 May 2008, except for the following:

	Ordinary shares	%
Richard Harpin*	11,004,594	16.9
AMVESCAP PLC	10,016,433	15.4
Schroders plc	4,018,687	6.2
Standard Life Investments Ltd	3,133,438	4.8
Jeremy Middleton	3,058,113	4.7
Legal & General Group plc	3,019,445	4.6

* includes an indirect interest of 5,700 shares

Taxation status

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

Directors' report

Employment policies

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

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

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. Homeserve's training and development policies 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 24 and 25 of this report.

By Order of the Board
Emma Thomas
Company Secretary
19 May 2008

Corporate governance

Homeserve complied throughout the year with the provisions set out in the Combined Code published by the UK Financial Reporting Council in 2003 as updated in June 2006 ('the Code') except for the balance of the Board between executive and non-executive directors between 1 April and 1 June 2007, when Andrew Sibbald joined the Board as an independent non-executive director.

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 42 to 56 should be read in conjunction with the statement below. A review of the Group's position and prospects is set out in the Chairman's Statement, the Chief Executive's Review and the Financial Review on pages 3 to 21.

The Board

The Board of directors leads and controls the Company by holding at least eight meetings a year at which its current and forecast performance is reviewed and monitored. Regular reports on monthly performance and other matters of importance to the Group ensure that the Board is supplied in a timely manner with the information necessary to make informed judgements. In addition, the Board holds regular meetings at least annually, also attended by senior operational management, to devise and discuss the Company's medium and long term strategic focus and management development strategy. Regular formal and informal presentations are given and meetings held in order to apprise directors of issues of importance affecting the Group. Occasionally, meetings of the Board are held at the Company's operating sites other than Walsall, in order to afford the Board, particularly the non-executive directors, with the opportunity to meet with local management.

In accordance with the provisions of 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.

In 2007, Andrew Sibbald was appointed to the Board on 1 June, in the period between the date on which the Notice of Meeting was sent to shareholders and the Annual General Meeting. Accordingly, it was not possible for him to submit himself for election at the first Annual General Meeting following the date of his appointment but he will offer himself for election at the forthcoming Annual General Meeting on 28 July 2008.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference of the various committees to which it has delegated its authority in certain matters. Matters reserved to the Board include the recommendation or approval of dividends, the approval of preliminary and interim financial statements, major financial commitments, the acquisitions of significant companies or businesses, appointments to the Board and its Audit, Remuneration and Nomination committees, the Company's future strategy and its internal controls. It also provides that the Board 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, Ian Carlisle, Chief Executive of the UK Emergency Services division, Jon Florsheim, Chief Executive of Homeserve Membership and Jonathan Simpson-Dent, Chief Financial Officer. Other members of the Executive Board, together with biographical details, are listed on pages 30 and 31.

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, four independent non-executive directors (Messrs Maxwell, Chippendale, Gibson and Sibbald) 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 actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates; and has adopted a formal policy on the induction and training of directors. Newly appointed Board members are required to undergo an induction programme, which includes obtaining a thorough understanding of the Group's various operations, and they have the opportunity to receive formal training from external providers if they wish. During the year, the non-executive directors have met with various members of the Group's management teams and external advisers. Further training for directors has been provided as appropriate during the year, including training in relation to their duties under the Companies Act 2006.

The Board has implemented a formal process for reviewing its own effectiveness, that of its Remuneration and Audit committees and its individual members. In addition, it continued to ensure that regular meetings of the non-executive directors were held without the executive directors, and at least once a year, without the Chairman present, in order to evaluate his performance. The evaluation process, which was conducted by the Chairman and Company Secretary, was concluded in March 2008. Directors completed evaluation questionnaires, and attended one-to-one meetings with the Chairman and Company Secretary to discuss the existing and future needs of the Board, its composition and the skills of its members. A formal written report summarising their views and containing recommendations to further improve the effectiveness of the Board and its committees was prepared by the Company Secretary and reviewed by the whole Board in March 2008. The Board concluded that it and the committees reviewed operate effectively, although a number of recommendations for further improvement were approved. Meetings with the Chairman to discuss feedback relating to the effectiveness of individual directors took place in April 2008.

Committees

The Board operates a number of committees to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference. These comprise the Nomination, Audit and Remuneration Committees. The terms of reference of each of the Board's committees can be viewed on the Company's website.

During the year, the Board also established a Risk Committee, comprising certain executive directors and members of the Executive Board, which is chaired by Jonathan Simpson-Dent. Its terms of reference have been approved by the Board and its purpose is to establish the Group's risk appetite, to evaluate the risk registers compiled by each of its businesses, to monitor the effectiveness of its action plans for the mitigation of those risks, and to report thereon to the Audit Committee and the Board, which retains responsibility for the overall evaluation of the Group's risk management processes.

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by Brian Whitty, and Ian Chippendale, Barry Gibson and John Maxwell, independent non-executive directors also all served on the Committee throughout the year. 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 informally on several occasions to consider the possible appointment of further non-executive directors, including Andrew Sibbald, who was appointed on 1 June 2007.

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.

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 Ian Chippendale are also members of the Committee.

The Committee meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include agreeing audit strategy, monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors. The internal and external auditors and the Chief Financial Officer are invited but are not entitled to attend all meetings. Where appropriate, the Chairman and Chief Executive and other executive directors also attend meetings at the Chairman's invitation. The external and internal auditors are provided with the opportunity to raise any matters or concerns that they may have, in the absence of the executive directors, whether at Committee meetings or, more informally outside of them.

The Committee is responsible for making recommendations to the Board for a resolution to be put to the shareholders for their approval in general meeting for the appointment of the external auditors, the approval of their remuneration and their terms of engagement.

The Committee has implemented a policy relating to the use of the external auditors for non-audit services and monitors fees paid in respect of such services. This policy provides that, excluding certain specialist services, the total fees payable to the auditor for non-audit related work in any financial year should not normally be more than 50% of the total fees payable in respect of audit and compliance services.

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 Board as a whole in March 2008.

Remuneration Committee

The Committee is chaired by Barry Gibson and comprises only independent non-executive directors, Ian Chippendale 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 has also agreed and implemented a procedure for reviewing and assessing its own effectiveness; the results of the review were considered by the Board as a whole in March 2008.

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 30 and 31.

Corporate governance

Attendance at meetings

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	10	3	4
Meetings attended			
B H Whitty	10		
R D Harpin	9		
I Carlisle	10		
J Florsheim	10		
J Simpson-Dent	10		
J H Maxwell	9	3	4
I Chippendale	10	3	4
J M B Gibson	9	2	4
A Sibbald*	8		

* Mr Sibbald was appointed on 1 June 2007

Relationships with shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chairman, Chief Executive and Chief Financial Officer meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the 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.

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 and projected cash flows, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance on internal control published in October 2005 (Turnbull Guidance) and to report in line with that guidance.

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

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

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

- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a regular basis. Weekly meetings of the Group's UK based Executive Board members monitor its day-to-day performance, and full 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 and for local Boards of management, with all material transactions being approved by the Board.
- Three year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.
- The Group has a dedicated Internal Audit function which reports directly to the Audit Committee and a formal audit plan is in place to address the key risks across the Group.
- 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 Risk and Audit Committees and by the Board before the Report and Accounts is approved.
- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.
- At each meeting the Audit Committee reviews reports of the executive directors and the internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration. The Risk Committee meets at least quarterly to assist the Audit Committee to monitor these risks, as well as to set the Group's risk appetite and to evaluate in detail risk registers compiled by the Group's businesses.
- 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 (the 'Act') and has been approved by the Board and the Remuneration Committee. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. A resolution to approve the report will be proposed at the Annual General Meeting.

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

Unaudited information

Remuneration Committee

Role

The Remuneration Committee is responsible for determining and agreeing with the Board the pay, benefits and contractual arrangements for the executive directors of the Company (including the Executive 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 as updated in June 2006 ('the Code'). The Committee operates under the delegated authority of the Board and its terms of reference are available on the Company's website.

Membership

During the year, the Committee was chaired by JM Barry Gibson. John Maxwell and Ian Chippendale also served on the Committee. All of its members are independent non-executive directors.

Meetings

Attendance at Committee meetings held during the year and the number of meetings held is set out on page 40.

Advisers

During the year Hewitt New Bridge Street (HNBS), a firm of independent remuneration consultants, served as advisers to the Committee. The Company also instructed HNBS to advise it on a limited number of remuneration matters during the year. Other than in relation to advice on remuneration, HNBS has no other connections with the Company. The terms of engagement for HNBS 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 his appointment in January 2008) Martin Sawkins, 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 policy

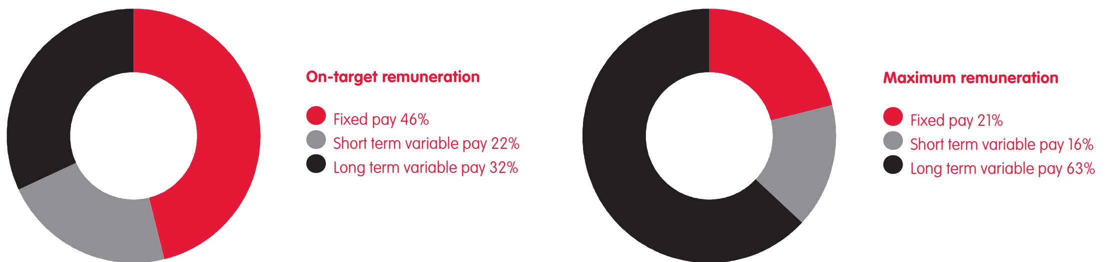
The Committee's remuneration policy for the remuneration of executive directors and other senior executives is based on the following principles;

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

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.



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 the top-half of the FTSE 250 or 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 the top-half of the FTSE 250, 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 the top-half of the FTSE 250. Only basic salary is pensionable
Other benefits	To provide benefits comparable with similar roles in similar companies	N/A	Other benefits comprise a fully expensed car (or cash alternative), private health and (for Messrs Florsheim, Simpson-Dent 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 years	Awards under the new LTIP will deliver rewards for TSR growth (subject to satisfactory underlying earnings performance)

Remuneration for executive directors

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

Basic salary

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

Following a review undertaken by HNBS in March 2008, the Committee has determined that the most appropriate comparator group against which to benchmark executive directors' basic salaries is the top-half of the FTSE-250 Index (reflecting the increased size and profile of the Company), taking into account the roles, responsibilities and experience of each director. Basic salaries were increased by an average of 8% on 1 April 2008, reflecting the results of HNBS's review and the fact that in 2007, increases in basic salaries were limited to 3%, in line with the average of increases awarded to senior managers across the Group.

In March 2007, Jon Florsheim joined the Group as Chief Executive of Homeserve Membership, from British Sky Broadcasting plc (BSkyB). The Committee recognised that, in order to attract a senior executive of his calibre and background, it would be necessary to offer a remuneration package comparable with that previously payable to him at BSkyB. Accordingly, the Committee, agreed to depart from its existing remuneration policy. His basic annual salary of £450,000 on appointment (increased by inflation to £463,500 on 1 April 2008), exceeds the upper quartile of those payable to directors with similar roles and responsibilities in the Committee's chosen comparator group but was comparable with that paid to him at BSkyB.

Annual bonus

The annual bonus is designed to drive and reward excellent short term operating performance of the Company and encourage real year-on-year growth in profitability. No annual bonus is paid unless a very high level of profit performance is achieved. The maximum annual bonus for 2008/9 will be maintained at 100% of basic salary (with the exception of Jon Florsheim whose maximum bonus potential is unchanged at 150% of salary).

During the year, executive directors were able to earn up to 80% of bonus potential for Group financial performance, measured by profit before tax, amortisation and exceptional items. No bonus was payable unless the Company's profits achieved growth of at least 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 the function for which the director is responsible.

The weighting between business and personal objectives will remain 80% financial: 20% personal for 2008/9. Provided their personal objectives are met in full, the normal 'on-target' bonus payable to executive directors in any year is expected to be in the region of 60% of their basic salary (90% for Jon Florsheim).

In the current year, and in future years, executive directors' bonuses will be payable entirely in cash. This differs from bonus arrangements in recent years, where any bonus earned in excess of 75% of the maximum amount was compulsorily invested in the Deferred Bonus Plan (DBP). The change to the Committee's policy on the compulsory deferral of an element of the bonus reflects its intention to adopt revised long-term incentive arrangements and not to make future awards under the DBP as outlined below.

Long-term incentives

For the 2008/9 financial year, the Committee's policy for the provision of long-term incentives to executive directors will be to grant awards of performance shares (performance awards) and to provide them with the opportunity to voluntarily invest up to 75% of any bonus received into a matching share arrangement (matching awards) under a new scheme (the 'new LTIP') to be proposed to the Company's shareholders at the forthcoming Annual General Meeting.

Further details of the new LTIP and the Committee's rationale for wishing to introduce such a scheme are contained in the Shareholder Circular, but the key elements of the new LTIP are as follows;

- The new LTIP is a single, simple and flexible scheme designed to replace the Company's existing long-term incentive arrangements, comprising the Executive Share Option Plan (ESOP), Long-Term Incentive Plan (LTIP) and Deferred Bonus Plan (DBP) and to reflect current best practice;
- It is designed to align the executive directors' rewards with the interests of the Company's shareholders;
- The Committee may set different targets for each new award but it is initially intended that awards made under the new LTIP (performance and matching awards) will be linked to the achievement of stretching Total Shareholder Return (TSR) targets, with 25% of the awards vesting for TSR equal to the FTSE-250 Index, increasing in a straight line to 100% vesting where TSR performance exceeds the Index by 15 percentage points per annum. In determining the number of awards that will vest in any year, the Committee will also take into account the underlying financial performance of the business and;
- Maximum awards under the new LTIP to executive directors will be 200% of basic salary for performance awards and matching awards of up to 2 shares for 1 share invested by the executive director, based on a maximum investment of the net of tax equivalent of 75% of the maximum bonus potential. Awards in 2008 will be limited to 150% of salary for performance awards and at the maximum level for matching awards.

The proposed awards are comparable to the potential available under the Company's existing policy for long-term incentive schemes.

The new LTIP will also permit the grant of restricted share awards which may or may not be subject to performance conditions. However, these will only be granted in exceptional circumstances, for example in recruitment situations to buy-out an incoming director's existing awards.

The Committee considers that the new LTIP supports its overall policy to reward good performance in line with that payable by broadly comparable businesses and to reward exceptional performance in such a way as to align executives' interests with those of its shareholders. It provides a simple and consistent framework for executive reward, in a structure that is fully aligned to the Company's strategic objectives, and the total level of remuneration delivered thereby is no higher than under the schemes which it replaces.

Awards under the new LTIP may be satisfied through a mixture of either market purchase or new issue shares. To the extent new issue shares are used, the new LTIP will adhere to a 5% in 10 year dilution limit.

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.

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
J Florsheim	5 March 2007
I Carlisle	1 April 2005
J Simpson-Dent	18 May 2007

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

Pensions

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

- pension at normal retirement age of one-half of final pensionable salary and a tax free lump sum of one and a half times final pensionable salary on completion of 40 years' service at an accrual rate of 80ths plus 3/80ths cash;
- life assurance of five times pensionable salary for Brian Whitty or five times basic salary for Richard Harpin and Ian Carlisle;
- pension payable in the event of ill health; and
- spouse's pension on death.

A notional earnings cap restricts the benefits provided to members of the WCPS. In respect of Richard Harpin and Ian Carlisle, an unapproved pension payment, equal to 20% of the amount by which his basic salary exceeds the notional cap is paid annually. The notional cap is indexed in line with earnings inflation.

With effect from 6 April 2006, all of Brian Whitty's retirement benefits are provided through the WCPS, on the basis of a pension accrual rate of 45ths of his basic salary for future service.

Remuneration report

The HMP is a funded, Inland Revenue approved occupational defined contribution pension scheme. Jon Florsheim and Jonathan Simpson-Dent are members of the HMP. In respect of Jonathan Simpson-Dent, its main features are:

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

In respect of Jon Florsheim, its main features are:

- employer contributions of 8%;
- life assurance of five times basic salary;
- permanent health insurance; and
- spouse's pension on death.

Where the benefits provided to executive directors under the scheme are restricted as a result of the notional earnings cap described above, further provision is made by making a payment of 20% in cash of the amount by which his basic salary exceeds the cap in respect of Jonathan Simpson-Dent, and 8% into the HMP in respect of Jon Florsheim.

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.

Details of their current three year appointments are as follows:

Name of director	Date of contract
J M B Gibson	6 April 2004
J H Maxwell	6 April 2004
I Chippendale	1 January 2007
A Sibbald	1 June 2007

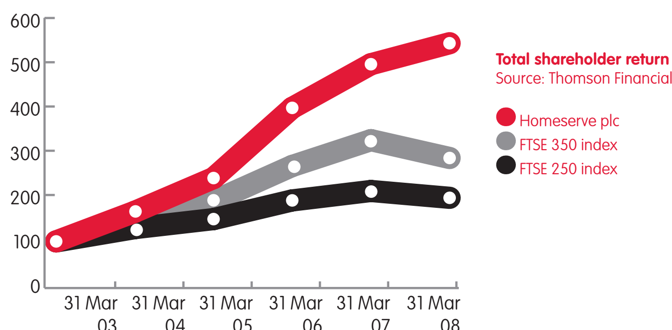
Executive Board

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 2008.

Base salary range	Number of employees
£250,001–£300,000	2
£200,001–£250,000	2
£150,001–£200,000	2

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-350 and FTSE-250 Indices (also measured by TSR) for the five years ended 31 March 2008. The first comparator has been chosen as it is used in respect of the DBP and the second as it will be used in respect of the new LTIP.



Audited information

Directors' emoluments

	Basic salary £000	Benefits £000	Bonus £000	Compensation for loss of office £000	Total emoluments and compensation 2008 £000	Total emoluments and compensation 2007 £000
Executive						
B H Whitty	412	28	232	—	**672**	752
R D Harpin	371	27	216	—	**614**	677
I Carlisle	309	21	167	—	**497**	571
J Florsheim*	450	23	235	—	**708**	97
J Simpson-Dent*	300	17	169	—	**486**	26
A J Belk*	—	—	—	—	**—**	799
Non Executive						
J H Maxwell	58	—	—	—	**58**	53
J M B Gibson	50	—	—	—	**50**	44
I H Chippendale*	45	—	—	—	**45**	11
A Sibbald*	33	—	—	—	**33**	—
J A S Jewitt*	—	—	—	—	**—**	36
Total 2008	**2,028**	**116**	**1,019**	**—**	**3,163**	**—**
Total 2007	1,565	112	1,044	345	—	3,066

* Jon Florsheim was appointed on 5 March 2007
Jonathan Simpson-Dent was appointed on 30 March 2007
Andrew Belk resigned on 30 March 2007
Ian Chippendale was appointed on 1 January 2007
Andrew Sibbald was appointed on 1 June 2007
Justin Jewitt resigned on 1 January 2007

The annual bonus payable to each director in respect of 2007/8 represents the achievement of the Company's profit growth target (42% of salary) and the achievement by each director of his personal targets (from 10% to 16% of salary).

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2008 £000	2007 £000
Emoluments	**3,163**	2,721
Compensation for loss of office	**—**	345
Gains on exercise of share options	**68**	1,244
Money purchase pension contributions	**187**	137
	3,418	4,447

Directors' pension

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

	Accrued pension 31 March 2008 £000	Increase in accrued pension in the year £000	Accrued pension 31 March 2007 £000	Transfer value of increase £000
B H Whitty	**33**	10	23	158
R D Harpin	**27**	7	20	72
I Carlisle	**7**	2	5	20

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 2008 £000	Contributions made by the director £000	Increase in transfer value in the year net contributions £000	Transfer value 31 March 2007 £000
B H Whitty	**613**	—	194	419
R D Harpin	**336**	—	92	244
I Carlisle	**93**	—	26	67

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

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

	2008 £000	2007 £000
R D Harpin	**52**	44
I Carlisle	**39**	33
J Florsheim	**36**	—
J Simpson-Dent	**60**	—

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 2008	31 March 2007
B H Whitty	**101,485**	97,961
R D Harpin*	**11,004,594**	10,987,609
I Carlisle	**32,635**	19,096
J Florsheim	**7,247**	—
J Simpson-Dent	**—**	—
J H Maxwell	**25,390**	25,390
I H Chippendale	**—**	—
J M B Gibson	**6,675**	6,675
A Sibbald	**—**	—

* Includes an indirect interest of 5,700 shares

There were no changes in the directors' interests in shares between 31 March and 19 May 2008.

Directors' share options and long-term incentives

Save as you earn (Sharesave) schemes

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

	31 March 2008	Granted during year	Exercised during year	31 March 2007	Option price	Date granted	Date exercisable from
B H Whitty	**—**	—	3,524	3,524	£4.66	10.12.02	1.2.08
R D Harpin	**1,753**	—	—	1,753	£9.18	23.12.05	1.3.11
I Carlisle	**—**	—	1,744	1,744	£5.43	30.12.04	1.3.08
I Carlisle	**1,158**	1,158	—	—	£14.50	19.12.07	1.3.13
J Simpson-Dent	**662**	662	—	—	£14.50	19.12.07	1.3.11

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

The price of an ordinary share on 1 February 2008 when Mr Whitty exercised his option over 3,524 shares was £17.00. The price of an ordinary share on 3 March 2008 when Mr Carlisle exercised his option over 1,744 shares was £19.51.

ESOP

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

	31 March 2008	Granted during year	Exercised during year	31 March 2007	Option price	Date granted
B H Whitty	**72,500**	—	—	72,500	£5.50	17.7.01
	65,000	—	—	65,000	£5.89	8.7.02
	80,000	—	—	80,000	£4.70	1.7.03
	99,500	—	—	99,500	£6.61	27.5.04
	55,000	—	—	55,000	£9.61	28.6.05
	42,644	—	—	42,644	£14.07	23.5.06
	35,972	35,972	—	—	£17.18	4.9.07
R D Harpin	**49,000**	—	—	49,000	£5.50	17.7.01
	44,000	—	—	44,000	£5.89	8.7.02
	60,000	—	—	60,000	£4.70	1.7.03
	83,000	—	—	83,000	£6.61	27.5.04
	51,000	—	—	51,000	£9.61	28.6.05
	38,380	—	—	38,380	£14.07	23.5.06
	32,375	32,375	—	—	£17.18	4.9.07
I Carlisle	**42,500**	—	—	42,500	£4.70	1.7.03
	65,000	—	—	65,000	£6.61	27.5.04
	42,500	—	—	42,500	£9.61	28.6.05
	31,983	—	—	31,983	£14.07	23.5.06
	26,979	26,979	—	—	£17.18	4.9.07
J Florsheim	**39,290**	39,290	—	—	£17.18	4.9.07
J Simpson-Dent	**26,193**	26,193	—	—	£17.18	4.9.07

The ESOP was approved by shareholders in 2001. Options were 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.

Options will become exercisable based on the following 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 IAS33.

In addition, options granted under the ESOP in 2006 and 2007 will only become exercisable if the Company's share price growth is equal to or exceeds 48% in the three year period from the date of grant.

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

From 2005, the normal maximum annual grant under the ESOP was 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 as it wishes to impose.

There were no changes in the options held under the ESOP between 31 March and 19 May 2008.

EPS growth is calculated by the Company and independently verified by HNBS. As at March 2008, the Company's year on year EPS growth during the period since the date options were granted in each year from 2003 to 2007 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 (subject, in respect of the options granted in 2006 and 2007, to the share price target having been met at the date of exercise).

LTIP

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

	31 March 2008	Awarded during year	Lapsed during year	Vested during year	31 March 2007
B H Whitty	**99,500**	—	—	—	99,500
R D Harpin	**83,000**	—	—	—	83,000
I Carlisle	**94,940**	—	—	—	94,940
J Simpson-Dent	**15,732**	15,732	—	—	—

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. A further award was made to Mr Carlisle in June 2006 to incentivise him to achieve similar targets over a three year period to May 2009 and a similar award made in March 2008 to Mr Simpson-Dent for the same purpose. Awards were granted as nil cost share options. The price of an ordinary share on 31 March 2008 when Mr Simpson-Dent's award was made was £19.23.

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

Additionally the awards will not vest unless there has been EPS growth of at least 10% per annum above RPI over the performance period.

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 five year performance period.

TSR is independently calculated by HNBS and verified by the Committee. At March 2008, HNBS has estimated that the Company's absolute TSR growth in the period since the date of the 2004 award is 216%. Accordingly, if no further increase or decrease in the Company's TSR occurs in the remainder of the performance period, 100% of the maximum number of options would be exercisable.

Conditional share scheme awards (CSS)

Details of the maximum number of shares receivable under the CSS are as follows:

	31 March 2008	Awarded during year	Lapsed during year	Vested during year	31 March 2007
J Florsheim	**36,906**	—	—	12,301	49,207

On 12 March 2007, pursuant to Listing Rule 9.4.2. (2) (LR 9.4.2), a grant of 49,207 conditional shares was made to Jon Florsheim under the CSS. 25% of the award vested on the first anniversary of the grant, 25% of the award will vest on the second anniversary of the grant and the remaining 50% of the award will vest on the third anniversary of the grant, all providing Mr Florsheim remains in Homeserve's employment at the date of vesting. The price of an ordinary share on 14 March 2008, the date on which the initial tranche of the award vested, was £19.50.

Key executive incentive plan awards

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

	31 March 2008	Granted during year	Exercised during year	31 March 2007	Option price	Date granted
J Florsheim	**100,278**	—	—	100,278	1795.0p	30.3.07
J Simpson-Dent	**66,852**	—	—	66,852	1795.0p	30.3.07

On 30 March 2007, a grant of share options was made to Jon Florsheim and Jonathan Simpson-Dent under a Key Executive Incentive Plan (respectively, the JF and JSD KEIP). Awards will vest in two tranches, with 50% of the award vesting at the earliest on the third anniversary of the date of grant and 50% two years later. The awards are subject to performance conditions in respect of profit before tax and growth in the Company's share price to £32.50 at the time of first vesting. These conditions will be independently verified by HNBS.

DBP

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

	31 March 2008	Awarded during year	Lapsed during year	Vested during year	31 March 2007
B H Whitty	**70,626**	—	—	—	70,626
	46,443	—	—	—	46,443
R D Harpin	**58,854**	—	—	—	58,854
	45,090	—	—	—	45,090
	50,954	50,954	—	—	—
I Carlisle	**22,827**	—	—	—	22,827
	28,191	—	—	—	28,191
	35,385	35,385	—	—	—

The DBP was introduced in 2005. Under its terms, executive directors were able to invest some or all of their annual bonus into shares and to defer receipt for three years. Matching shares could be earned if the 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 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 at any time during their appointment but any entitlement to matching shares will be forfeit in such circumstances.

The price of an ordinary share on 6 September 2007, when the 2007 awards were made, was £17.07.

At March 2008, the Company's TSR performance in the period from the date of grant of awards is 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 2.78 for the 2005 awards, 2.19 for the 2006 awards and 2.44 for the 2007 awards.

Remuneration report

The market price of the Company's shares at 31 March 2008 was £19.23 (2007: £17.83). During the year the price ranged from £16.12 to £20.41.

The Committee has continued to ensure 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, LTIP, CSS and KEIP may be fulfilled by the purchase of shares in the market by the Company's employee benefit trust (EBT). As beneficiaries under the EBT, the directors are deemed to be interested in the shares held by the EBT which at 31 March 2008 amounted to 2,417,066 ordinary shares. Shares may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme.

By Order of the Board

J M Barry Gibson
Chairman of the Remuneration Committee
19 May 2008

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with 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 IFRSs. However, 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report

We have audited the Group financial statements of Homeserve plc for the year ended 31 March 2008 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 41. 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 parent Company financial statements of Homeserve plc for the year ended 31 March 2008.

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 Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 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 statements on internal control cover 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 as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 to be 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 Group'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 to be 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 to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;

- the part of the directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
19 May 2008

Group income statement
year ended 31 March 2008

Continuing operations	Notes	2008 £000	2007 £000
Revenue	4	**554,875**	477,362
Operating costs:			
Amortisation of acquisition intangibles	15	**(10,320)**	(6,451)
Exceptional operating costs#	6	**(2,154)**	—
Other operating costs		**(466,667)**	(407,822)
Operating costs	7	**(479,141)**	(414,273)
Share of results of joint ventures	18	**1,755**	555
Operating profit		**77,489**	63,644
Investment income	9	**1,102**	1,030
Finance costs	10	**(6,753)**	(3,596)
Profit before tax, amortisation of acquisition intangibles, exceptional operating costs and tax on joint ventures		**85,303**	67,683
Tax on joint ventures		**(991)**	(154)
Exceptional operating costs#		**(2,154)**	—
Amortisation of acquisition intangibles	15	**(10,320)**	(6,451)
Profit before tax		**71,838**	61,078
Tax	11	**(22,562)**	(19,118)
Profit for the year being attributable to equity holders of the parent		**49,276**	41,960
Dividends per share - paid and proposed	12	**31.25p**	25.00p
Earnings per share			
Basic	13	**79.0p**	67.3p
Diluted	13	**76.0p**	64.8p

exceptional operating costs relating to the aborted acquisition of Domestic & General Group plc, see note 6.

Group statement of recognised income and expense
year ended 31 March 2008

	Notes	2008 £000	2007 £000
Exchange differences on translation of foreign operations	31	**46**	(56)
Actuarial gains on defined benefit pension scheme	37	**714**	654
Current tax on additional pension contribution		**—**	132
Deferred tax on items taken directly to equity	22	**427**	(32)
Net income recognised directly in equity		**1,187**	698
Profit for the year		**49,276**	41,960
Total recognised income and expense for the year attributable to equity holders of the parent		**50,463**	42,658

Group balance sheet
31 March 2008

	Notes	2008 £000	Restated (note 2) 2007 £000
Non-current assets			
Goodwill	14	**221,158**	189,039
Other intangible assets	15	**62,365**	42,072
Property, plant and equipment	16	**42,804**	38,020
Interests in joint ventures	18	**3,502**	1,747
Deferred tax assets	22	**—**	211
		329,829	271,089
Current assets			
Inventories	19	**7,913**	7,236
Trade and other receivables	20	**193,915**	158,692
Cash and cash equivalents	20	**47,198**	14,885
		249,026	180,813
Total assets		**578,855**	451,902
Current liabilities			
Trade and other payables	23	**(201,444)**	(161,435)
Current tax liabilities		**(10,633)**	(11,523)
Bank overdrafts and loans	21	**(90,304)**	(42,026)
		(302,381)	(214,984)
Net current liabilities		**(53,355)**	(34,171)
Non-current liabilities			
Other financial liabilities	24	**(10,367)**	(5,823)
Retirement benefit obligation	37	**—**	(647)
Deferred tax liabilities	22	**(694)**	—
		(11,061)	(6,470)
Total liabilities		**(313,442)**	(221,454)
Net assets		**265,413**	230,448
Equity			
Share capital	25	**8,147**	8,119
Share premium account	26	**32,507**	31,379
Merger reserve	27	**70,992**	70,992
Own shares reserve	28	**(29,586)**	(25,047)
Share incentive reserve	29	**6,550**	4,727
Capital redemption reserve	30	**1,200**	1,200
Hedging and currency translation reserve	31	**110**	64
Retained earnings	32	**175,493**	139,014
Total equity		**265,413**	230,448

The financial statements were approved by the Board of directors and authorised for issue on 19 May 2008. They were signed on its behalf by:

Jonathan Simpson-Dent
Chief Financial Officer
19 May 2008

Group cash flow statement
year ended 31 March 2008

	Notes	2008 £000	2007 £000
Net cash from continuing operating activities	34	**66,973**	52,538
Investing activities			
Interest received		**1,102**	1,030
Proceeds on disposal of property, plant and equipment		**2,585**	611
Purchases of intangible assets	15	**(10,104)**	(4,519)
Purchases of property, plant and equipment	16	**(10,063)**	(12,609)
Net cash outflow on acquisitions	33	**(46,096)**	(30,171)
Net cash used in investing activities		**(62,576)**	(45,658)
Financing activities			
Dividends paid	12	**(16,893)**	(13,367)
Purchase of own shares	28	**(7,331)**	(8,379)
Issue of shares from the employee benefit trust		**2,523**	—
Proceeds on issue of share capital	25	**1,156**	1,425
Increase in bank overdrafts and revolving credit facilities	21	**48,461**	11,245
Net cash from/(used in) financing activities		**27,916**	(9,076)
Net increase/(decrease) in cash and cash equivalents		**32,313**	(2,196)
Cash and cash equivalents at beginning of year		**14,885**	17,081
Cash and cash equivalents at end of year		**47,198**	14,885

Notes to the accounts
year ended 31 March 2008

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 32.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 23	Borrowing Costs (March 2007)
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 12	Service Concession Arrangements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of 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.

During the year, the contingent consideration payable on the 2006 acquisition of Digital Insurance Services Limited was reduced by £2,683,000. Goodwill on the acquisition has been reduced accordingly, with the goodwill and contingent consideration being restated in the comparitive period.

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.

Membership businesses
Revenue in respect of the UK and overseas 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.

Emergency Services businesses
Revenue in the UK and overseas Emergency Services 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.

2. Significant accounting policies (continued)

Leasing

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

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

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

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange 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:

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

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

Intangible assets
Intangible assets 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 3–7 years.

2. Significant accounting policies (continued)

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.

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 amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

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

Financial liabilities and equity

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

Borrowings

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

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included within finance costs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

Trade payables

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

Equity instruments

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

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.

3. Judgements and estimation uncertainty

Revenue recognition

Within the Policy Membership businesses, 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.

Impairment of goodwill and acquisition intangible assets

The annual impairment assessment in respect of goodwill and acquisition intangibles requires estimates of the value in use of cash-generating units to which goodwill and acquisition intangibles have 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 £221m (2007 restated: £189m). The carrying value of acquisition intangibles is £47.6m (2007: £35.1m).

Pensions

The Group participates in a defined benefit pension scheme for certain employees. The scheme assets and liabilities are valued by an independent qualified actuary using the assumptions summarised in note 37. As required by IAS19, the value of the defined benefit obligation has been measured using the projected unit credit method which requires the use of judgement and estimation.

4. Revenue

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

	2008 £000	2007 £000
Provision of services	**554,875**	477,362
Investment income (see note 9)	**1,102**	1,030
	555,977	478,392

5. Business and geographical segments

Segment revenues and results

For the year ended 31 March 2008, the Group has adopted IFRS 8 'Segmental Reporting'. IFRS 8 replaces IAS 14 'Segment Reporting'.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

Following the integration of the utility branded and warranties businesses in the UK, and the progress during the year in Continental Europe and the USA, the Group is managed around four operating divisions – UK Membership, UK Emergency Services, Continental Europe and the United States of America. As a result, the disclosure requirements of IFRS8 are more consistent with the way in which the Group is managed and reviewed by the Chief Executive.

2008	**UK Membership £000**	**UK Emergency Services £000**	**Continental Europe £000**	**United States of America £000**	**Consolidated £000**
Revenue					
Total revenue	**210,772**	**325,845**	**32,642**	**8,097**	**577,356**
Eliminations					**(8,800)**
Joint venture revenues, not recognisable for statutory reporting					**(13,681)**
External sales					**554,875**

Inter-segment sales are charged at prevailing market prices.

Result					
Segment operating profit/(loss) pre amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs	**73,944**	**17,502**	**1,756**	**(2,248)**	**90,954**
Amortisation of acquisition intangibles	**(597)**	**(8,185)**	**(709)**	**(829)**	**(10,320)**
Tax on joint ventures	**—**	**—**	**(991)**	**—**	**(991)**
Exceptional operating costs	**(2,154)**	**—**	**—**	**—**	**(2,154)**
Operating profit/(loss)	**71,193**	**9,317**	**56**	**(3,077)**	**77,489**
Investment income					**1,102**
Finance costs					**(6,753)**
Profit before tax					**71,838**
Tax					**(22,562)**
Profit after tax					**49,276**

2007	UK Membership £000	UK Emergency Services £000	Continental Europe £000	United States of America £000	Consolidated £000
Revenue					
Total revenue	188,157	297,209	7,524	3,841	496,731
Eliminations					(11,854)
Joint venture revenues, not recognisable for statutory reporting					(7,515)
External sales					477,362

Inter-segment sales are charged at prevailing market prices.

Result					
Segment operating profit/(loss) pre amortisation of acquisition intangibles and tax on joint ventures	56,720	15,977	710	(3,158)	70,249
Amortisation of acquisition intangibles	(423)	(5,567)	—	(461)	(6,451)
Tax on joint ventures	—	—	(154)	—	(154)
Operating profit/(loss)	56,297	10,410	556	(3,619)	63,644
Investment income					1,030
Finance costs					(3,596)
Profit before tax					61,078
Tax					(19,118)
Profit after tax					41,960

5. Business and geographical segments (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2, except that revenues attributable to the Group's share of its French joint venture are included in revenues within 'Continental Europe' for segmental reporting, but are not recognised for statutory reporting.

Segment profit represents the profit earned by each segment including allocating costs associated with head office and shared functions, but before allocating investment revenue and finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

Segment assets

	2008 £000	2007 £000
UK Membership	**369,446**	339,988
UK Emergency Services	**146,741**	86,903
Continental Europe	**42,494**	15,956
United States of America	**20,174**	9,055
	578,855	451,902

Segment liabilities

	2008 £000	2007 £000
UK Membership	**147,437**	146,023
UK Emergency Services	**95,277**	44,553
Continental Europe	**42,891**	17,560
United States of America	**27,837**	13,318
	313,442	221,454

All assets and liabilities are allocated to reportable segments.

Other segment information

Depreciation and amortisation

	2008 £000	2007 £000
UK Membership	**3,500**	2,960
UK Emergency Services	**13,664**	9,817
Continental Europe	**976**	42
United States of America	**973**	539
	19,113	13,358

Revenues from major products and services

	2008 £000	2007 £000
Sale of home assistance and emergency policies	**218,908**	192,007
Provision of repair services	**344,767**	297,209
Eliminations	**(8,800)**	(11,854)
Consolidated revenue (excluding investment income)	**554,875**	477,362

Geographical information

The Group operates in four principal geographical areas – United Kingdom, France, Spain and the United States of America.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding investments in joint ventures, deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2008 £000	2007 £000	**2008 £000**	2007 £000
United Kingdom	**527,817**	473,512	**299,802**	263,656
Continental Europe	**18,961**	9	**16,956**	56
United States of America	**8,097**	3,841	**9,569**	5,419
	554,875	477,362	**326,327**	269,131

Information about major customers

There are no customers in either year from which the Group earns more than 10% of its revenues.

6. Exceptional operating costs

The exceptional operating costs of £2,154,000 (2007: £nil) represent costs relating to the aborted acquisition of Domestic & General Group plc.

7. Profit for the year

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

	2008 £000	2007 £000
Included in operating costs:		
Depreciation of property, plant and equipment	**6,391**	5,169
Cost of inventories recognised as expense	**29,037**	27,561
Amortisation of software licences	**2,402**	1,738
Staff costs (note 8)	**150,556**	129,637
Auditors' remuneration for audit services	**280**	243
Amortisation of customer relationship intangibles	**7,558**	4,325
Amortisation of customer database intangibles	**1,261**	884
Amortisation of franchise asset intangibles	**1,501**	1,242
Impairment loss recognised on trade receivables	**1,112**	1,551
Write down of inventories	**73**	58
Other operating costs	**278,970**	241,865
	479,141	414,273

The analysis of auditors' remuneration is as follows:

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**45**	39
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**235**	204
Total audit fees	**280**	243
Other services pursuant to legislation	**37**	103
Other services – accounting advice	**31**	—
Corporate finance services – aborted acquisition of Domestic & General Group plc	**315**	—
Tax services	**156**	227
Total non-audit fees	**539**	330

7. Profit for the year (continued)

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Corporate Governance statement on page 39 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Corporate finance services - aborted acquisition of Domestic & General Group plc relate to the provision of various services connected to the Group's aborted acquisition of Domestic and General Group plc including due diligence and working capital reports.

Tax services during the year include the provision of advice in respect of a number of compliance matters, including those relating to the Group's expatriate management personnel and UK corporation tax returns.

8. Staff costs

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

	2008 Number	2007 Number
UK Membership	**1,378**	1,138
UK Emergency Services	**3,641**	3,087
Continental Europe (excluding joint ventures)	**156**	16
United States of America	**119**	77
	5,294	4,318

	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	**132,966**	115,381
Social security costs	**14,264**	12,329
Other pension costs (see note 37)	**3,326**	1,927
	150,556	129,637

9. Investment income

	2008 £000	2007 £000
Interest on bank deposits	**1,102**	1,030

10. Finance costs

	2008 £000	2007 £000
Interest on bank overdrafts and revolving credit facilities	**6,241**	3,211
Unwinding of discount on deferred and contingent consideration	**484**	—
Loan note interest	**28**	385
	6,753	3,596

There were no amounts in the year (2007: £nil) removed from equity and included in profit or loss for the period in respect of cash flow hedges.

11. Tax

	2008 £000	2007 £000
Current tax	**23,884**	20,282
Deferred tax (note 22)	**(1,322)**	(1,164)
	22,562	19,118

UK corporation tax is calculated at 30% (2007: 30%) of the estimated assessable profit for the year. In March 2007 the UK government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008. This legislation was substantially enacted in July 2007. As a result of this change, deferred tax assets and liabilities have been restated in the year to 28% of all temporary differences.

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

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

	2008 £000	2007 £000
Profit before tax	**71,838**	61,078
Tax at the UK corporation tax rate of 30% (2007: 30%)	**21,551**	18,323
Tax effect of expenses that are not deductible in determining taxable profit	**1,108**	371
Adjustments in respect of prior years – current tax	**(438)**	(522)
Adjustments in respect of prior years – deferred tax	**56**	43
Effect of overseas losses excluding joint ventures	**1,422**	1,070
Adjustments in respect of the change in deferred tax rate	**(610)**	—
Tax effect of share of results of joint venture	**(527)**	(167)
Tax expense for the year	**22,562**	19,118

12. Dividends

	2008 £000	2007 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2007 of 17.5p (2006: 13.9p) per share	**11,010**	8,668
Interim dividend for the year ended 31 March 2008 of 9.4p (2007: 7.5p) per share	**5,883**	4,699
	16,893	13,367

The proposed final dividend for the year ended 31 March 2008 is 21.85p per share amounting to £13.7m (2007: 17.5p per share amounting to £11.0m).

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 accounts.

13. Earnings per share

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

	2008 £000	2007 £000
Profit for the year	**49,276**	41,960
Amortisation of acquisition intangibles	**10,320**	6,451
Exceptional operating costs (note 6)	**2,154**	—
Tax impact arising on amortisation of acquisition intangibles and exceptional operating costs	**(3,706)**	(1,875)
Adjusted profit for the year	**58,044**	46,536

Weighted average number of shares (000s)		
Basic	**62,412**	62,303
Dilutive impact of share options	**2,456**	2,412
Diluted	**64,868**	64,715

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles and exceptional operating costs. This is considered to be a better indicator of the performance of the Group. As profit for the year and adjusted profit for the year are stated after tax, it is not considered necessary to include in the above reconciliation the impact of the adjustment for the tax on joint ventures of £991,000 (2007: £154,000).

	2008	2007
Adjusted basic	**93.0p**	74.7p
Adjusted diluted	**89.5p**	71.9p
Basic	**79.0p**	67.3p
Diluted	**76.0p**	64.8p

14. Goodwill

	£000
Cost	
At 1 April 2006	185,437
Recognised on acquisitions	7,739
Reduction in consideration	(4,137)
At 1 April 2007 (restated)	189,039
Recognised on acquisitions (note 33)	32,119
At 31 March 2008	**221,158**
Accumulated impairment losses	
At 1 April 2006, 1 April 2007 and 31 March 2008	**—**
Carrying amount	
At 31 March 2008	**221,158**
At 31 March 2007 (restated)	189,039

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:

	2008 £000	Restated 2007 £000
Minority interest buy-out	**66,940**	66,940
Other Policy Businesses (comprising several CGUs)	**55,056**	52,229
UK Membership	**121,428**	119,169
Glass, Locks, Plumbing & Drains	**38,983**	38,983
Improveline	**6,458**	6,458
Property Repairs	**9,533**	9,533
Chem-Dry	**7,141**	6,767
Contents Services	**2,246**	2,246
Anglia	**17,222**	—
Other Emergency Services Businesses (comprising several CGUs)	**7,513**	5,883
UK Emergency Services	**89,096**	69,870
Continental Europe - Reparalia	**10,634**	—
United States of America	**—**	—
	221,158	189,039

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 and extrapolates cash flows based on an estimated growth rate of 2.5% (2007: 2.5%). The pre-tax rate used to discount the forecast cash flows for all CGUs is 11.3% (2007: 11.3%).

15. Other intangible assets

	Acquisition intangibles					
	Customer relationships £000	Customer databases £000	Franchise assets £000	Total acquisition intangibles £000	Software licences £000	Total intangibles £000
Cost						
At 1 April 2006	17,622	4,536	9,470	**31,628**	8,884	**40,512**
Additions	—	—	—	**—**	4,519	**4,519**
Disposals	—	—	—	**—**	(16)	**(16)**
Acquisitions	8,740	4,304	874	**13,918**	—	**13,918**
At 1 April 2007	26,362	8,840	10,344	**45,546**	13,387	**58,933**
Additions	—	—	—	**—**	10,104	**10,104**
Disposals	—	—	—	**—**	(1,205)	**(1,205)**
Acquisitions	16,976	4,983	814	**22,773**	461	**23,234**
At 31 March 2008	**43,338**	**13,823**	**11,158**	**68,319**	**22,747**	**91,066**
Accumulated amortisation						
At 1 April 2006	2,304	556	1,108	**3,968**	4,720	**8,688**
Charge for the year	4,325	884	1,242	**6,451**	1,738	**8,189**
Disposals	—	—	—	**—**	(16)	**(16)**
At 1 April 2007	6,629	1,440	2,350	**10,419**	6,442	**16,861**
Charge for the year	7,558	1,261	1,501	**10,320**	2,402	**12,722**
Disposals	—	—	—	**—**	(882)	**(882)**
At 31 March 2008	**14,187**	**2,701**	**3,851**	**20,739**	**7,962**	**28,701**
Carrying amount						
At 31 March 2008	**29,151**	**11,122**	**7,307**	**47,580**	**14,785**	**62,365**
At 31 March 2007	19,733	7,400	7,994	**35,127**	6,945	**42,072**

Acquisition intangibles represent non-monetary assets separately identifiable from goodwill and include customer relationships, customer databases/marketing agreements and franchise assets.

Customer relationships and databases are amortised over their estimated useful lives, which are typically between 3 and 7 years. Franchise assets are amortised over their useful lives of between 3 and 15 years.

Exchange differences in the period were immaterial.

16. Property, plant and equipment

	Land and buildings £000	Furniture, fixtures and equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 April 2006	21,894	6,251	13,566	2,975	**44,686**
Additions	6,996	3,220	2,144	249	**12,609**
Acquisitions	—	84	19	53	**156**
Disposals	(285)	(753)	(1,008)	(410)	**(2,456)**
At 1 April 2007	28,605	8,802	14,721	2,867	**54,995**
Additions	4,130	2,798	2,828	307	**10,063**
Acquisitions	1,428	1,628	23	243	**3,322**
Disposals	(1,259)	(1,189)	(356)	(1,366)	**(4,170)**
At 31 March 2008	**32,904**	**12,039**	**17,216**	**2,051**	**64,210**
Accumulated depreciation					
At 1 April 2006	2,053	3,122	7,817	967	**13,959**
Charge for the year	969	1,786	1,772	642	**5,169**
Disposals	(96)	(741)	(1,006)	(310)	**(2,153)**
At 1 April 2007	2,926	4,167	8,583	1,299	**16,975**
Charge for the year	1,378	1,847	2,661	505	**6,391**
Disposals	—	(750)	(248)	(962)	**(1,960)**
At 31 March 2008	**4,304**	**5,264**	**10,996**	**842**	**21,406**
Carrying amount					
At 31 March 2008	**28,600**	**6,775**	**6,220**	**1,209**	**42,804**
At 31 March 2007	25,679	4,635	6,138	1,568	38,020

The carrying amount of the Group's fixtures and equipment includes an amount of £nil (2007: £nil) in respect of assets held under finance leases. Exchange differences in the period were immaterial.

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:

	2008 Doméo £000	2008 Doméo Assistance £000	2008 Total £000	2007 Doméo £000	2007 Doméo Assistance £000	2007 Total £000
Result						
Non-current assets	**1,174**	**109**	**1,283**	921	47	968
Current assets	**24,610**	**2,654**	**27,264**	13,684	1,522	15,206
Total assets	**25,784**	**2,763**	**28,547**	14,605	1,569	16,174
Current liabilities	**(20,400)**	**(3,875)**	**(24,275)**	(12,803)	(2,046)	(14,849)
Net assets/(liabilities)	**5,384**	**(1,112)**	**4,272**	1,802	(477)	1,325
Group share, 49%	**2,638**	**(545)**	**2,093**	883	(234)	649
Amount recognisable	**2,638**	**—**	**2,638**	883	—	883
Goodwill	**864**	**—**	**864**	864	—	864
Carrying amount	**3,502**	**—**	**3,502**	1,747	—	1,747
Revenues						
Total revenue	**25,904**	**2,017**	**27,921**	14,180	1,156	15,336
Total profit/(loss) after tax	**3,582**	**(635)**	**2,947**	1,133	(378)	755
Amount recognisable	**1,755**	**—**	**1,755**	555	—	555

The Group's share of the above results is only £1,755,000 (2007: £555,000) reflecting the net liabilities of the Doméo Assistance joint venture in the current and prior year.

19. Inventories

	2008 £000	2007 £000
Raw materials	**1,185**	841
Work-in-progress	**5,378**	4,704
Finished goods	**1,350**	1,691
	7,913	7,236

20. Other financial assets

Trade and other receivables

	2008 £000	2007 £000
Amounts receivable for the provision of services	**116,574**	92,997
Other receivables	**63,128**	57,854
Loans to joint ventures	**750**	724
Prepayments and accrued income	**13,463**	7,117
	193,915	158,692

Trade receivables

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

Of the trade receivables balance at the end of the year, there is no significant concentration of credit risk, with exposure spread across a large number of counterparties and customers. £5.9million (2007: £4.4million) is due from Royal Bank of Scotland, the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of £32.4million (2007: £21.2million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 37 days (2007: 28 days).

Ageing of past due but not impaired receivables:

	2008 £000	2007 £000
1-30 days	**13,910**	8,460
30-60 days	**5,524**	4,194
60-90 days	**3,858**	2,047
90 days +	**9,118**	6,548
Balance at 31 March past due but not impaired	**32,410**	21,249
Current	**84,164**	71,748
Balance at 31 March	**116,574**	92,997

Movement in the allowance for doubtful debts:

	2008 £000	2007 £000
At 1 April	**3,024**	1,678
Acquisitions	**713**	535
Impairment losses recognised	**1,112**	1,551
Amounts written off as uncollectible	**(924)**	(723)
Amounts recovered during the year	**(464)**	(17)
Balance at 31 March	**3,461**	3,024

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables:

	2008 £000	2007 £000
1-30 days	**402**	101
30-60 days	**83**	95
60-90 days	**232**	160
90 days +	**2,744**	2,668
	3,461	3,024

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

20. Other financial assets (continued)

Cash balances and cash equivalents

Cash balances and cash equivalents of £47,198,000 (2007: £14,885,000) 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.

21. Bank overdrafts and revolving credit facilities

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

	2008 £000	2007 £000
Bank overdrafts and revolving credit facilities	**90,000**	41,539
Loan notes	**304**	487
	90,304	42,026
The borrowings are repayable as follows:		
On demand or within one year	**90,304**	42,026

	2008 %	2007 %
The weighted average interest rates were paid as follows:		
Bank overdrafts and revolving credit facilities	**6.3**	5.5
Loan notes	**5.2**	4.7

All the Group's bank overdrafts and revolving credit facilities are unsecured.

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

	2008 £000	2007 £000
Bank overdrafts and revolving credit facilities	**90,000**	41,539
Loan notes	**304**	487
	90,304	42,026

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 £150 million (2007: £100 million). The revolving credit facility was taken out on 20 December 2007 and has a term of 5 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 currently at floating rates at margins of between 0.1% and 1% above LIBOR, thus exposing the Group to cash flow interest rate risk.

v. The covenants associated with the credit facilities are 'net debt to EBITDA of less than 3.5 times' and 'interest cover greater than 4 times operating profit before amortisation'. The Group has complied with all covenant requirements in the current and prior year.

During the year, the Group entered into an interest rate swap arrangement with a notional value of £50.0m. The interest rate swap is for a period of 2 years, and requires fixes interest payments of 4.93%, in return for 1 month LIBOR.

At 31 March 2008, the Group had available £60.0 million (2007: £47.8million) 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	Unremitted overseas losses £000	Elected goodwill deductions £000	Retirement benefit obligations £000	Share schemes £000	Acquired intangible assets £000	Unutilised losses £000	Acquired property £000	Total £000
At 1 April 2006	(873)	—	—	238	4,430	(6,725)	1,415	(573)	(2,088)
(Charge)/credit to income	(245)	—	—	—	1,011	1,387	(989)	—	1,164
Credit to equity	—	—	—	—	2,727	—	—	—	2,727
(Charge)/credit to equity	—	—	—	(44)	—	—	—	12	(32)
Acquisitions	—	—	—	—	—	(1,560)	—	—	(1,560)
At 1 April 2007	(1,118)	—	—	194	8,168	(6,898)	426	(561)	211
Reclassification	308	(308)	—	—	—	—	—	—	—
Reclassification to current tax	170	—	—	—	—	—	—	—	170
(Charge)/credit to income	(364)	(1,536)	(67)	—	1,042	2,764	(554)	37	1,322
(Charge)/credit to equity	—	—	—	(194)	609	—	—	12	427
Acquisitions	(45)	—	—	—	—	(4,480)	1,701	—	(2,824)
At 31 March 2008	**(1,049)**	**(1,844)**	**(67)**	**—**	**9,819**	**(8,614)**	**1,573**	**(512)**	**(694)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	UK	Spain	**2008 Total £000**	2007 Total £000
Deferred tax assets	9,819	1,573	**11,392**	8,788
Deferred tax liabilities	(12,086)	—	**(12,086)**	(8,577)
Net deferred tax (liability)/asset	(2,267)	1,573	**(694)**	211

At the balance sheet date, the Group has unused tax losses of £8.7 million (2007: £4.8 million) available for offset against future profits and which can be carried forward indefinitely. Other than on the acquisition of Reparalia, no deferred tax asset has been recognised on these losses 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 (2007: £nil).

Temporary differences arising in connection with interests in joint ventures are not material.

23. Current liabilities – Trade and other payables

	2008 £000	2007 £000
Trade creditors and accruals	**109,646**	68,570
Contingent consideration	**3,925**	2,368
Deferred consideration	**4,155**	—
Payments in advance	**732**	420
Deferred income	**4,221**	12,895
Taxes and social security, excluding current tax	**5,643**	5,156
Other creditors	**73,122**	72,026
	201,444	161,435

23. Current liabilities – Trade and other payables (continued)

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 67 days (2007:65 days).

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

24. Non current liabilities – Other financial liabilities

	Deferred income £000	Contingent consideration £000	Deferred consideration £000	Total £000
At 1 April 2007 (restated)	2,238	2,318	1,267	5,823
Movement in year	200	848	3,496	4,544
At 31 March 2008	**2,438**	**3,166**	**4,763**	**10,367**

Contingent consideration and deferred consideration relates to future amounts payable on the acquisitions in the current year of Anglia (NW) Limited and California Water policies and the prior period acquisition of First Energy Policies. The movement in the year represents the reclassification of an element of the liability to less than one year, foreign exchange movements and acquisitions in the year.

Deferred income represents Membership Business revenue where an obligation exists to provide future services. An appropriate proportion of monies received in advance are treated as deferred income and recognised over the relevant period. No discounting is applied to deferred income balances.

25. Share capital

	2008 £000	2007 £000
Authorised:		
70,400,000 ordinary shares of 12½p each	**8,800**	8,800
Issued and fully paid:		
65,172,000 ordinary shares of 12½p each		
(2007: 64,957,000 ordinary shares of 12½p each)	**8,147**	8,119

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 215,000 shares for total consideration of £1,156,000 (2007: 345,000 shares for total consideration of £1,425,000).

26. Share premium account

	£000
Balance at 1 April 2006	29,998
Premium arising on issue of equity shares	1,381
Balance at 1 April 2007	31,379
Premium arising on issue of equity shares	1,128
Balance at 31 March 2008	**32,507**

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

27. Merger reserve

	£000
Balance at 1 April 2006, 1 April 2007 and 31 March 2008	**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.

28. Own shares reserve

	number ('000)	£000
Balance at 1 April 2006	1,926	16,668
Acquired in the year	485	8,379
Balance at 1 April 2007	2,411	25,047
Acquired in the year	417	7,331
Issued from the employee benefit trust	(411)	(2,792)
Balance at 31 March 2008	**2,417**	**29,586**

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.

29. Share incentive reserve

	£000
Balance at 1 April 2006	1,626
Share based payment charges in the year	3,361
Share options exercised in the year	(260)
Balance at 1 April 2007	4,727
Share based payment charges in the year	4,131
Share options exercised in the year	(2,308)
Balance at 31 March 2008	**6,550**

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.

30. Capital redemption reserve

	£000
Balance at 1 April 2006, 1 April 2007 and 31 March 2008	**1,200**

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

31. Hedging and currency translation reserve

	Hedging reserve £000	Currency translation reserve £000	Total £000
Balance at 1 April 2006	—	120	120
Movement in the year	—	(56)	(56)
Balance at 31 March 2007	—	64	64
Gain recognised on cash flow hedges – interest swaps	—	—	—
Movement in the year	—	46	46
Balance at 31 March 2008	**—**	**110**	**110**

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

There were no amounts in the year (2007: £nil) removed from equity and included in profit or loss for the period in respect of cash flow hedges. The fair value of cash flow hedges at the year end were immaterial.

32. Retained earnings

	£000
Balance at 1 April 2006	105,766
Dividends	(13,367)
Total statement of recognised income and expense	42,658
Share options exercised in the year	260
Deferred tax asset on share option gains taken directly to equity	2,727
Current tax on exercised share options taken directly to equity	914
Exchange differences	56
Balance at 1 April 2007	139,014
Dividends	(16,893)
Total statement of recognised income and expense	50,463
Share options exercised in the year	2,308
Issue of trust shares	(269)
Current tax on exercised share options taken directly to equity	916
Exchange differences	(46)
Balance at 31 March 2008	**175,493**

33. Acquisition of subsidiaries

On 30 April 2007, the Group acquired 100% of the share capital of Multimaster Limited, a leading furniture warranty and service provider.

On 21 May 2007, the Group acquired 100% of the share capital of Anglia (NW) Limited, one of the UK's leading home insurance repairers providing property repair services to many of the UK's leading household insurers.

On 2 August 2007, the Group acquired 100% of the share capital of Reparalia S.A., one of Spain's leading providers of property repair services and emergency claims handling for some of Spain's fastest growing home insurers.

On 23 November 2007, the Group acquired 25,000 water service policies from California Water and simultaneously signed a marketing agreement providing access to up to 0.5m households.

All these transactions have been accounted for by the purchase method of accounting. Fair values are reported as provisional for a period of 12 months following acquisition to allow the incorporation of any subsequent amendments to completion accounts, contingent consideration, or directly attributable costs. The acquisition of water service policies and the associated marketing agreement with California Water has been accounted for using the purchase method of accounting as the directors consider that the number of policies acquired, combined with the extended and exclusive access to the customer database, represents the purchase of a significant business activity.

Total fair value adjustments of £174,000 were made on the acquisition of Multimaster Limited to reflect the fair value of certain receivables and acquired property. Fair value adjustments of £285,000 were made on the acquisition of Reparalia S.A. to reflect the fair value of certain trade and other receivables and the recognition of deferred tax assets on unutilised losses. No fair value adjustments were required in respect of the Anglia (NW) and California Water acquisitions. Fair value adjustments totalling £96,000 were made on all other acquisitions reflecting the fair value of trade and other receivables and certain fixed assets.

	Book value £000	Fair value adjustments £000	Provisional fair value £000
Multimaster	124	174	**298**
Reparalia	419	285	**704**
Other	999	(96)	**903**
	1,542	**363**	**1,905**

The provisional fair values of the identifiable assets and liabilities of the acquisitions were:

	Multimaster Limited £000	Anglia (NW) Limited £000	Reparalia S.A. £000	California Water £000	Other £000	Total £000
Net assets acquired:						
Property, plant and equipment	1,380	1,176	75	—	691	**3,322**
Intangible assets	—	—	461	—	—	**461**
Inventories	218	1,833	—	—	218	**2,269**
Trade and other receivables	1,033	1,126	4,173	22	721	**7,075**
Cash and cash equivalents	410	1,642	510	—	217	**2,779**
Trade and other payables	(2,778)	(2,087)	(4,352)	—	(627)	**(9,844)**
Deferred tax asset/(liability)	35	(2,378)	(163)	—	(318)	**(2,824)**
	298	1,312	704	22	902	**3,238**
Intangible assets identified on acquisition	683	7,663	6,499	4,927	3,001	**22,773**
Goodwill	3,740	17,221	10,634	—	524	**32,119**
Total consideration	4,721	26,196	17,837	4,949	4,427	**58,130**
Satisfied by:						
Cash	4,349	17,600	16,841	724	4,136	**43,650**
Contingent consideration	—	8,314	—	—	—	**8,314**
Deferred consideration	—	—	—	4,155	—	**4,155**
Directly attributable costs	372	282	996	70	291	**2,011**
	4,721	26,196	17,837	4,949	4,427	**58,130**
Net cash outflow arising on acquisition:						
Cash consideration	4,721	17,882	17,837	794	4,427	**45,661**
Cash and cash equivalents acquired	(410)	(1,642)	(510)	—	(217)	**(2,779)**
	4,311	16,240	17,327	794	4,210	**42,882**

33. Acquisition of subsidiaries (continued)

Intangible assets identified on the acquisitions of Multimaster Limited, Anglia (NW) Limited, California Water and Reparalia S.A. represent the directors' estimate of the value of the customer relationships at acquisition, the expected value of trade names associated with the business or the value of acquired customer policy databases. Goodwill represents future cross sell opportunities, efficiency savings and synergies from these acquisitions.

There were further cash outflows in respect of the purchase of a number of individually immaterial acquisitions amounting to £4,210,000 resulting in £903,000 of tangible assets, £3,000,000 of intangible assets and £524,000 of goodwill being recognised.

If all the acquisitions had been completed on the first day of the financial year, Group revenues for the year and Group operating profit attributable to equity holders of the parent would have been £566,748,000 and £77,290,000 respectively.

In addition to the net cash outflow arising on the acquisitions above of £42,882,000, contingent and deferred consideration of £3,214,000 was paid relating to the prior year acquisitions of Recommend Limited (trading as Improveline), Homeserve Emergency Services Limited (formerly Highway Emergency Services Limited), Digital Insurance Services Limited and FirstEnergy. The amount paid in respect of Homeserve Contents Services Limited was £2,683,000 lower than previously provided and accordingly, the cost of the business combination has been adjusted. As a result, goodwill at 31 March 2007, together with the related contingent consideration liability, have been restated.

The post acquisition operating profit or loss from these acquisitions in the year ended 31 March 2008 was as follows:

	Multimaster Limited £000	Anglia (NW) Limited £000	Reparalia S.A. £000	California Water £000	Total £000
Operating profit	1,050	1,538	449	526	**3,563**

The other immaterial acquisitions have been subsumed within existing trading divisions and it has not been practicable to separately identify the post acquisition performance of these transactions.

34. Notes to the cash flow statement

	2008 £000	2007 £000
Operating profit	**77,489**	63,644
Adjustments for:		
Depreciation of property, plant and equipment	**6,391**	5,169
Amortisation of intangible assets	**12,722**	8,189
Share based payments expense	**4,131**	3,361
Share of results in joint ventures	**(1,755)**	(555)
Profit on disposal of property, plant and equipment and software licences	**(52)**	(308)
Operating cash flows before movements in working capital	**98,926**	79,500
Decrease/(increase) in inventories	**1,592**	(1,363)
Increase in receivables	**(28,148)**	(28,453)
Increase in payables	**24,990**	23,957
Cash generated by operations	**97,360**	73,641
Income taxes paid	**(24,118)**	(17,313)
Interest paid	**(6,269)**	(3,790)
Net cash from continuing operating activities	**66,973**	52,538

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.

35. Operating lease arrangements

The Group as lessee

	2008 £000	2007 £000
Minimum lease payments under operating leases recognised in income for the year	**8,292**	6,817

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:

	2008 £000	2007 £000
Within one year	**8,352**	3,666
In the second to fifth years inclusive	**13,024**	8,471
After five years	**10,861**	8,001
	32,237	20,138

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

36. Share Based Payments

During the year ended 31 March 2008, the Group had 6 (2007: 6) share based payment arrangements, which are described below:

i) Executive Share Option Plan ('ESOP')

The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. In addition, since 2006, vesting has also been dependant upon a share price target. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

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

The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting 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 between three and 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 all UK employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discretionary discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

36. Share Based Payments (continued)

vi) Conditional Share Schemes ('CSS')

Awards under the Conditional Share Scheme vest in three tranches on the first (25%), second (25%) and third (50%) anniversary of the grant.

	ESOP	KEIP	LTIP	DBP(i)	SAYE	CSS
2007						
Number						
Outstanding at 1 April 2006	2,129,600	1,311,500	436,500	68,884	528,739	—
Granted	642,602	284,630	29,940	101,304	201,727	49,207
Expired	(51,069)	(140,000)	—	—	(63,783)	—
Exercised	(419,014)	—	—	—	(17,601)	—
Outstanding at 31 March 2007	2,302,119	1,456,130	466,440	170,188	649,082	49,207
Exercisable at 31 March 2007	573,544	—	—	—	—	—
Weighted average exercise price (£)						
Outstanding at 1 April 2006	4.43	10.15	—	—	7.10	—
Granted	14.07	17.99	—	—	14.48	—
Expired	13.20	10.00	—	—	8.24	—
Exercised	5.20	—	—	—	5.17	—
Outstanding at 31 March 2007	8.82	11.70	—	—	9.33	—
Exercisable at 31 March 2007	5.19	—	—	—	—	—
Range of exercise proceeds for options	£3.78	£9.61	—	—	£4.66	—
outstanding at 31 March 2007	£14.07	£18.04	—	—	£14.48	—
Weighted average remaining contractual life	7	9	2	2	3	2
Weighted average fair value of options awarded in 2007	£3.13	£2.52	£6.24	£7.68	£6.04	£18.29
2008						
Number						
Outstanding at 1 April 2007	2,302,119	1,456,130	466,440	170,188	649,082	49,207
Granted	653,242	—	15,732	96,038	156,259	—
Expired	(132,007)	(181,000)	(24,485)	(10,738)	(71,869)	—
Exercised	(409,213)	—	(34,515)	—	(9,169)	(12,301)
Outstanding at 31 March 2008	2,414,141	1,275,130	423,172	255,488	724,303	36,906
Exercisable at 31 March 2008	855,373	—	—	—	153,239	—
Weighted average exercise price (£)						
Outstanding at 1 April 2007	8.82	11.70	—	—	9.33	—
Granted	17.18	—	—	—	14.50	—
Expired	14.18	11.80	—	—	11.14	—
Exercised	6.73	—	—	—	5.95	—
Outstanding at 31 March 2008	11.14	11.68	—	—	10.31	—
Exercisable at 31 March 2008	5.74	—	—	—	5.21	—
Range of exercise proceeds for options outstanding at 31 March 2008	£3.78 - £17.18	£9.61 - £18.04	—	—	£4.66 - £14.50	—
Weighted average remaining contractual life	7	8	1	1	3	2
Weighted average fair value of options awarded in 2008	£3.93	—	£8.58	£6.98	£5.21	—

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 £4,131,000 (2007: £3,361,000) related to equity-settled share-based payment transactions.

37. 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 £2,847,000 (2007: £1,306,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2008, contributions of £nil (2007: £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 1 April 2005 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19. As required by IAS 19, 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	
	2008 £000	2007 £000
Key assumptions used:		
Discount rate at 31 March	**6.5%**	5.2%
Retail price inflation	**3.7%**	3.2%
Expected rate of salary increases	**5.7%**	5.2%
Future pension increases	**3.7%**	3.2%
Expected rate of return on scheme assets at 31 March	**7.7%**	7.8%
Life expectancy of male aged 60 at balance sheet date	**26.8 years**	25.7 years

37. Retirement benefit scheme (continued)

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

	2008 £000	2007 £000
Current service cost	**603**	630
Interest cost	**767**	665
Expected return on scheme assets	**(1,087)**	(818)
Past service cost	**196**	144
	479	621

Of the charge for the year, £479,000 (2007: £621,000) 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 a loss of £874,000 (2007: gain of £1,238,000).

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:

	2008 £000	2007 £000
Present value of defined benefit obligations	**(13,283)**	(14,535)
Fair value of scheme assets	**13,458**	13,888
Surplus/(deficit) in scheme	**175**	(647)
Past service cost not yet recognised in balance sheet	**—**	—
Non-recognition of surplus	**(175)**	—
Liability recognised in the balance sheet	**—**	(647)

This amount is presented in the balance sheet as follows:

	2008 £000	2007 £000
Non-current liabilities	**—**	(647)
	—	(647)

The Group has opted not to recognise in the balance sheet any surplus on its defined benefit scheme as there is no anticipated refund due from the scheme nor the expectaion of a lower schedule of contributions as a result of the surplus.

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

	2008 £000	2007 £000
At 1 April	**14,535**	13,200
Employer's part of the current service cost	**603**	630
Interest cost	**767**	665
Contributions from scheme members	**94**	98
Actuarial gains and losses	**(2,675)**	(234)
Benefits paid	**(237)**	32
Past service cost	**196**	144
At 31 March	**13,283**	14,535

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

	2008 £000	2007 £000
At 1 April	**13,888**	12,044
Expected return on scheme assets	**1,087**	818
Actuarial gains and losses	**(1,961)**	420
Contributions from the sponsoring companies	**587**	476
Contributions from scheme members	**94**	98
Benefits paid	**(237)**	32
At 31 March	**13,458**	13,888

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 2008 is a gain of £714,000 (2007: gain of £654,000). The cumulative amount recognised outside profit and loss at 31 March 2008 is a loss of £574,000.

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	
	2008 %	2007 %	2008 £000	2007 £000
Equity instruments	**7.7**	7.8	**13,457**	13,894
Other assets	**4.4**	4.5	**1**	(6)
			13,458	13,888

The overall expected rate of return on assets for the financial year ending 31 March 2008 was 7.8% pa (2007: 6.9% 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 2007.

The history of experience adjustments is as follows.

	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	**(13,283)**	(14,535)	(13,200)	(9,854)
Fair value of scheme assets	**13,458**	13,888	12,044	7,276
Surplus/(deficit) in scheme	**175**	(647)	(1,156)	(2,578)

	2008	2007	2006	2005
Experience adjustments on scheme liabilities				
Amount of loss/(gain) (£000)	**(164)**	144	95	(107)
Percentage of scheme liabilities (%)	**1**	1	1	(1)
Experience adjustments on scheme assets				
Amount of loss/(gain) (£000)	**1,961**	(420)	(1,628)	(206)
Percentage of scheme assets (%)	**15**	(3)	(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 £0.6million (2007: £0.6m) plus any Pension Protection Fund levy payable.

38. Events after the balance sheet date

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

39. Related party transactions

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

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	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Harpin Limited	**2**	2	**301**	174	**—**	—	**98**	—
Pilot Services (GB) Limited	**—**	—	**59**	23	**—**	—	**23**	—
Joint ventures	**1,332**	859	**—**	—	**750**	724	**—**	—

Harpin Limited and Pilot Services (GB) Limited are a related parties of the Group because they are 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 and members of the Executive Board, 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 49 to 56.

	2008 £000	2007 £000
Short-term employee benefits	**4,535**	4,039
Post-employment benefits	**516**	421
Share-based payments	**2,002**	1,712
	7,053	6,172

Directors' transactions

During the year, the Group purchased transport services from Harpin Limited and Pilot Services (GB) Limited, companies controlled by Richard Harpin. The total value of purchases amounted to £360,000 (2007: £197,000) and the balance due to Harpin Limited and Pilot Services (GB) Limited at the year end amounted to £121,000 (2007: £nil).

Except as noted above with Harpin Limited and Pilot Services (GB) Limited, there were no transactions with directors requiring disclosure.

40. Insurance Contracts

During the year the Group, through its subsidiary Affinity Partners Limited, entered into contracts of reinsurance with an independent insurance company that underwrites the policies marketed and administered by Homeserve Membership Limited (formerly Homeserve GB Limited). Under these arrangements, Affinity Partners Limited underwrites 49% of the risk and reward associated with these policies ('the policies').

The policies are entered into between the customers of Homeserve Membership 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.

Affinity Partners ceased to underwrite new policies from 1 October 2007.

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

	2008 £000	2007 £000
Revenue	**39,421**	43,054
Claims costs	**(34,509)**	(42,666)
Deferred income	**3,036**	11,212

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 £0.1m (2007: £1.0m).

41. Financial instruments

Principal financial instruments

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

Group

. cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- loans to joint ventures
- trade payables
- loan notes

Company

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- inter-company receivables

All principal financial instruments are stated at amortised cost.

Capital risk management

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 25 to 32.

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

	2008 £000	2007 £000
Shareholders' funds	**265,413**	230,448
Bank overdrafts and revolving credit facilities	**90,000**	41,539
Unsecured loan notes	**304**	487

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

Financial risk management objectives

The Group's principal financial instruments, comprise bank loans and overdrafts, loan notes and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial instruments such as trade receivables and trade payables, derivatives and loans to joint ventures which arise directly from its operations.

Classification of financial instruments

In addition to the other financial assets and liabilities disclosed in notes 20, 21 and 23, the Group has derivative instruments in designated hedge accounting relationships with a notional value of £50.0m (2007: £nil) and a carrying value and fair value of £nil (2007: £nil). The fair value of these derivative instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, sourced from observable market data.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt requirements with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The maturity profile of the Group's financial liabilities is provided in the table opposite. Interest is payable on the banks overdraft and revolving credit facilities and loan notes. Deferred and contingent consideration payments are stated on the basis of expected cash outflows, before discounting.

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2008					
Under 2 months	50,000	109,646	304	—	159,950
Between 2 and 6 months	40,000	—	—	280	40,280
Between 6 and 12 months	—	—	—	8,061	8,061
Between 1 and 2 years	—	—	—	847	847
Between 2 and 3 years	—	—	—	4,230	4,230
Between 3 and 4 years	—	—	—	586	586
Between 4 and 5 years	—	—	—	586	586
After 5 years	—	—	—	3,188	3,188
Total	**90,000**	**109,646**	**304**	**17,778**	**217,728**

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2007					
Under 2 months	42,026	68,570	487	—	111,083
Between 2 and 6 months	—	—	—	—	—
Between 6 and 12 months	—	—	—	3,838	3,838
Between 1 and 2 years	—	—	—	1,101	1,101
Between 2 and 3 years	—	—	—	261	261
Between 3 and 4 years	—	—	—	292	292
Total	42,026	68,570	487	5,492	116,575

The Group has entered into an interest rate swap in order to manage the interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

At 31 March 2008 the Group had in place an interest rate swap to hedge loans subject to varible interest rates linked to LIBOR whereby it receives a floating rate of interest based on 1 month LIBOR on a notional principal of £50m and pays a fixed rate of interest of 4.9%. No such instrument was held at 31 March 2007. The remaining term of the interest rate swap is between 1 and 2 years. The fair value of the interest rate swap at 31 March 2008 was £nil (2007: £nil). The timing of the impact on the income statement of the swap is between 1 and 2 years of the balance sheet date. The impact of the cash flow hedge on the income statement will be expensed through the finance cost line.

41. Financial instruments (continued)

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

	2008	2007
Increase in interest rate	**10%**	10%
Effect on profit before tax (£000)	**(517)**	(257)

Foreign currency risk

The Group has exposure to fluctuations in foreign currencies where it has investments in overseas operations which are affected by foreign exchange movements.

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

	Assets		Liabilities	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Euro	**42,494**	15,956	**(42,891)**	(17,560)
US dollar	**20,174**	9,055	**(27,837)**	(13,318)

The following table demonstrates the sensitivity to a reasonably possible change of 10% increase in sterling against the relevant foreign currencies, with all other variables held constant, of the Group's profit before tax.

	2008	2007
Increase in £:$ exchange rate:	**10%**	10%
Effect on profit before tax (£000)	**266**	329
Effect on equity (£000)	**697**	388
Increase/(decrease) in £:€ exchange rate:	**10%**	10%
Effect on profit before tax (£000)	**(2)**	(51)
Effect on equity (£000)	**36**	146

Credit risk

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

The majority of the Group's trade receivables consist of a large number of individual members and hence for these balances the Group does not have any significant credit risk exposure to a single counterparty. In addition, receivable balances within our Emergency Services business are monitored on an ongoing basis. As a result, the Group's exposure to bad debts is not considered to be significant.

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

The Group manages the risk associated with cash and cash equivalents through depositing funds only with reputable and credit worthy banking institutions. The risk associated with the investment in joint ventures is mitigated through the close management and regular review of the performance of the assets.

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Group's Board which sets the framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 21 are details of the undrawn facilities that are available to the Group to further reduce liquidity risk.

With the exception of deferred and contingent consideration, all of the Group's financial liabilities are due for payment within 1 year, based on contractual payment terms.

Independent auditors' report

We have audited the parent Company financial statements of Homeserve plc for the year ended 31 March 2008 which comprise the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 42 to 57. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Homeserve plc for the year ended 31 March 2008 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 parent Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and Financial Review that is cross referred from the Business Review section of the Directors' Report.
In addition we 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 as described in the contents section and consider whether it is consistent with the audited parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company 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 parent 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 parent Company financial statements.

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 March 2008;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
19 May 2008

Company statement of recognised income and expense
year ended 31 March 2008

	Notes	2008 £000	2007 £000
Actuarial gains on defined benefit pension schemes		**714**	654
Current tax credit on additional pension contribution		**—**	132
Deferred tax on items taken directly to equity	49	**(107)**	(44)
Net income recognised directly in equity		**607**	742
Profit for the year		**43,965**	32,950
Total recognised income and expense for the year attributable to equity holders of the Company		**44,572**	33,692

Company balance sheet
31 March 2008

	Notes	2008 £000	2007 £000
Non-current assets			
Investment in subsidiaries	45	**108,468**	108,468
Deferred tax assets	49	**4,138**	3,992
		112,606	112,460
Current assets			
Trade and other receivables	46	**150,630**	147,170
Cash and cash equivalents	46	**76,839**	—
		227,469	147,170
Total assets		**340,075**	259,630
Current liabilities			
Trade and other payables	47	**(13,330)**	(8,057)
Current tax liabilities		**(2,685)**	(2,155)
Bank overdrafts and revolving credit facilities	48	**(90,000)**	(45,013)
		(106,015)	(55,225)
Net current assets		**121,454**	91,945
Non-current liabilities			
Retirement benefit obligation	37	**—**	(647)
		—	(647)
Total liabilities		**(106,015)**	(55,872)
Net assets		**234,060**	203,758
Equity			
Share capital	25	**8,147**	8,119
Share premium account	26	**32,507**	31,379
Merger reserve	27	**70,992**	70,992
Share incentive reserve	55	**1,551**	1,544
Capital redemption reserve	30	**1,200**	1,200
Retained earnings	56	**119,663**	90,524
Total equity		**234,060**	203,758

The financial statements were approved by the Board of directors and authorised for issue on 19 May 2008. They were signed on its behalf by:

Jonathan Simpson-Dent
Chief Financial Officer
19 May 2008

Company cash flow statement
year ended 31 March 2008

	Notes	2008 £000	2007 £000
Net cash outflow from operating activities	43	**(1,685)**	(2,626)
Investing activities			
Interest received		**1,082**	2,127
Dividends received from subsidiary undertakings		**53,000**	40,000
Purchase of own shares		**(7,331)**	(8,379)
Issue of shares from the employee benefit trust		**2,523**	—
Net cash from investing activities		**49,274**	33,748
Financing activities			
Dividends paid		**(16,893)**	(13,367)
Share capital issued		**1,156**	1,425
Decrease in bank overdraft and revolving credit facilities		**(31,852)**	(19,180)
Net cash used in financing activities		**(47,589)**	(31,122)
Net movement in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning and end of year		**—**	—

Company only
The following notes 42 to 57 relate to the Company only position for the year ended 31 March 2008.

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 £43,965,000 (2007: £32,950,000).

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 (IFRSs).

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

	2008 £000	2007 £000
Operating loss	**(13,451)**	(8,477)
Adjustments for:		
Share based payment expense	**1,307**	1,444
Operating cash flows before movements in working capital	**(12,144)**	(7,033)
Decrease/(increase) in receivables	**1,078**	(401)
Increase in payables	**5,340**	1,737
Cash used in operations	**(5,726)**	(5,697)
Income taxes received	**4,041**	3,071
Net cash outflow from operating activities	**(1,685)**	(2,626)

44. Other information
The average monthly number of employees (including executive directors) was:

	2008 Number	2007 Number
	120	89
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	**12,541**	10,483
Social security costs	**1,849**	1,241
Other pension costs	**644**	449
	15,034	12,173

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**45**	39
Total audit fees	**45**	39
Other services pursuant to legislation	**—**	103
Tax services	**52**	62
Total non-audit fees	**52**	165

45. Subsidiaries

Details of the Company's subsidiaries at 31 March 2008 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
UK Membership			
Homeserve Care Solutions Limited	England	100	100
Homeserve Retail Warranties Limited	England	100	100
Homeserve Warranties Limited	England	100	100
Homeserve Membership Limited (formerly Homeserve GB Limited)	England	100	100
Homeserve International Limited	England	100	100
Homeserve Servowarm Limited	England	100	100
Affinity Partners Limited	Guernsey	100	100
UK Emergency Services			
Homeserve At Home Limited	England	100	100
Homeserve Claims Management Limited	England	100	100
Homeserve Emergency Services 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 Property Repairs Limited	England	100	100
Homeserve Contents Services Limited	England	100	100
Anglia (NW) Limited	England	100	100
Continental Europe			
Homeserve Ibérica SL	Spain	100	100
Reparalia S.A.	Spain	100	100
United States of America			
Home Service USA Corp	USA	100	100
Home Service Repair Management Corp	USA	100	100

* Directly held investments. All other subsidary investments are held indirectly through these intermediary holding companies.

The movement in investments is as follows:

	Total £000
1 April 2006, 1 April 2007 and 31 March 2008	**108,468**

46. Financial assets

Trade and other receivables

	2008 £000	2007 £000
Accounts receivable from Group companies	**149,262**	145,771
Other receivables	**200**	1,148
Prepayments and accrued income	**1,168**	251
	150,630	147,170

Trade receivables

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

Of the trade receivables balance at the end of the year, there is no significant concentration of credit risk, with exposure spread across a large number of subsidiary undertakings.

Included in the Company's trade receivable balance are debtors with a carrying amount of £23,000 (2007: £nil) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of receivables not impaired is 15 days (2007: 15 days).

Ageing of past due but not impaired receivables:

	2008 £000	2007 £000
1-30 days	**23**	—
30-60 days	**—**	—
60-90 days	**—**	—
90 days +	**—**	—
Balance at 31 March past due but not impaired	**23**	—
Current	**149,239**	145,771
Balance at 31 March	**149,262**	145,771

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large.

No allowance for doubtful debts are considered necessary based on prior experience and the directors' assesment of the current economic environment.

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 £76,839,000 (2007: £nil) comprise cash held by the Company and short term bank deposits with an original maturity of 3 months or less. The carrying amount of these assets approximates their fair value.

47. Financial liabilities

Trade and other payables

	2008 £000	2007 £000
Trade creditors and accruals	**2,981**	1,283
Amounts payable to Group companies	**5,285**	1,906
Taxes and social security, excluding corporation tax	**760**	487
Other creditors	**4,304**	4,381
	13,330	8,057

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 (2007: 45 days).

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

48. Bank overdrafts and revolving credit facilities

	2008 £000	2007 £000
Bank overdrafts and revolving credit facilities	**90,000**	45,013

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 2006	238	1,891	2,129
Credit to income	—	384	384
Credit to equity	—	1,523	1,523
Charge to equity	(44)	—	(44)
At 1 April 2007	194	3,798	3,992
Credit to income	—	253	253
(Charge)/credit to equity	(194)	87	(107)
At 31 March 2008	**—**	**4,138**	**4,138**

50. Events after the balance sheet date

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	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Harpin Limited	**2**	2	**278**	161	**—**	—	**98**	—
Pilot Services (GB) Limited	**—**	—	**57**	23	**—**	—	**23**	—
Subsidiary companies	**7,731**	7,246	**—**	—	**149,262**	145,771	**5,285**	1,906

Harpin Limited and Pilot Services (GB) Limited are related parties of the Group because they are 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, capital redemption reserve and hedging reserve

The movements on these items are disclosed in notes 25,26,27,30 and 31 to the accounts.

53. Share based payments

During the year ended 31 March 2008, the Company had 5 (2007: 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. In addition, since 2006, vesting has also been dependent upon a share price target. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

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

The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting 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 between three and 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 all UK employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discretionary discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

	ESOP	KEIP	LTIP	DBP(i)	SAYE
2007					
Number					
Outstanding at 1 April 2006	949,000	229,000	241,500	52,672	129,825
Granted	181,575	105,352	—	71,760	14,992
Expired	—	—	—	—	(62,181)
Exercised	(161,000)	—	—	—	(2,458)
Outstanding at 31 March 2007	969,575	334,352	241,500	124,432	80,178
Exercisable at 31 March 2007	370,500	—	—	—	—
Weighted average exercise price (£)					
Outstanding at 1 April 2006	4.70	10.86	—	—	6.24
Granted	14.07	17.98	—	—	14.48
Expired	—	—	—	—	5.45
Exercised	5.27	—	—	—	5.55
Outstanding at 31 March 2007	8.01	13.10	—	—	8.41
Exercisable at 31 March 2007	5.31	—	—	—	—
Range of exercise prices for options outstanding	£4.70	£9.61			£4.66
at 31 March 2007	£14.07	£18.04	—	—	£14.48
Weighted average remaining contractual life	7	9	2	2	3
Weighted average fair value of options awarded in 2007	£3.13	£2.52	—	£7.68	£6.14

	ESOP	KEIP	LTIP	DBP(i)	SAYE
2008					
Number					
Outstanding at 1 April 2007	969,575	334,352	241,500	124,432	80,178
Granted	169,966	—	15,732	33,969	16,305
Expired	(42,450)	(35,000)	(24,485)	(10,738)	(5,700)
Exercised	(105,000)	_	(34,515)	—	(292)
Outstanding at 31 March 2008	992,091	299,352	198,232	147,663	90,491
Exercisable at 31 March 2008	553,000	—	—	—	25,702
Weighted average exercise price (£)					
Outstanding at 1 April 2007	8.01	13.10	—	—	8.41
Granted	17.18	—	—	—	14.50
Expired	13.37	12.77	—	—	7.33
Exercised	7.64	—	—	—	5.43
Outstanding at 31 March 2008	9.39	13.14	—	—	9.52
Exercisable at 31 March 2008	5.74	—	—	—	5.19
Range of exercise prices for options	£4.70 -	£9.61 -	—	—	£4.66 -
outstanding at 31 March 2008	£17.18	£18.04			£14.50
Weighted average remaining contractual life	6	8	1	1	2
Weighted average fair value of options awarded in 2008	£3.93	—	£8.58	£6.98	£5.07

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 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 Company recognised total expenses of £1,307,000 (2007: £1,444,000) 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 37.

55. Share incentive reserve

	Share incentive reserve £000
Balance at 1 April 2006	217
Share based payment charges in the year	1,444
Share options exercised in year	(117)
Balance at 1 April 2007	1,544
Share based payment charges in the year	1,307
Share options exercised in year	(1,300)
Balance at 31 March 2008	**1,551**

56. Retained earnings

	Retained earnings £000
Balance at 1 April 2006	68,386
Dividends	(13,367)
Total statement of recognised income and expense	33,692
Deferred tax on share option gains taken directly to equity	1,523
Current tax on exercised share options taken directly to equity	173
Share options exercised in the year	117
Balance at 1 April 2007	90,524
Dividends	(16,893)
Total statement of recognised income and expense	44,572
Current tax on exercised share options taken directly to equity	429
Issue of trust shares	(269)
Share options exercised in the year	1,300
Balance at 31 March 2008	**119,663**

57. Financial instruments

Principal financial instruments

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

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- inter-company receivables

All principal financial instruments are stated at amortised cost.

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 48, cash and cash equivalents and equity attributable to equity comprising issued capital, reserves and retained earnings as disclosed in notes 52, 55 and 56.

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

	2008 £000	2007 £000
Shareholders' funds	**236,060**	203,758
Bank overdrafts and revolving credit facilities	**13,161**	45,013

Financial risk management objectives

The Company's principal financial instruments comprise bank loans and overdrafts. The main purpose of these financial instruments is to raise finance for the Company's operations. The Group also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt requirements with floating interest rates. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The maturity profile of the Company's financial liabilities is provided in the table overleaf. Interest is payable on the banks overdraft and revolving credit facilities.

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Total £000
2008			
Under 2 months	50,000	13,330	63,330
Between 2 and 6 months	40,000	—	40,000
Total	**90,000**	**13,330**	**103,330**

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Total £000
2007			
Under 2 months	45,013	8,057	53,070
Total	45,013	8,057	53,070

The Company has entered into an interest rate swap in order to manage the interest rate risks arising from the Company's operations and its sources of finance. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

At 31 March 2008 the Company had in place an interest rate swap to hedge loans subject to varible interest rates linked to LIBOR whereby it receives a floating rate of interest based on 1 month LIBOR on a notional principal of £50m and pays a fixed rate of interest of 4.9%. No such instrument was held at 31 March 2007. The remaining term of the interest rate swap is between 1 and 2 years. The fair value of the interest rate swap at 31 March 2008 was £nil (2007: £nil). The timing of the impact on the income statement of the swap is between 1 and 2 years of the balance sheet date. The impact of the cash flow hedge on the income statement will be expensed through the finance cost line.

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

	2008	2007
Increase in internal rate	**10%**	10%
Effect on profit before tax (£000)	**102**	213

Credit risk

The Company trades only with creditworthy third parties and subsidiary undertakings. It is the Company's policy that customers who wish to trade on credit terms are reviewed for financial stability.

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

The Company manages the risk associated with cash and cash equivalents through depositing funds only with reputable and credit worthy banking institutions.

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Company's Board which sets the framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 21 are details of the undrawn facilities that are available to the Company and the Group to further reduce liquidity risk.

All of the Company's financial liabilities are due for payment within 1 year, based on contractual payment terms.

Five year summary
2004–2008

Continuing operations

	IFRS				UK GAAP
	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Revenue					
UK Membership	**210,772**	188,157	159,386	127,300	100,023
UK Emergency Services	**325,845**	297,209	218,106	100,243	73,079
Continental Europe (excluding joint ventures)	**18,961**	9	151	104	—
United States of America	**8,097**	3,841	1,857	793	314
Eliminations	**(8,800)**	(11,854)	(12,499)	(7,729)	(4,180)
External Sales	**554,875**	477,362	367,001	220,711	169,236
Profit					
UK Membership	**73,944**	56,720	43,960	38,904	30,265
UK Emergency Services	**17,502**	15,977	13,077	4,473	2,683
Continental Europe	**765**	(221)	(1,595)	(630)	(410)
United States of America	**(2,248)**	(2,381)	(1,032)	(508)	(154)
	89,963	70,095	54,410	42,239	32,384
Amortisation of acquisition intangibles	**(10,320)**	(6,451)	(3,658)	(310)	—
Amortisation of goodwill	**—**	—	—	—	(5,574)
Exceptional operating costs	**(2,154)**	—	—	(2,787)	(6,616)
Operating profit	**77,489**	63,644	50,752	39,142	20,194
Net interest	**(5,651)**	(2,566)	(776)	(320)	113
Profit before tax	**71,838**	61,078	49,976	38,822	20,307

The amounts disclosed for 2004 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.

Shareholder analysis
as at 31 March 2008

Number of shares	Number of shareholders	% of total shareholders	% of shares
1 – 1,000	1,490	62.8	0.6
1,001 – 10,000	607	25.6	3.0
10,001 – 50,000	142	6.0	4.9
50,001 – 100,000	43	1.8	4.8
100,001 – 250,000	44	1.9	12.3
250,001 – 500,000	23	1.0	12.2
500,001 – 1,000,000	10	0.4	11.3
Over 1,000,000	12	0.5	50.9
	2,371	100.0	100.0

Unit trusts	36
Private investors	27
Other	16
Pension funds	10
Unknown	7
Insurance companies	4
	100

Shareholder information

Financial calendar

2008

28 July	Annual General Meeting
1 August	Final dividend for the year ended 31 March 2008 to be paid
November	Interim results for the six months ending 30 September 2008 to be announced

2009

January	Interim dividend for the year ending 31 March 2009 to be paid
May	Preliminary announcement of results for the year ending 31 March 2009
June	2009 Report and Accounts to be circulated

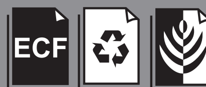
Shareholder helpline

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

Tel: 0870 707 1053
Address: PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH
Website: www-uk.computershare.com/investor

Website

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



Printed using vegetable oil based inks on Era Silk which is made from ECF (elemental chlorine free) fibre sourced from sustained forests, recycled materials and other controlled sources. The paper was sourced from an FSC Approved mill.

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