HomeServe

Annual Report & Accounts 2015

HomeServe at a glance

We provide home emergency, repair and heating installation services to over 6.3m customers. Our established businesses operate in the UK, USA, France and Spain, and we have a developing business in Italy.

Adjusted operating profit[1]	£87.8m	(2014: £86.9m)
UK	£56.4m	(2014: £53.4m)
USA	£6.4m	(2014: £12.9m)
France	£23.4m	(2014: £22.3m)
Spain	£7.5m	(2014: £4.0m)
New Markets	(£5.9m)	(2014: (£5.7m))

Customers	6.3m	(2014: 5.5m)
UK	2.1m	(2014: 2.1m)
USA	2.0m	(2014: 1.6m)
France	0.9m	(2014: 0.9m)
Spain	1.1m	(2014: 0.8m)
New Markets	0.2m	(2014: 0.1m)

Affinity partner households	89m	(2014: 85m)
UK	24m	(2014: 24m)
USA	29m	(2014: 26m)
France	15m	(2014: 14m)
Spain	15m	(2014: 15m)
New Markets	6m	(2014: 6m)

Retention	83%	(2014: 83%)
UK	83%	(2014: 82%)
USA	82%	(2014: 81%)
France	89%	(2014: 89%)
Spain	79%	(2014: 75%)

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

Revenue
£584.2m (2014: £568.3m)

Adjusted EBITDA[1]
£109.4m (2014: £106.9m)

Adjusted profit before tax[1]
£85.4m (2014: £84.1m)

Statutory profit before tax
£76.7m (2014: £24.4m)

Adjusted earnings per share[1]
19.0p (2014: 18.6p)

Basic earnings per share
17.2p (2014: 3.1p)

Dividend per share
11.5p (2014: 11.3p)

Special dividend per share
30.0p (2014: n/a)

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

HomeServe

Our business model

Our vision
To become the world's favourite plumbers, heating engineers and electricians.

Our mission
To provide home assistance membership, which frees our customers from the worry and inconvenience of emergencies, repairs and installations.

Our business is built on developing long-term relationships with our affinity partners, offering our customers home assistance in respect of plumbing, heating and electrical-related emergencies and repairs. We plan to extend our services to include provision of heating installations. We provide our services through the use of directly employed, franchised and sub-contract networks of engineers. With the customer clearly at the heart of the business, we have developed strategies to enable us to fulfil our vision and mission.

Strategic priorities	Progress in the year
Nurture long-term affinity partnerships	We have over 80 affinity partners across the geographies in which we operate. During the year, we signed 12 new utility partnerships in the USA and extended an existing arrangement to provide our products and services to an additional 2.5m residential households. We also signed a long-term affinity partnership with Lyonnaise des Eaux (LDE) in France, enabling us to offer our home heating, plumbing and electric products to their customers. During the year, we renewed three long-term partnerships in the UK.
Reduce customer effort	We are focussed on providing high levels of customer service, and endeavour to make it an effortless experience for our customers at each touch point of their customer journey. We continue to develop the channels through which our customers can purchase a policy, make changes to their account and make a claim. We monitor our engineer and contractor networks to ensure that we have sufficient capacity to meet our customers needs. During 2015 our customer satisfaction ratings, measured by a third party, improved across all our businesses.
Become a permanent part of customers' homes through installations and connected home	In the UK through HomeServe Alliance, we are developing our boiler installations activity, working with independent heating contractor businesses under a franchise model. In the USA, we install water heaters in customers' homes through our directly employed technicians. In the connected homes space, we are the leading independent installer of smart thermostats in the UK. Through our relationships with Nest, tado° and Cosy we give customers the opportunity to control their heating remotely, and with tado° to benefit from remote fault detection on their boilers.
Advocate energy efficiency and water conservation opportunities	In the USA we are working with gas and electricity utilities to offer energy efficiency products and services. Through one of our partnerships, we are able to analyse a household's energy usage. To customers with high energy usage we offer in-home energy assessments, suggest improvements, manage upgrades, and provide on-going monitoring reports. We continue to work with our water partners in all of our territories to offer water conservation solutions, including the development of a water leak detection device.
Drive efficiency	We are committed to improving efficiency in all aspects of our business, while ensuring we deliver high levels of customer service. For example, we are investing to upgrade our core customer IT system, and to enable greater levels of self-service.
Develop great people who can embrace technology and deliver innovation	We have a team of over 3,800 people across our businesses. We are committed to developing our people, ensuring they are engaged, which in turn results in a better customer experience. We continue to evaluate our teams, ensuring we have the correct capability to meet our business requirements.

2015 Summary

Group delivered profit growth whilst significantly increasing marketing investment in the USA

UK business with 2.1m customers and profits of £56.4m
- Gross new customers increased as expected to 0.3m (2014: 0.2m)
- Retention rate increased to 83% (2014: 82%)
- Continued investment in technology

Good strategic progress and strong customer growth in the USA
- Increased marketing investment driving customer growth of 26% (2014: 19%)
- Retention rate increased to 82% (2014: 81%)
- Partner pipeline remains strong, with 2.5m utility households added in the year
- Test marketing with AARP performing in line with our expectations

Momentum in France with announcement of new partner
- Affinity partnership agreed with Lyonnaise des Eaux, serving 5.3m households

Significant customer and profit growth in Spain
- Customer numbers up 37% to 1.1m (2014: 0.8m)
- Adjusted operating profit increased by 87% to £7.5m (2014: £4.0m)

Special dividend of 30p per share (£97m) to be paid to shareholders in July 2015

Chairman's Statement

I am pleased that the Group has delivered strong customer growth and whilst increasing investment in the businesses, delivered profit growth.

Our UK business delivered a solid performance with a higher percentage of customers choosing to stay with us than in the prior year, a reflection of our continued commitment to deliver high quality service to all of our customers. This has resulted in a further improvement in customer satisfaction. Putting our customers at the heart of everything we do is central to our business model and will enable us to achieve our mission, to free our customers from the worry and inconvenience of emergencies, repairs and installations.

Our business is built on strong affinity partner relationships and this year, our international businesses continued to deliver new partner relationships. I am delighted that we have signed an affinity partnership with Lyonnaise des Eaux, the second largest water provider in France. In the USA, we signed a significant new partner, AARP, a business that focuses on delivering quality products and services to people over 50. We also signed 12 new utility partners in the USA, increasing partner households to 29m.

The international businesses continued to deliver good growth in customer numbers, such that over two-thirds of our customers are now outside the UK.

Dividend

Given the improved performance of the Group and the Board's confidence in its future prospects, the Board is proposing a 2.5% increase in the final dividend to 7.87p per share, bringing the total ordinary dividend for the year to 11.5p (2014: 11.3p).

As previously announced, the Board wishes to adjust the Group's capital structure in order to achieve year end leverage in the range of 1.0-1.5x adjusted EBITDA and is therefore proposing a special dividend of 30p per share, totalling £97m to be paid in July 2015.

Board changes

As announced in March 2015, Ian Chippendale retired as a Non-Executive Director. On behalf of my colleagues and the Board I would like to thank Ian for his outstanding contribution to the development of the Group.

People

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

JM Barry Gibson
19 May 2015

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Chief Executive's Review

Richard Harpin
Chief Executive

Our business is built on developing long-term relationships with our affinity partners. We provide our customers a membership proposition to deliver heating, plumbing and electrical repairs and services, through the use of directly employed, franchised and sub-contract networks of engineers. We have 6.3m customers, an increase of 15% compared to a year ago, with 67% of our customers now outside the UK.

The Group has five operating segments: UK, USA, France, Spain and New Markets. The New Markets division combines the results of our businesses in Italy and Germany, together with investment in innovation including HomeServe Alliance and global digital initiatives.

During the year, the positive Group performance enabled increased marketing and business development investment in the USA, whilst still delivering adjusted operating profit of £87.8m (2014: £86.9m). Our UK business ended the year with 2.1m customers and reported £56.4m of adjusted operating profit, up £3.0m relative to the prior year. Our international businesses continued to grow, with an increase in affinity partner households and a 25% increase in customer numbers to 4.2m. Our established international businesses reported adjusted operating profit of £37.3m, £1.9m lower than the prior year, principally reflecting additional investment in the USA and the impact of currency translation in relation to our European businesses.

In the USA, as planned, we increased our investment in marketing and business development by £12.0m with a resulting reduction in reported adjusted operating profit to £6.4m (2014: £12.9m). This increased investment has delivered strong customer growth in the year, with customer numbers up 26% to 2.0m. We also invested £5.9m in our New Markets segment, broadly in line with the prior year.

The following sections report on the operational and financial performance of each of our operating segments.

"This has been a very good year for HomeServe, with customer numbers increasing from 5.5m to 6.3m. We have grown our profit, whilst at the same time significantly increasing marketing investment in the USA. In the UK we have delivered on our plans and have a strong business with 2.1m customers. Customer satisfaction and retention are increasing and we will continue to invest in technology to deliver even better service levels and efficiencies. The USA continues to be our most significant opportunity. During the year we have seen strong customer growth and we continue to have an excellent partner pipeline. In France we have agreed a long-term affinity partnership with Lyonnaise des Eaux, which enhances our long-term growth prospects. We expect good growth in 2016 and the Board's decision to pay a special dividend of 30 pence per share in July 2015 reflects confidence in our future prospects."

Financial performance for the year ended 31 March

	Revenue		Adjusted operating profit/(loss)		Adjusted operating margin	
£million	**2015**	2014	**2015**	2014	**2015**	2014
UK	**285.5**	288.5	**56.4**	53.4	**20%**	19%
Established international						
USA	**125.3**	110.9	**6.4**	12.9	**5%**	12%
France	**74.9**	77.3	**23.4**	22.3	**31%**	29%
Spain	**90.9**	82.6	**7.5**	4.0	**8%**	5%
	291.1	270.8	**37.3**	39.2	**13%**	14%
New Markets	**13.8**	14.4	**(5.9)**	(5.7)	**—**	—
Inter-Segment	**(6.2)**	(5.4)	**—**	—	**—**	—
Group	**584.2**	568.3	**87.8**	86.9	**15%**	15%

Adjusted operating margin is adjusted operating profit divided by total revenue.

Performance metrics for the year ended 31 March

	Affinity partner households (m)		Customer numbers (m)		Policy retention rate	
£million	**2015**	2014	**2015**	2014	**2015**	2014
UK	**24**	24	**2.1**	2.1	**83%**	82%
Established international						
USA	**29**	26	**2.0**	1.6	**82%**	81%
France	**15**	14	**0.9**	0.9	**89%**	89%
Spain	**15**	15	**1.1**	0.8	**79%**	75%
	59	55	**4.0**	3.3	**84%**	83%
New Markets	**6**	6	**0.2**	0.1	**—**	—
Group	**89**	85	**6.3**	5.5	**83%**	83%

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United Kingdom

- Year end customer numbers of 2.1m (2014: 2.1m)
- Full year retention rate of 83%, up from 82% last year
- Effective multi-channel marketing approach acquired 0.3m gross new customers (2014: 0.2m)
- Continued investment in technology to deliver customer service benefits and efficiencies

Operational performance

The UK business ended the year with 2.1m customers (2014: 2.1m), reflecting our marketing activity and a good retention performance. In 2015, our integrated marketing channels delivered 0.3m gross new customers compared to 0.2m in the prior year, with pleasing direct mail results and continued growth in our digital and partner sales channels.

Direct mail is an important channel and continues to perform in line with our expectations. Our digital channels include a combination of partner, HomeServe branded and third party websites including; Amazon, eBay and Quidco. We continue to see customers buy multiple products when they purchase online, with one third of our new policy sales now generated through a digital channel. Our partner channels continue to perform in line with our expectations, with new policy sales through this channel more than double that of a year ago.

The retention rate of 83% increased one percentage point compared to the prior year, reflecting the continued focus on product enhancements and delivering high levels of customer service.

To improve the customer experience we are increasingly providing our customers with self-serve options, from policy administration through to making a claim online. We also encourage our customers to leave real time online feedback about their experience through Reevoo, Trust Pilot and Rant & Rave.

During the year, our network of 444 directly employed engineers and over 216 sub-contractors completed 16% more jobs (0.7m repairs) than a year ago (2014: 0.6m). Customers are benefiting from the enhanced levels of cover in our products and as a result are using them more than in the past. Whilst this has increased repair costs, it has delivered improved customer service and a higher retention rate.

UK results

£million	2015	2014	Change
Revenue			
Net policy income	**198.3**	213.2	-7%
Repair network	**76.8**	65.8	+17%
Other	**10.4**	9.5	+10%
Total revenue	**285.5**	288.5	-1%
Adjusted operating costs	**(229.1)**	(235.1)	-3%
Adjusted operating profit	**56.4**	53.4	+6%
Adjusted operating margin	**20%**	19%	+1ppts

Net policy income is defined as policy revenue net of sales taxes and underwriting.

UK performance metrics

		2015	2014	Change
Affinity partner households	m	**24**	24	—
Customers	m	**2.1**	2.1	—
Income per customer	£	**93**	101	-8%
Policies	m	**5.1**	5.0	+2%
Policy retention rate	%	**83**	82	+1ppts

Income per customer is calculated by dividing net policy income by the number of customers.

UK policies split by type

		2015	2014
Water	m	**3.0**	2.9
Electrical	m	**0.5**	0.5
Heating, ventilation, air conditioning (HVAC)	m	**0.7**	0.6
Manufacturer warranties	m	**0.3**	0.4
Other	m	**0.6**	0.6
Total policies	m	**5.1**	5.0

"Other" principally includes pest, keycare, heating services and appliance related policies.

United Kingdom

We continue to have good relationships with our partners and we are pleased to confirm that during the year we renewed all three of the utility partnerships that were due to be renewed. Our partners continue to work with us in developing successful marketing campaigns, with increasing acquisition activity coming through our partners' call centres.

We are pleased with the investment and progress we are making in the implementation of our new core Pega Customer Management System. This investment will deliver significant benefits for our customers as well as allowing us to improve our efficiency and marketing effectiveness. We will continue to look for ways to invest in technology to help us deliver customer service and efficiency improvements.

In developing our connected home strategy, we commenced distribution and installation of the tado° and Nest branded smart thermostat devices. Through our relationship with tado°, technology has been developed to detect boiler faults, notify the homeowner in real time and enable them to book a repair via their smartphone. Technology is also being developed to enable the customer to buy a heating policy at the point of fault notification. We will continue to invest in this type of technology, providing customers with more opportunities to engage with us digitally.

Financial performance

Our UK business reported revenue of £285.5m (2014: £288.5m), a reduction of £3.0m. Revenue in the UK business is analysed as 'net income' (income per customer multiplied by the number of customers) of £198.3m (2014: £213.2m), with the remaining income representing £76.8m of repair network revenue (2014: £65.8m) and other income of £10.4m (2014: £9.5m), which includes revenue in respect of pay on use repairs, third party claims handling revenue, and transactions with other Group companies. During 2016, we will cease third party claims handling services with a resulting reduction in other income.

As expected, net income decreased by 7% to £198.3m (2014: £213.2m), reflecting a lower income per customer of £93 (2014: £101). This was principally due to a higher proportion of new customers who typically join on an introductory offer, and the higher repair cost of our plumbing and drains product since adding elements of maintenance cover to the product. Going forward we expect net income per customer to increase slightly as we see the benefits of digital sales and pricing initiatives.

Total operating costs were £6.0m lower than the prior year, with indirect cost savings more than offsetting an increase in direct costs and marketing investment. Adjusted operating profit was £56.4m, £3m higher than the prior year (2014: £53.4m) resulting in a sustainable 20% profit margin, one percentage point higher than 2014.

United States of America

- Customer numbers up 26% to 2.0m (2014: 1.6m)
- Record customer acquisition with 0.7m gross new customers in the year (2014: 0.5m)
- 12 new utility partnerships and extension of an existing one (2.5m households in total)
- Test marketing underway with significant new partner AARP (22m households)

Operational performance

The USA remains our most significant opportunity with 128m households, of which we now have affinity partner relationships with utilities that provide services to 29m. During the year we signed 12 new utility affinity partnerships and extended our relationship with one of our current partners, adding a total of 2.5m households. In addition, in November 2014, we also signed an affinity agreement with AARP, a membership organisation, providing services to 22m households in the USA. We have commenced direct mail marketing, offering a combination of water, electrical and gas line products. Our first test mailing was delivered in early January 2015 with initial results demonstrating, as expected, returns that are higher than from our own brand mailing. While it is still early days, we expect AARP to become one of our largest partners in the USA.

During the year we doubled the size of the business development team to 20 people and we expect to continue to increase this further next year. The larger team provides extended reach to cover the 1,445 prospective utilities in our target market. During the year our team participated in a number of competitive tenders and won the majority of those awarded. Our pipeline of potential new partnerships is strong, with negotiations at all stages of the process.

Customer numbers increased 26% to 2.0m (2014: 1.6m) with 0.7m gross new customers added in the year (2014: 0.5m), an increase of 42% compared to the prior year.

Direct mail continues to be the most significant channel, and we also continue to develop our digital and partner channels. During the year, we have grown our water, electrical, gas line and water heater policy numbers and maintained our heating, ventilation and air conditioning (HVAC) policy numbers. Our response rates and payback periods have continued to be attractive and in line with our expectations.

United States of America

Retention performance has been good, increasing from 81% to 82%, despite the continued increase in new customers, who typically have a lower year one retention rate. This principally reflects our focus on delivering high quality customer service at each customer touch point and a more proactive approach to retaining our customers. We continue to increase the number of customers that choose to pay by a continuous payment method.

Our network of 149 directly employed technicians and 959 sub-contractors completed over 12% more jobs in 2015 than the prior year (2014: 0.3m). We also commenced installation of heating, ventilation and air conditioning units, thereby providing customers with a solution to their emergency. Despite the USA seeing one of the coldest and snowiest winters on record in some of our service territories, emergency response times improved, as did customer satisfaction.

Financial performance

Currency movements had a beneficial impact on adjusted operating profit in the USA. Revenue in local currency increased by 13% to $199.8m (2014: $177.3m), reflecting higher renewals income and acquisition activity. In sterling terms, revenue was £125.3m (2014: £110.9m) an increase of £14.4m compared to the prior year. At constant currency relative to the prior year, operating profit in the USA would have been £0.7m lower than that reported.

Income per customer was $94, a $10 reduction, principally reflecting the higher number of new customers with just one product, the product mix, which included a higher proportion of water, gas line and water heater products that typically sell at a lower price than a combined HVAC product, and a higher repair cost as we expand product coverage and therefore respond to more claims. Going forward we expect net income per customer to be broadly stable.

Operating costs in the USA were £118.9m, up from £98.0m in the prior year, principally reflecting the increase in customer numbers and our increased investment in marketing and business development in the year (£12.0m). As a result of this incremental investment, adjusted operating profit was lower than the prior year at £6.4m (2014: £12.9m) with a resulting 5% profit margin.

USA results

$million	2015	2014	Change
Total revenue	**199.8**	177.3	+13%
Adjusted operating costs	**(190.1)**	(156.1)	+22%
Adjusted operating profit	**9.7**	21.2	-54%
Adjusted operating margin	**5%**	12%	-7ppts

USA results

£million	2015	2014	Change
Total revenue	**125.3**	110.9	+13%
Adjusted operating costs	**(118.9)**	(98.0)	+21%
Adjusted operating profit	**6.4**	12.9	-51%
Adjusted operating margin	**5%**	12%	-7ppts

USA performance metrics

		2015	2014	Change
Affinity partner households	m	**29**	26	+7%
Customers	m	**2.0**	1.6	+26%
Income per customer	$	**94**	104	-9%
Policies	m	**3.0**	2.4	+25%
Policy retention rate	%	**82**	81	+1ppts

Affinity partner households does not include AARP households.

USA policies split by type

		2015	2014
Water	m	**1.5**	1.2
Electrical	m	**0.4**	0.3
Heating, ventilation, air conditioning (HVAC)	m	**1.1**	0.9
Total policies	m	**3.0**	2.4

HVAC includes water heater and gas line policies.

France

- Good profit growth, up 11% in local currency
- Signed a new affinity partnership agreement with Lyonnaise des Eaux with 5.3m households
- Customer numbers increased 3% to close at 0.9m
- Continued high retention rate at 89%

Operational performance

In March 2015, we signed a long-term affinity partnership with Lyonnaise des Eaux (LDE), the second largest water provider in France, serving 5.3m households. Together with LDE, we have developed a leading water product range, branded Dolce Ô, LDE's home services brand. Similar to our other partnerships, we will adopt a multi-channel marketing approach. LDE has already commenced selling our policies in its call centre, which is performing as expected. As with our relationship with Endesa in Spain, the amounts paid to LDE in relation to customers acquired on our behalf by LDE will be capitalised and amortised going forward. In 2016, we expect the LDE deal to result in a net investment cost of £2m.

Customer numbers were up 3%, closing with 0.9m customers. The majority of customers in France continue to be acquired through the direct mail channel, although during the year we increased the proportion of sales generated via our partner's call centres, with more than four times as many policy sales added through this channel than in the prior year.

Our retention rate remains strong at 89% (2014: 89%). Following final legislation, the proposed change to the law (Hamon Law) allowing customers to cancel policies mid term will now not apply to our business.

All of our repairs in France are managed through our network of around 700 sub-contractors, who broadly completed the same number of repairs as the prior year.

Financial performance

During the year the Euro weakened relative to sterling with an average rate of €1.27 (2014: €1.19), closing at €1.37 on 31 March 2015. As a result, currency movements had a significant impact on reported French revenue and profit in the year. Revenue in France in local currency was €96.1m, 4% higher than the prior year (2014: €92.0m). In sterling terms, reported revenue was 3% lower than the prior year at £74.9m (2014: £77.3m), reflecting the impact of exchange rates in the period. At constant exchange rates, revenue would have been £5.9m higher and operating profit would have been £1.9m higher than that reported.

France results

€million	2015	2014	Change
Total revenue	**96.1**	92.0	+4%
Adjusted operating costs	**(66.6)**	(65.4)	+2%
Adjusted operating profit	**29.5**	26.6	+11%
Adjusted operating margin	**31%**	29%	+2ppts

France results

£million	2015	2014	Change
Total revenue	**74.9**	77.3	-3%
Adjusted operating costs	**(51.5)**	(55.0)	-6%
Adjusted operating profit	**23.4**	22.3	+5%
Adjusted operating margin	**31%**	29%	+2ppts

France performance metrics

		2015	2014	Change
Affinity partner households	m	**15**	14	+7%
Customers	m	**0.9**	0.9	+3%
Income per customer	€	**101**	100	+1%
Policies	m	**2.3**	2.3	-2%
Policy retention rate	%	**89**	89	—

Affinity partner households - includes all partner households including flats (2014: all households, excluding flats).

France policies split by type

		2015	2014
Water	m	**1.9**	2.0
Electrical	m	**0.2**	0.2
Other	m	**0.2**	0.1
Total policies	m	**2.3**	2.3

Income per customer increased by 1% to €101 (2014:€100), principally reflecting an increase in policy prices, which in part was offset by the number of new customers acquired on an introductory offer.

Adjusted operating profit was £23.4m, an increase of £1.1m compared to the prior period (2014: £22.3m), principally due to the benefit of higher customer numbers, pricing, more effective marketing and direct cost savings resulting in an improved operating profit margin.

Spain

- Significant profit growth up 96% in local currency
- Customer numbers up 37% to 1.1m (2014: 0.8m)
- Majority of new customers acquired through Endesa's sales channels
- Further activity with Endesa now planned for 2016

Operational performance

Endesa, our largest partner in Spain, continues to offer our products though its sales channels and we have now agreed to extend the programme into 2016. During the year marketing activity with our water partner Aqualia was slower than expected due to delays, which are expected to continue until after the local elections in May 2015, although the impact on 2016 is not expected to be material.

Customer numbers were up 37% to 1.1m at the end of March 2015. The majority of new customers continued to be acquired through Endesa with an electrical assistance product.

Retention in the period was 79%, up from 75% in 2014. Although this remains lower than the Group average of 83%, it is improving as the policy book matures.

Our claims handling business in Spain continues to perform well, completing 0.1m more jobs than in the prior year. Our network of around 1,800 sub-contractors and the 112 Reparalia franchised engineers completed 0.7m repairs in the year (2014: 0.6m).

Financial performance

Currency movements had a material impact on Spanish reported revenue and profit in the year. Revenue in Spain in local currency increased by 18% to €115.9m (2014: €98.1m) due to increased customer numbers and a 56% increase in membership revenues to €36.9m. In sterling terms, reported revenue was £90.9m (2014: £82.6m), an increase of 10%, reflecting the impact of exchange rates. At constant exchange rates, total revenue would have been £6.8m higher and operating profit would have been £0.7m higher than that reported.

The increase in reported revenue was due to higher revenue in the Membership business (£9.0m), in part offset by lower reported revenue in the Claims business. Reported claims handling revenue was £0.7m lower than the prior year as the benefit of a higher number of jobs was offset by currency movements in the period. Income per customer increased by €4 to €34, which reflects the higher mix of renewing customers, partially offset by new customers that typically join with a first

Spain results

€million	2015	2014	Change
Total revenue	**115.9**	98.1	+18%
Adjusted operating costs	**(106.4)**	(93.3)	+14%
Adjusted operating profit	**9.5**	4.8	+96%
Adjusted operating margin	**8%**	5%	+3ppts

Spain results

£million	2015	2014	Change
Total revenue	**90.9**	82.6	+10%
Adjusted operating costs	**(83.4)**	(78.6)	+6%
Adjusted operating profit	**7.5**	4.0	+87%
Adjusted operating margin	**8%**	5%	+3ppts

Spain performance metrics

		2015	2014	Change
Affinity partner households	m	**15**	15	—
Customers	m	**1.1**	0.8	+37%
Income per customer	€	**34**	30	+13%
Policies	m	**1.3**	1.1	+18%
Policy retention rate	%	**79**	75	+4ppts

Spain policies split by type

		2015	2014
Water	m	**0.2**	0.2
Electrical	m	**1.0**	0.8
Other	m	**0.1**	0.1
Total policies	m	**1.3**	1.1

year discount. The increase in operating costs principally related to higher customer numbers in the Membership business and greater volumes in the Claims business.

In Spain, the cost of acquiring policies originated by Endesa is capitalised, held as an intangible asset, amortised over the life of the affinity partner agreement and charged as an operating cost. During 2015 we paid £16.1m (2014: £22.2m) in respect of customers acquired by Endesa and as at 31 March 2015, the total intangible asset amounted to £26.2m (2014: £21.9m). As expected, amortisation in 2015 at £5.9m was higher than in the prior year (2014: £4.2m) and is expected to be around £8m going forward.

Adjusted operating profit was £7.5m, £3.5m higher than the prior year (2014: £4.0m), reflecting higher revenue in the Membership business, partially offset by the expected increase in amortisation in the period. Spain reported an adjusted operating margin of 8%, three percentage points higher than the prior year, reflecting the increase in Membership profits.

New Markets (including innovation initiatives)

- Continued momentum in Italy with 0.2m customers
- Plan to exit Germany
- Increased investment in innovation

Our New Markets segment consists of our developing businesses in Italy, Germany and our investment in innovation, including HomeServe Alliance and global digital initiatives.

In Italy, we have 0.2m customers through our test agreement with Enel, who were principally acquired through their doorstep sales channel. We are also in active discussions with other potential partners.

During the year we continued test marketing in Germany using sales agents to target the energy switching market. Initial results indicate that it is likely to take longer to establish a sizeable business than we consider acceptable. As a result, we have decided to exit our German business, focusing instead on building our business in Italy and investing in HomeServe Alliance and other areas of innovation.

We set up HomeServe Alliance last year to establish a network of local independent heating installation and repair businesses through a franchised model, with potential to offer home emergency cover alongside a boiler installation. While still at an early stage, we have developed a franchised network and a lead generation model for boiler installations and repairs. We now plan to roll this model out in our UK business creating a combined heating installation and repair business. We have also established a digital hub, based in London, to provide a common platform to accelerate our move towards self-serve for each of our customer touchpoints including claims and customer acquisition.

Financial performance

Our New Markets businesses reported revenue of £13.8m (2014: £14.4m) and an adjusted operating loss of £5.9m (2014: £5.7m). Our investment in New Markets will continue to be in the range of around £6.0m per annum, such that the performance in Italy will be offset by investment in HomeServe Alliance and other innovation including investment in our digital hub activity. The costs of ceasing activity in Germany are not material.

Capital investment

Technology investment

We are making progress with our plans to upgrade our IT systems. Our intention is to replace our core customer IT system and invest in new technology that allows us to improve the products and service we offer our customers and to increase our efficiency. Our attention has initially been focused on our UK business, where we have now implemented a limited version of the replacement Pega Systems software which is operating as expected. Having now worked with the new software we are confident that we have the right technology solution to allow us to significantly improve how we interact with our customers and reduce our cost to serve. We expect to have completed the replacement of our UK system within the next twelve months, and, having done this successfully, we intend to roll out the new system to our business in the USA.

We also continue to look for further opportunities to invest in technology to allow us to drive greater revenue, improved efficiency and customer service. As a result, during the year we have identified opportunities to invest in new data warehouse technology, digital document composition, digital asset management solutions and customer self service tools for our businesses in the UK and USA. We also plan to upgrade the IT system for our Spanish Claims handling business. As a result of these additional investments, our capital investment will increase in 2016 before normalising at around £25m in 2018.

Partner payments

Payments made to affinity partners in respect of the acquisition of customers originated by those partners are capitalised. During 2015 we invested £17.6m in respect of payments to Endesa in Spain and new partners in the USA. During 2016 we expect to invest around £20m in partner payments with Endesa in Spain, LDE in France and new partners in the USA.

Outlook

Our established businesses are progressing in line with our expectations and we expect the Group to deliver good growth in 2016. In the UK, we expect our business to be stable with growth being driven by our international businesses. Increased customer acquisition investment and a weaker Euro are expected to reduce profits in France, however this will be more than offset by strong growth in the USA and Spain. We plan to invest around £6m in New Markets principally in relation to innovation initiatives.

Richard Harpin
Chief Executive
19 May 2015

Financial Review

Johnathan Ford
Chief Financial Officer

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

Group statutory results

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

£million	2015	2014
Total revenue	**584.2**	568.3
Operating profit	**79.1**	27.2
Net finance costs	**(2.4)**	(2.8)
Adjusted profit before tax	**85.4**	84.1
Exceptional items	**1.7**	(46.7)
Amortisation of acquisition intangibles	**(10.4)**	(13.0)
Statutory profit before tax	**76.7**	24.4
Tax	**(20.6)**	(14.4)
Profit for the year, being attributable to equity holders of the parent	**56.1**	10.0

Statutory profit before tax was £76.7m, £52.3m higher than 2014 (2014: £24.4m). Statutory profit before tax is reported after the amortisation of acquisition intangibles and exceptional items as detailed below.

Amortisation of acquisition intangibles

The amortisation of acquisition intangibles of £10.4m (2014: £13.0m) principally relates to customer and other contracts, held by businesses, which were acquired as part of business combinations.

Financial review

Exceptional items

Exceptional items amounted to a net income of £1.7m in the year, of which £2.9m relates to the reimbursement of certain costs by our insurers associated with historical UK matters and £1.7m relates to the release of surplus provisions originally created in 2012 and 2014. These were partially offset by the cost of a transaction the Group decided not to pursue. In the prior year, exceptional expenditure of £46.7m was incurred which related to costs associated with the FCA investigation of the UK business, the UK customer re-contact exercise and the FCA penalty.

Cash flow and financing

Our business model continues to be highly cash generative with cash generated by operations in 2015 amounting to £94.6m (2014: £91.9m), representing a cash conversion ratio against adjusted operating profit of 108% (2014: 106%).

£million	2015	2014
Adjusted operating profit	**87.8**	86.9
Exceptional items	**1.7**	(46.7)
Amortisation of acquisition intangibles	**(10.4)**	(13.0)
Operating profit	**79.1**	27.2
Depreciation and amortisation	**32.0**	33.0
Non-cash items	**4.4**	6.2
Decrease in exceptional provision	**(7.7)**	(12.4)
(Increase)/decrease in working capital	**(13.2)**	37.9
Cash generated by operations	**94.6**	91.9
Net interest	**(4.1)**	(2.8)
Taxation	**(22.8)**	(21.6)
Capital expenditure	**(52.8)**	(33.6)
Repayment of finance leases	**(0.3)**	(0.4)
Free cash flow	**14.6**	33.5
Purchase of investment	**(4.8)**	—
Acquisitions	**(1.1)**	(2.4)
Equity dividends paid	**(36.9)**	(36.7)
Issue of shares	**3.8**	1.1
Net movement in cash and bank borrowings	**(24.4)**	(4.5)
Impact of foreign exchange	**2.3**	4.7
Finance leases	**0.3**	0.4
Opening net debt	**(42.3)**	(42.9)
Closing net debt	**(64.1)**	(42.3)

Working capital increased by £13.2m in 2015 reflecting growth across the USA, France, Spain and New Markets. In the prior year working capital decreased by £37.9m principally due to non recurring matters including the timing of £15m of payments to certain partners which were paid in 2015 and the reduction in UK reported revenue.

The exceptional provision relating to the UK matters was in part utilised (£6.0m) and the surplus provision was released (£1.7m).

During the year we invested capital expenditure of £52.8m (2014: £33.6m). This expenditure included payments of £16.1m (2014: £14.4m) to Endesa in Spain in respect of the acquisition of customers that Endesa originated, investment in the replacement of our core customer system, together with normal investment, principally technology related, across the businesses.

We expect to maintain a higher than usual level of capital expenditure in 2016 and 2017 as we invest in our core customer system, additional technology solutions that are expected to deliver customer service and efficiency benefits, and continue to make payments to partners in respect of the acquisition of customers originated by the partner. As a result, in 2016, we expect to invest a total of £50m in systems and technology and £20m in respect of partner payments. Total investment is expected to decrease to around £35m in 2017 before normalising at £25m from 2018.

The purchase of investment related to an investment in respect of our connected home strategy.

Acquisitions

Acquisition spend of £1.1m principally related to deferred consideration in respect of acquisitions completed in prior periods (2014: £2.4m).

Net debt and finance costs

Net debt at 31 March 2015 was £64.1m (2014: £42.3m), well within our facility of £300m, which is committed through to 2019. Year end net debt to EBITDA was 0.6 times. The Group's net cash finance costs were £4.1m, £1.3m higher than in the prior year reflecting refinancing fees in part offset by lower interest payments.

Taxation

The tax charge in the financial year was £20.6m (2014: £14.4m). The adjusted effective tax rate was 27% which we expect to remain broadly the same going forward. UK corporation tax is calculated at 21%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective countries which are higher than the UK rate.

Earnings per share

Adjusted earnings per share for the period increased from 18.6p to 19.0p. The weighted average number of shares increased from 325.0m to 326.7m. On a statutory basis, earnings per share increased from 3.1p to 17.2p.

Financial review

Dividend

Given the improved performance of the Group and the Board's confidence in its future prospects, the Board is proposing a final dividend of 7.87p per share (2014: 7.67p) to be paid on 3 August 2015 to shareholders on the register on 3 July 2015. Together with the interim dividend declared in November 2014 of 3.63p (2014: 3.63p), this represents a payment of 11.5p (2014: 11.3p). This amount is 1.65x covered by the 2015 adjusted earnings per share (2014 dividend cover: 1.65x), representing growth of 2% in line with earnings. The Board intends to adopt a progressive dividend policy and expects to target a dividend cover in the range 1.75x - 2x over the medium term.

As previously announced, the Board wishes to adjust the Group's capital structure in order to achieve year end leverage broadly in the range of 1.0 - 1.5x adjusted EBITDA, measured at 31 March each year. Accordingly, the Board is today proposing a special dividend of 30p per share, totalling £97 million, to be paid in July 2015. On a pro forma basis and taking account of the Group's normal seasonality, this would have resulted in leverage at the upper end of the range at March 2015. As a result of the payment of the special dividend and the increase in net debt, we expect our annual interest cost to increase by around £2m.

The Board reaffirms its statement, made in November 2014, that it believes that year end leverage in the range of 1.0-1.5x adjusted EBITDA (currently 0.6x) appropriately balances our objectives of an efficient capital structure, good risk management, and the ability to grow the business both organically and by acquisition. As previously stated, we will be prepared to see leverage outside that range for reasonable periods of time if circumstances warrant that, and the range itself will be subject to periodic review.

As is common when an amount representing a significant proportion of the market capitalisation of a company is returned to shareholders, the Board is recommending that the special dividend is combined with a share consolidation. The share consolidation is intended, so far as possible, to maintain the comparability of the Company's share price before and after the special dividend.

Foreign exchange impact

The impact of changes in the € and $ exchange rates between 2014 and 2015 has resulted in the reported revenue of our international businesses decreasing by £13.3m and adjusted operating profit decreasing by £1.5m. The impact of foreign exchange rate movements on the individual businesses is summarised in the table below.

		Average exchange rate			Effect on (£m)	
		2015	2014	Change	Revenue 2015	Adjusted operating profit 2015
USA	$	**1.61**	1.60	0.9%	**0.2**	**0.7**
France	€	**1.27**	1.19	7.0%	**(5.9)**	**(1.9)**
Spain	€	**1.27**	1.19	7.0%	**(6.8)**	**(0.7)**
New Markets	€	**1.27**	1.19	7.0%	**(0.8)**	**0.4**
Total international					**(13.3)**	**(1.5)**

The current € exchange rate is €1.38. If this rate had prevailed throughout 2015, revenue would have been £26.2m lower and operating profit would have been £4.5m lower than at constant currency.

Statutory and pro-forma reconciliations

The Group believes that adjusted EBITDA, adjusted operating profit, adjusted profit before tax and adjusted earnings per share, all of which excludes the amortisation of acquisition intangibles and exceptional items are important performance indicators for monitoring the business.

This report uses a number of pro-forma measures to highlight the Group's results excluding the above amounts. The table below provides a reconciliation between the statutory and pro-forma items.

£million	2015	2014
Operating profit (statutory)	**79.1**	27.2
Depreciation	**4.6**	4.9
Amortisation	**17.0**	15.1
Amortisation of acquisition intangibles	**10.4**	13.0
Exceptional items	**(1.7)**	46.7
Adjusted EBITDA	**109.4**	106.9
Operating profit (statutory)	**79.1**	27.2
Amortisation of acquisition intangibles	**10.4**	13.0
Exceptional items	**(1.7)**	46.7
Adjusted operating profit	**87.8**	86.9
Profit before tax (statutory)	**76.7**	24.4
Amortisation of acquisition intangibles	**10.4**	13.0
Exceptional items	**(1.7)**	46.7
Adjusted profit before tax	**85.4**	84.1

Pence per share	2015	2014
Earnings per share (statutory)	**17.2**	3.1
Amortisation of acquisition intangibles	**2.1**	2.6
Exceptional items	**(0.3)**	12.9
Adjusted earnings per share	**19.0**	18.6

Principal risks and uncertainties

HomeServe has a risk management process which provides a structured and consistent framework for identifying, assessing and responding to risks. These risks are assessed in relation to the Group's strategy, business performance and financial condition and a formal risk mitigation plan is agreed with clear ownership and accountability. Risk management operates at all levels throughout the Group, across geographies and business lines.

Risks to HomeServe's business are either specific to HomeServe's business model, such as affinity partner relationships and underwriting, or more general, such as the impact of competition and regulatory compliance.

The table below sets out what the Board believes to be the principal risks and uncertainties facing the Group, the mitigating actions for each, and an update on any change in the profile of each risk during the past year. These should be read in conjunction with the Strategic Report. Additional risks and uncertainties of which we are not currently aware or which we currently believe are not significant may also adversely affect our strategy, business performance or financial condition in the future.

Risk Description/Impact	Mitigation	Change since 2014 Annual Report
Commercial relationships Underpinning the success in our chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies and financial institutions. The loss of one of these relationships could impact our future customer and policy growth plans and retention rates. While these partnerships are secured under long-term contracts, which increase the security of these relationships over the medium-term, they can be terminated in certain circumstances.	We have regular contact and reviews with the senior management of our affinity partners to ensure that we respond to their needs and deliver the service that they expect. Across the Group, we are not dependent on any one single partnership which mitigates, in part, the impact of losing any single relationship.	While remaining a principal risk, we have continued to sign and renew affinity partnerships with utilities across the businesses. In the UK, we have renewed the three utility partner agreements that were due to renew during the year. In France, we continue to work with Veolia under a long-term marketing agreement and have recently signed a long-term partnership with Lyonnaise des Eaux, the second largest water provider in France. In the USA, we signed new agreements with 12 utilities. We also signed an affinity agreement with AARP, an organisation that helps people aged fifty and older to improve the quality of their lives. In Spain, we continue to work closely with Endesa and our water partners and in Italy we continue our test agreement with Enel.
Competition There are a number of businesses that provide services that are similar to those of the Group and could therefore compete in one or more of our chosen markets. Increased competition could affect our ability to meet our expectations and objectives for the business in terms of the number of customers, policies or the financial returns achieved.	The market and the activities of other participants are regularly reviewed to ensure that the strategies and offerings of current and potential competitors are fully understood. Both qualitative and quantitative research is undertaken to ensure that our products and services continue to meet the needs of our customers whilst retaining a competitive position in the market. We believe we have a compelling proposition for customers, providing them with real value thereby helping reduce the impact of increased competition.	There has been no significant change in the competitive landscape in any of the countries in which we operate. In the USA we participate in RFP's ("requests for proposal") that are issued by utilities when they seek to start a programme. While we see some other parties participating in these tenders, we win the majority and we believe that, overall, the RFP process is positive for our business as it demonstrates an increased awareness of our products and services in the US market. In France and Spain, there has been no significant change in the competitive landscape.
Customer loyalty/retention A key element of our business model is customer loyalty. Any reduction in the proportion of customers renewing their policies could significantly impact our revenue.	Policy retention rate is one of our Key Performance Indicators. Any significant movement is therefore carefully investigated to assess the change in customer behaviour and to implement corrective action where possible. We have a wide range of tools available to manage retention rates, including specific retention propositions. There are dedicated retention teams, trained and experienced in talking to those customers who are considering not renewing their policy.	Retention remains high in all our countries. In the UK, the rate increased to 83%, up 1% compared to the prior year and 4% relative to two years ago, reflecting the quality of the products, sales channels, service delivery and pricing strategies adopted. In the USA, the retention rate was 82% up from 81% in the prior year. In France, we have maintained a retention rate of 89%. In Spain, retention increased from 75% to 79% in the year.

Strategic report

Principal risks and uncertainties

Risk Description/Impact	Mitigation	Change since 2014 Annual Report
Marketing effectiveness A significant reduction in the response rates on our marketing could have a significant impact on customer and policy numbers.	The performance of each marketing campaign and channel is regularly reviewed, with any significant deviation to the expected response rate quickly identified and remedial action taken for subsequent campaigns.	During the year our marketing channels performed as we expected with UK direct mail response rates back in line with past experience. We continue to develop our digital channels and working with our partners to offer our products in their call centres. Development of these two channels is serving to reduce our reliance on direct mail activity.
Exposure to legislation or regulatory requirements We are subject to a broad spectrum of regulatory requirements in each of the markets in which we operate, particularly relating to product design, marketing materials, sales processes and data protection. Failure to comply with the regulatory requirements in any of our countries could result in us having to suspend, either temporarily or permanently, certain activities. In addition, legislative changes related to our partners may change their obligations with regard to the infrastructure they currently manage and hence the products and services we can offer to customers. It is possible such legislative changes could reduce, or even remove, the need for certain of our products and services.	We have regulatory specialists, compliance teams and Non Executive Directors within each of our businesses to help ensure that all aspects of the legislative regime in each territory are fully understood and adopted as required. Specifically in the UK, we maintain regular dialogue with the FCA, while in the USA we have regular dialogue with the Attorneys General. We keep up to date with changes in government and regulatory policy, which ensures that our products and services are designed, marketed and sold in accordance with all relevant legal and regulatory requirements and that their terms and conditions remain appropriate and meet the needs of customers.	Our larger businesses have dedicated experienced compliance specialists while our smaller business in Italy is supported by external professionals. In the UK we have strengthened the regulatory and compliance team and addressed the FCA's recommendations relating to the business. In the USA we proactively work with local Attorneys General and media commentators to ensure they understand the service offered by HomeServe. In France, it was confirmed that our activities are excluded from the provisions of Hamon Law, a law which enables customers to cancel insurance policies after the first year outside the normal renewal cycle, something that was previously prohibited in France.

Risk Description/Impact	Mitigation	Change since 2014 Annual Report
Quality of customer service Our reputation is heavily dependent on the quality of our customer service. Any failure to meet our service standards or negative media coverage of poor service could have a detrimental impact on customer and policy numbers.	We monitor customer service standards at a number of different customer contact points in each of our operations using both internal data and an independent third party. The results of these are reviewed on a regular basis and action plans produced to address the key issues. Processes have been established to ensure that all directly employed engineers and sub-contractors meet minimum standards. These include criminal record checks and minimum qualification requirements.	In 2015 we have continued to monitor customer satisfaction across all our operations at a number of different customer contact points, with improvements seen in all of the businesses. Reflecting the importance of customer service to our business, all senior managers have customer service performance as a significant component of their annual bonus opportunity.
Availability of underwriters The policies that we market and administer with customers are each individually underwritten by third party underwriters, independent of HomeServe. We act as an insurance intermediary and do not take on any material insurance risk. If these underwriters were unable or unwilling to underwrite these risks and we were unable to find alternative underwriters it would require us to insure these risks directly, thereby exposing the business to material insurance risk, which is contrary to our preferred operating model. In addition, it would take time to obtain the relevant regulatory approvals.	We use a number of underwriters, with the main provider in the UK being separate to those in the rest of Europe and the USA. We have regular contact and reviews with the senior management of the underwriters to ensure that claims frequencies, repair costs and service standards are in line with their expectations. The principal underwriters are subject to medium-term agreements, with the rates subject to regular review. In addition, we maintain relationships with a number of underwriters who are willing and able to underwrite our business and regularly review the market to ensure we understand current market conditions, how these apply to our policies and how we can mitigate the loss of an existing underwriter.	We continue to review our underwriting relationships on a regular basis to ensure they provide the best returns for customers and shareholders. During 2015, we reached agreement with a second underwriting provider in the USA and have continued to develop our relationships with other providers.

Principal risks and uncertainties

Risk Description/Impact	Mitigation	Change since 2014 Annual Report
Dependence on recruitment and retention of skilled personnel Our ability to meet growth expectations and compete effectively is, in part, dependent on the skills, experience and performance of our personnel. The inability to attract, motivate or retain key talent could impact on our overall business performance.	Our employment policies, remuneration and benefits packages, and long-term incentives are regularly reviewed and designed to be competitive with other companies. Employee surveys, performance reviews and regular communication of business activities are just some of the methods used to understand and respond to employees' views and needs. Processes are in place to identify high performing individuals and to ensure that they have fulfilling careers, and we are managing succession planning effectively.	We have continued to strengthen our management teams across all our operations – particularly in the areas of IT, digital, compliance and commercial. During the year, we developed a People Charter in the UK and USA. The values proposed in them will be adopted as an integral part of our recruitment, selection and development.
Exposure to country and regional risk In line with other businesses we are subject to economic, political and other risks associated with operating in overseas territories. A variety of factors, including changes in a specific country's political, economic or regulatory requirements, as well as the potential for geographical turmoil including terrorism and war, could result in the loss of service.	The criteria for entering a new country include a full assessment of the stability of its economic and political situation, together with a review of the manner and way in which business is conducted. When entering a new country, we generally do so on a small scale test basis. This low risk entry strategy minimises the likelihood of any significant loss.	We are not currently planning to enter new territories and continue to monitor the economic, political and regulatory environments where we operate. We plan to cease activity in Germany in 2016.

Risk Description/Impact	Mitigation	Change since 2014 Annual Report
Our IT systems become a constraint to growth and drive inefficiency instead of efficiency improvements The Group's core IT system is used in each of our businesses. The system is now around 20 years old and has had a number of 'in house' developments. The system is dependent on internal development resource and knowledge.	The Group reviews its systems and processes on a regular basis. As part of these reviews it looks at the future plans of each of the businesses in terms of customer and policy growth, product and process design and development requirements and the potential impact on IT systems. All system developments and enhancements undergo a rigorous financial review and the proposed benefits are monitored and subject to post implementation reviews. Our IT developments are subject to a prioritisation process which takes into account the availability of both internal and external resource and the proposed benefits of the project.	We are replacing our core customer IT system and will continue to invest in new technology that allows us to improve the products and service we offer our customers. Our attention has initially been focused on our UK business, where we have now implemented a limited version of the replacement Pega Systems software and expect to complete the replacement of our UK system within the next twelve months, at which point we intend to roll out the new system to our business in the USA.

Principal risks and uncertainties

Risk Description/Impact	Mitigation	Change since 2014 Annual Report
Financial strategy and treasury risk The main financial risks are the availability of short-term and long-term funding to meet business needs, the risk of policyholders not paying monies owed, and fluctuations in interest rates and exchange rates.	**Interest rate risk** Our policy is to manage our interest cost using a mix of fixed and variable rate debts. Where necessary, this is achieved by entering into interest rate swaps for certain periods, in which we agree to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional principal amount. These swaps are designated to hedge underlying debt obligations.	As a result of our relatively low level of bank borrowings and a stable interest environment we have not entered into any swaps during 2015.
	Credit risk The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions. The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.	There has been no significant change in the level of mid-term policy cancellations.
	Liquidity risk We manage liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.	Our banking facility was renewed in July 2014. Our net debt at 31 March 2015 was £64.1m, significantly within the facility limit of £300m. Net debt is expected to increase, still within the facility, following the capital return to shareholders.
	Foreign exchange risk A clear treasury policy exists to address short-term risk and this works with the natural hedging provided by the geographical spread of the businesses. While this will protect against some of the transaction exposure our reported results would still be impacted by the translation of our non-UK operations.	During the year our Euro profits have been impacted by £2.2m due to the weakening Euro. If the Euro remains weak and as a result will present further translation risk in 2016. The movement in the US Dollar rate was less significant in 2015 and generated a profit benefit of £0.7m.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report.

The Directors have reviewed the Group's budgets, forecasts, cash flows and established that the businesses are progressing in line with their expectations for growth in 2016. As a result the Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

This statement was approved by the Board of Directors on 19 May 2015 and is signed on its behalf by:

Johnathan Ford
Chief Financial Officer
19 May 2015

itv
Text Santa Cycle to Lapland
TEXT SANTA
itv

Annual Report & Accounts 2015

Corporate responsibility

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

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

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

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

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

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

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

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

Customers

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

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

Employees

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

During the year, People Charters have been developed and rolled-out in the UK and the USA, and the values espoused in them will be adopted as an integral part of our recruitment, selection and development programmes. These complement our Customer Charters, or Promises, whose roll-out was completed during the year, and seek to further align our employees' interests to the delivery of excellent customer service.

We have also implemented enhancements to our talent assessment and succession planning processes, adopting the 'nine-box' matrix model, which has helped us better to identify leadership development opportunities for our employees. Using this information, we have been able to develop co-ordinated talent and leadership programmes across the business, from front-line developing leaders to senior executives.

We attach considerable importance to ensuring that all our employees benefit from effective communications and engagement, using regular business updates, senior management briefing sessions and "surgeries", question and answer opportunities and constructive relationships with employee representatives across the Group. We also encourage our management teams to hold regular informal update meetings and social events to keep our employees informed and engaged.

Annual Report & Accounts 2015

Corporate responsibility

A Group-wide employee engagement survey is run each year, with results reported to the Board and action plans devised, implemented and tracked locally. During the year, we also initiated the roll-out of interim 'Pulse' surveys in some of our businesses in order to better track the progress of our employee engagement initiatives. Results from the most recent survey show that engagement levels in each of our businesses are higher than the country average but we aim for continuous improvement. Employees are actively involved in the creation and delivery of plans, and best practice for the promotion of employee engagement is shared across the Group.

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

We apply employment policies that are fair and equitable for all employees and these ensure that entry into, and progression within, the Group are determined solely by the fair application of relevant job criteria and by personal ability and competence. We actively promote the international transfer of our employees where this is likely to assist the development of both the employee and the business, and our senior HR managers meet regularly to share best practice and identify opportunities to develop our employees' careers.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. Our training and development policies also make it clear that we will take all practicable steps to ensure that if an employee becomes disabled during the time they are employed, their employment can continue.

Charity

The UK business has partnered with Marie Curie as its national charity since 2010. HomeServe teams across the UK have been highly engaged with the partnership, with fundraising and volunteering activities leading to a milestone achievement in August 2014 when donations reached over £1.5 million.

A special celebration of this achievement was held in September 2014 with an event at local football club, Walsall FC, which the UK business sponsors. It involved fans donating via bucket collections, text messages and a charity auction for unique signed football shirts in Marie Curie's signature yellow, which helped raise almost £2,000.

Other Marie Curie fundraising events have included a team of employees participating in Swimathon, the world's biggest annual fundraising swim and also as part of ITV's Text Santa annual Christmas appeal raising money for six UK charities which included Marie Curie. Around £15,000 was raised by the two events.

The UK business has also further extended its local community reach, engaging with Customers, charity initiatives and stakeholders, directly in Walsall where the head office is based. This work has included leveraging the UK's sponsorship of Walsall FC through an innovative community campaign to support the club's success in reaching the final of the Johnstone's Paint Trophy.

Employees also donated their time and skills into the refurbishment of the Walsall FC Community Room in March 2015 after the UK business donated £15,000 for its renovation. Used by local schools and community groups, the refurbishment included installing new radiators, replacing and refitting the kitchen and decorating the room. HomeServe freed a team of 30 employees to help, as well as providing tools and equipment.

Other community initiatives supported by the UK business include the donation of a HomeServe van to local charity, the Midland Langar Seva Society. This is used to distribute food donations to those who really need it in the Midlands region.

In March 2015, the UK business once again supported the Red Nose Day appeal for the 11th year, by taking calls in our Walsall call centre with hundreds of volunteers answering over 3,500 calls while the live show was broadcast by the BBC.

In the US, we have continued to work with Habitat for Humanity, which seeks to eliminate poverty housing and homelessness by building houses in partnership with families in need. In addition, employees have raised $18,000 for the American Cancer Society and supported a number of local causes.

In France and Spain, the focus has been on supporting local charities both by fundraising and volunteering. Activities have included decorating, electrical repairs and toy and food collections.

Our programme to help disadvantaged homeowners who are faced with a home emergency has continued during FY15. The programme was inspired by an initiative introduced in the USA and has now been established in the UK, France, Spain and Italy.

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

Annual Report & Accounts 2015

Corporate responsibility

Environment, Health & Safety
We continue to drive health and safety improvements across all of our businesses. We require compliance to ten guiding principles for occupational health and safety and another ten for environmental management. The launch of SHARP (the Safety and Health Assessment and Review Programme) this year has increased the level of assurance in respect of H&S performance and facilitated cross-business learning and programme sharing. Each business generated an improvement plan for all our people, contractors and the communities in which we operate. We continue to strive for zero work related illness and injury.

Each business has reviewed its Occupational Safety and Health Management System and these have been subject to third party review within Europe and intra-business review between the USA and the UK. The aim of this activity is both to permit intra-company safety benchmarking and to prepare for the new ISO45001 specification due in 2016.

Corporate leadership of health and safety is strong with Johnathan Ford, Group Chief Financial Officer, as Board Champion for environmental, health and safety matters. The HR Director in each business is the respective business champion. For the sixth year running, the UK business was delighted to receive a Royal Society for the Prevention of Accidents Occupational Safety Award; testimony to our continued success in driving down safety risk.

Physical risk continues to be well controlled with a UK Accident Frequency Rate of 0.3.

HomeServe USA has embedded a personal carbon monoxide monitoring programme for all service technicians, who now wear personal detection and alarm equipment on every service call. The health and safety relationship with the union is strong and together they are continuing to see incident reduction. There has been a focus on occupational road risk, principally in the Tri-State area and in Massachusetts; the company promotes the State's environmental improvement programme (MassSave) encouraging house insulation and energy assessment.

Environmental improvements have also been evident in the UK, with the 700 person call centre, restaurant and reception meeting room suite in Walsall converting to LED lighting. In the UK our carbon reduction commitment continues to be so strong that we leave the UK Government monitoring scheme at the end of phase one in 2015.

Our French business 'Doméo' has been at the forefront of the Group's psychological risk assessment and intervention for stress risk reduction in its two call centres. Our Italian business 'Assistenza Casa', being safety incident free for another consecutive year, conducted a gap analysis of their environmental management against the ISO14001 specification.

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

The formal disclosure in respect of our carbon footprint is included in the Directors' Report. We have had our global direct and indirect greenhouse gas emissions externally audited, using Defra emission factors. It should be noted that fugitive emissions from office air-conditioning are not included. This makes up a very small proportion of our data but work is underway to include this in future reporting.

The carbon footprint for FY15 was 10,677 tco_2e (2014: 11,150).

Chairman's Overview

JM Barry Gibson
Chairman

The Board continues to believe that good corporate governance underpins good business performance. As a Board we are accountable to our shareholders for ensuring that governance processes are in place and are effective and we are fully committed to meeting the required standards of corporate governance. The reports that follow are intended to give shareholders an understanding of our corporate governance arrangements and how they operated in FY15.

Board focus

Over the last year we have continued to focus the business on our customers and considerable improvements have been made in respect of service, culture, governance and controls.

As a Board we regularly discuss and review:

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

Board changes

Ian Chippendale stepped down as Senior Independent Director at the end of March having served as a Non-Executive Director since 2007. I would like to thank Ian for his significant contribution over the last eight years and wish him well for his retirement.

Following Ian's departure, Mark Morris was appointed as the Senior Independent Director. Ben Mingay has joined the Remuneration Committee and Stella David has taken over as Chairman of that committee.

Board effectiveness

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

JM Barry Gibson
Chairman
19 May 2015

Directors

JM Barry Gibson (63) [1 3 4]
Appointed to the Board in April 2004 and appointed as Chairman on 1 April 2010 following a year as Senior Non-Executive Director. Also Senior Independent Director of bwin party digital entertainment plc. Previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and Non-Executive Director of Somerfield plc, National Express plc, William Hill plc, SSP Group Ltd and Non-Executive Chairman of Harding Brothers Holdings Ltd.

Richard Harpin (50)
Founder and Chief Executive Officer of HomeServe which was set up in 1993 as a joint venture with South Staffordshire Group. Appointed to the Board in May 2001. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

Martin Bennett (46)
Appointed as Chief Executive Officer of the UK business in January 2014, following two years as Group Chief Operating Officer and three years as Group Chief Financial Officer. Previously Finance Director of the UK business, having been Finance Director of the Warranties business and Commercial Director. Prior to joining HomeServe in 2003, he spent three years as Group Finance Director of Clarity Group and ten years at Arthur Andersen where he qualified as a Chartered Accountant.

Johnathan Ford (45)
Appointed as Chief Financial Officer in September 2012. Also a Non-Executive Director of Lakehouse plc where he chairs the Audit Committee. Previously the Group Finance Director of NWF Group plc, an AIM listed specialist agricultural and distribution group. Prior to joining NWF in March 2009, he spent four years at HomeServe, firstly as Group Commercial Director and later as Finance Director of the Emergency Services Division. Before joining HomeServe he was Head of Corporate Finance at Kidde plc.

Tom Rusin (46) [5]
Appointed as Chief Executive Officer, HomeServe USA in July 2011. Previously at Affinion Group where he undertook a number of roles culminating in three years as President and Chief Executive Officer of Affinion Group's North American Division from 2007 to 2010. Before joining Affinion, he owned Just for Travel Inc. He was previously a Non-Executive Director of The Ambassador's Group.

Mark Morris (55) [1 2 3 4]
Appointed to the Board in February 2009 and as Senior Independent Director on 1 April 2015. Previously in audit, business advisory and corporate finance with Price Waterhouse before joining Sytner Group plc as Finance Director, later becoming Managing Director. Currently a Non-Executive Director of LSL Property Services plc and Chairman of Motorpoint Ltd.

Ben Mingay (50) [1 2 3 4]
Appointed to the Board in January 2012. Currently Managing Partner of Smith Square Partners, an independent corporate finance advisory firm. He has more than twenty years' experience as a corporate finance adviser and, prior to co-founding Smith Square Partners, he was a Managing Director of Hawkpoint Partners Ltd and Credit Suisse First Boston (Europe). He is also a Non-Executive Director of AIM-listed Alternative Networks plc.

Stella David (52) [1 3 4]
Appointed to the Board in November 2010. Currently Chief Executive Officer of William Grant & Sons having joined them in 2009 following more than fifteen years with Bacardi Ltd where she undertook a number of roles culminating in four years as Global Chief Marketing Officer. Currently a Non-Executive Director of C&J Clark Limited, she also spent seven years as a Non-Executive Director at Nationwide Building Society.

Anna Maughan (45)
Appointed Company Secretary in July 2008 following twelve years as Assistant Company Secretary. Also a Trustee of, and Secretary to, the industry wide Water Companies Pension Scheme.

H Stephen Philips (48) [5]
Appointed as CEO of Reparalia in March 2010 having joined HomeServe in 2005 as Country Manager in Spain. He is a licensed insurance broker and is a Non-Executive Director of Assured Enterprises Inc. Prior to joining HomeServe, he spent 12 years in senior business development, sales, and marketing roles in Diversified Business Communications S.A. and E.J. Krause de México, working across the USA and Latin America.

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

Corporate Governance Report

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

The Board

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

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

- the recommendation or approval of dividends
- the approval of preliminary and interim financial statements
- the approval of major financial commitments
- the acquisition of significant companies or businesses
- appointments to the Board and its Audit & Risk, Remuneration and Nomination Committees
- the Company's future strategy
- the Company's internal controls.

The full schedule is available on our website.

Board composition

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

The Directors who held office during the year were:
John Michael Barry Gibson
Richard David Harpin
Martin John Bennett
Johnathan Richard Ford
Ian Chippendale (resigned 31 March 2015)
Stella Julie David
Benjamin Edward Mingay
Mark Christopher Morris

The Board is led by the Chairman, Barry Gibson. The Chairman's responsibilities are clearly defined in a written specification agreed by the Board and which makes clear the division of responsibilities between the Chairman and the Chief Executive. They include the smooth running of the Board, effective communication between Executive and Non-Executive Directors and the general progress and long-term development of the Group.

During the year, in addition to the Chairman, four independent Non-Executive Directors (Messrs Chippendale, Mingay and Morris and Mrs David) with extensive business, finance and marketing backgrounds, provided the Board with a breadth of experience and with independent judgement. Ian Chippendale served as the Company's independent Senior Non-Executive Director.

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

Short biographies of each of the Directors including their membership of committees may be found on the previous pages.

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2015 and 19 May 2015 are set out in the Remuneration report. None of the Directors serving at the year-end had a beneficial interest in the share capital of any subsidiary company.

Succession planning

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

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

Diversity

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

Corporate Governance Report

The Board also believes that a diversity of experience and psychological profile is important around the board table. We seek to ensure that there is a balance of skills and experience and in respect of non-executive positions, we ensure that candidates from a wider pool are considered, including those with little or no listed company board experience.

Board meetings

Up to ten regular meetings are held each year to review and monitor current and forecast performance. Regular reports on monthly performance and other matters of importance to the Group ensure that the Board is supplied in a timely manner with the information necessary to make informed judgements. In addition, the Board has an annual strategy meeting, also attended by senior operational management, to devise and discuss the Company's medium and long-term strategic focus and management development strategy.

Regular formal and informal presentations are given and meetings held in order to inform Directors of issues of importance affecting the Group. Occasionally, meetings of the Board are held at the Company's operating sites other than Walsall, in order to afford the Board, particularly the Non-Executive Directors, the opportunity to meet with local management.

Attendance at meetings

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

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

Board development

The Board actively encourages all Directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates and has adopted a formal policy on the induction and training of Directors. Newly appointed Board members are required to undergo an induction programme, which includes obtaining a thorough understanding of the Group's various operations, and they have the opportunity to receive formal training from external providers if they wish. During the year, the Non-Executive Directors have met with various members of the Group's management teams and external advisers.

Board evaluation

The Board has implemented a formal process for reviewing its own effectiveness, that of its Remuneration and Audit & Risk committees and its individual members. In addition, it continued to ensure that regular meetings of the Non-Executive Directors were held without the Executive Directors, and at least once a year, without the Chairman present, in order to evaluate his performance.

An external Board evaluation process was completed during FY15 by Lintstock Limited. Directors completed evaluation questionnaires and these were followed up by individual interviews with Lintstock who then compiled a formal written report summarising the Directors' views and containing recommendations to improve the effectiveness of the Board further. This report was discussed by the Board in March 2015.

The Board concluded that it was operating effectively, although it was agreed that it could be more efficient in the use of its time. To this end, the number of board meetings will be reduced to eight and the number of Audit & Risk Committee meetings will be reduced to three. Management have been encouraged to ensure that all papers presented to the Board are appropriate in respect of their length and focus.

Committees

The Board operates a number of committees to which it has delegated certain specific responsibilities, each of which has formally adopted terms of reference. These comprise the Nomination, Audit & Risk and Remuneration Committees. The terms of reference of each of the Board's committees are available on request from the Company Secretary and are on the Company's website. The membership and activities of the Audit & Risk Committee and Remuneration Committee are detailed in the reports of those committees.

Corporate Governance Report

Nomination Committee

Members

J M Barry Gibson (Chairman)
Ian Chippendale (resigned 31 March 2015)
Stella David
Ben Mingay
Mark Morris

Responsibilities

The primary responsibilities of the Committee are to:

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

The Committee draws on the advice of such professional advisers as it considers necessary.

The Committee did not meet during the year; succession planning activity was undertaken by the Board as a whole.

Executive Committee

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

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

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

Risk Committee

A Group Risk Committee, comprising the Executive Directors and other representatives of each business, operates across the Group and is chaired by Johnathan Ford. Its terms of reference have been approved by the Board and its purpose is to advise the Audit & Risk Committee in respect of the Group's risk appetite, to evaluate the risk registers compiled by each of its businesses, to monitor the effectiveness of action plans for the mitigation of those risks, and to report thereon to the Audit & Risk Committee and thereafter to the Board, which retains responsibility for the overall evaluation of the Group's risk management processes.

Directors' indemnities and insurance

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were in place during the year and remain in force at the date of this report. The Company maintains directors' and officers' liability insurance for its Directors and officers.

Advice for Directors

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

Relationships with shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive and Chief Financial Officer meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the Chairman and independent Senior Non-Executive Director, who are available to discuss any questions which they may have in relation to the running of the Company.

The Board encourages shareholders to attend the Annual General Meeting and is always willing to answer questions, either in the meeting itself or, more informally, afterwards. In addition, shareholders may contact HomeServe direct, either through the website or by telephone.

The Board recognises the need to ensure that all Directors are fully aware of the views of major shareholders. Copies of all analysts' research relating to the Company are circulated to Directors upon publication. The Board receives a monthly Investor Relations report which includes an analysis of the Company's shareholder register as well as any feedback received from shareholders and analysts.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, as are the principal risks and uncertainties. In addition, the strategic report includes, amongst other things, cash flow and financing information.

The Directors have reviewed the Group's budgets, forecasts, cash flows and established that the businesses are progressing in line with expectations for growth in FY16. As a result, the Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In addition, the Directors have considered the carrying value of goodwill and other assets and have concluded that there is no impairment of these assets.

Corporate Governance Report

Internal controls

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

The Board has delegated the day-to-day management of the Company to the Group Chief Executive and the other Executive Directors. The system of internal control is designed to manage and mitigate rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

- The Group's strategy is set by the Board and five year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.
- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses. Risks are reviewed in detail at local risk committees and, on an overall basis, by the Group Risk Committee and the Audit & Risk Committee.
- The Group Risk Committee meets quarterly and reviews a register summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks. Quarterly updates are provided to the Audit & Risk Committee and the Board.
- The Audit & Risk Committee meets four times a year and reviews the risk register in order to advise the Board on current risk exposures and future risk strategy. More detail is provided in the report of the Audit & Risk Committee.
- A clearly defined organisation structure is in place with clear lines of accountability and appropriate division of duties. The Group's financial regulations specify authorisation limits for individual managers and for local Boards of management, with all material transactions being approved by the Board.
- Regular telephone meetings of the Executive Committee monitor day to day performance, and full Executive Committee meetings are held at least eight times a year at which the Directors report on the progress of the companies or discipline for which they are responsible and share best practice.
- Consolidated financial results, including a comparison with budgets and forecasts, are reported to the Board on a monthly basis, with variances being identified and understood so that mitigating actions can be implemented, where appropriate.
- The consolidated accounts are reviewed by the Executive Directors and verified by the finance team. The accounts are then considered by the Audit & Risk Committee which makes a recommendation in respect of their approval to the Board. The Board then reviews and approves the accounts prior to the announcement of the half year and annual results.
- At the end of the year, the Executive Directors compile a report identifying the key risks faced by the Group. This report is considered by the Audit & Risk Committee and by the Board before the Annual Report and Accounts is approved.
- The Group has a dedicated Internal Audit function and a formal audit plan is in place to address the key risks across the Group.
- Appropriate treasury policies are in place.
- A whistle blowing policy allows employees, franchisees and sub-contractors who wish to raise any issues of concern relating to the Group's activities to do so on a confidential basis by contacting an external hotline.
- A mechanism exists to extend the Group's formal risk management processes to any significant new business acquired or established immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of the year.

As required by the Turnbull Guidance, the Board, supported by the Audit & Risk Committee, carries out an annual assessment of the effectiveness of the system of internal controls.

By Order of the Board
JM Barry Gibson
Chairman
19 May 2015

Governance

Audit & Risk Committee Report

Mark Morris
Chairman of the Audit & Risk Committee

Members

Mark Morris (Chairman)
Ian Chippendale (resigned 31 March 2015)
Ben Mingay

The Audit & Risk Committee is chaired by Mark Morris who has recent and relevant financial experience. He worked in audit, business advisory and corporate finance before becoming a plc Finance Director and also chairs the Audit Committee of LSL Property Services plc.

The internal and external auditors, the Chief Financial Officer, the Chief Executive Officer and the Chairman are invited, but are not entitled, to attend all meetings. Where appropriate, other Executive Directors and managers also attend meetings at the Chairman's invitation. The external and internal auditors are provided with the opportunity to raise any matters or concerns that they may have, in the absence of the Executive Directors, whether at Committee meetings or, more informally, outside of them.

Responsibilities

The primary responsibilities of the Committee are to:

- monitor, on behalf of the Board, compliance with and the effectiveness of, the Company's accounting and internal control systems
- agree audit strategy
- monitor the scope and results of the Company's annual external audit
- review the independence and objectivity of its auditors
- review the preliminary and interim results and financial statements before they are presented to the Board
- approve and monitor the internal audit plan
- review the appropriateness of the internal audit function
- receive reports from the Company's internal and external auditors
- make recommendations to the Board on accounting policies
- make recommendations to the Board for a resolution to be put to the shareholders for their approval in general meeting for the appointment of the external auditor, the approval of their remuneration and their terms of engagement
- receive reports from the Group Risk Committee
- advise the Board on the Group's overall risk appetite, tolerance and strategy
- advise the Board on current risk exposures and future risk strategy
- review and approve the means by which the Group and its regulated subsidiary undertakings seek to comply with their respective regulatory obligations
- review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Summary of meetings in the year

The Committee usually meets four times in the year and did so in FY15. During the year the agenda has included the following items:

- Half year results
- Full year results
- Principal judgemental accounting matters
- External audit plans and reports
- Internal audit plans and reports
- Risk assessments and reports
- Updates on regulatory compliance activity
- Updates on certain key risks, including information security and data protection
- Whistleblower reports
- Internal audit effectiveness and independence
- External audit effectiveness and independence.

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

The Chairman of the Committee provides an update in respect of the matters discussed to the Board after each Committee meeting and the minutes of meetings are circulated to the whole Board.

Significant issues related to the financial statements

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

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

Audit & Risk Committee Report

The significant issues considered in the year were:

- revenue recognition, specifically the timing of when to recognise revenue so that sufficient revenue is deferred to cover future obligations
- the utilisation of the exceptional provisions required in respect of the UK issues including the remediation exercises
- the carrying value of intangible assets (specifically acquisition intangible assets) and goodwill arising on the purchase of businesses and books of policies and customers
- accounting in respect of new customers acquired through the Endesa and Enel 'Sales Through Service' channels
- regulatory risk in each of the territories in which we operate.

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

External auditor

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

The Committee has agreed and implemented a procedure for reviewing and assessing its own effectiveness and that of the internal and external audit process. The Committee reviews the performance of the external auditor annually.

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

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

The Committee has noted the recent changes to EU audit legislation and the UK adoption of this legislation, which will require mandatory rotation for auditors of public interest entities at least every 20 years with a mandatory tender process being undertaken at the 10 year point. The transitional rules for this new legislation mean that the Group would be required to change its auditor after 2024. A recommended course of action will be proposed to the Board in due course. The Committee has not identified any factors which might restrict its choice of external auditor.

The Committee has implemented a policy relating to the use of the external auditors for non-audit services and monitors fees paid in respect of such services. This policy provides that the total fees payable to the auditor for non-audit related work in any financial year should not normally be more than 100% of the total fees payable in respect of audit and compliance services. In addition, any proposed spend over a predetermined limit must be approved by the Committee.

The fees payable to the auditor for non-audit related work (excluding audit-related assurance services) totalled £381,000 and the fees payable in respect of audit and audit-related assurance services totalled £450,000. Further detail on the fees paid is provided in Note 7.

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

Risk management and internal control

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

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

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

Audit & Risk Committee Report

Internal audit

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

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

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

On behalf of the Audit & Risk Committee

Mark Morris
Chairman of the Audit & Risk Committee
19 May 2015

Remuneration Report

Stella David
Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the remuneration report for the year ended 31 March 2015, having been appointed as Chairman of the Committee on 1 April 2015.

Performance and reward

The Group has returned to profit growth this year having stabilised the UK business and continued to invest more for future partner and customer growth in the USA. We have added 12 new utility partners in the USA and agreed a long-term affinity partnership with Lyonnaise des Eaux in France. Our established businesses are progressing in line with our expectations and we are confident of further growth in FY16.

Customer satisfaction has once again increased in all of our businesses. There has also been pleasing progress in respect of complaints. As a result, the stretching commercial and customer targets for FY15 have been met.

In respect of longer-term performance, the LTIP awards granted in 2011 did not vest but, based on total shareholder return (TSR) performance to 31 March 2015, which is 97% above the FTSE 250 Total Return Index, it is expected that the awards granted in 2012 will vest in full.

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

Remuneration policy FY15

The remuneration policy was approved at the 2014 AGM and payments made in FY15 were in line with the policy. The Committee's activities during the year are described in more detail later in this report.

Remuneration Report

Remuneration policy FY16
We are making some changes to how we apply our remuneration policy for Executive Directors in FY16. These changes will not require a shareholder vote for a new policy, but are described fully in the Annual Report on Remuneration, on which there will be the usual advisory vote at the 2015 Annual General Meeting. We have consulted with our major shareholders in advance of making these operational changes.

In summary, we are reintroducing an earnings per share performance condition to the LTIP, adding a holding period for net vested shares and increasing our shareholding requirement for Directors. The annual bonus opportunity is unchanged at 100% of salary, but Performance Awards under the LTIP in FY16 will be granted at the policy maximum of 200% of salary (up from 150% of salary in FY15). Matching Awards will continue to be offered. The changes are designed to reflect our business strategy and support sustained long-term earnings growth.

In addition, we are making one final adjustment to the base salary of Johnathan Ford, moving his salary from £325,000 to £375,000. Whilst substantial, this increase is considered appropriate recognising his strong development in the role, as well as the broader range and strategic contribution of his role compared to many other Chief Financial Officer roles in similar businesses.

Following this final adjustment, we believe that the salary levels for Executive Directors are now set at the correct position. Any future increases will be in line with the average increase for the workforce, barring genuinely exceptional circumstances. Martin Bennett's salary will increase by 2% and Richard Harpin's salary will remain unchanged. Salary increases take effect from 1 July 2015.

We have reviewed our policy for recovery and withholding in line with changes to the UK Corporate Governance Code and we are comfortable that our approach is robust and workable if this provision ever needs to be operated.

Stella David
Chairman of the Remuneration Committee

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

The Directors' remuneration policy was approved by shareholders at the 2014 AGM and is not subject to a shareholder vote this year. The policy is set out below for information only. In order to assist shareholders, the remuneration scenario charts later in the report have been updated to reflect the proposed remuneration levels for FY16 and we have added additional commentary, where relevant, to explain how the policy will be operated in FY16.

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

- to align rewards with the Group's financial and operational performance
- to ensure that remuneration, in particular, variable pay, supports the Group's strategy as a customer focused operation
- to provide a remuneration package that is sufficient to attract, retain and motivate high calibre executives.

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

The Committee is satisfied that neither the structure of the remuneration packages, with the high weighting on variable pay, nor the performance measures targeted under the annual bonus and long-term incentive arrangements, encourages inappropriate risk taking. The remuneration arrangements are designed so as to provide a strong alignment of interest between the Executives and shareholders and to support the growth and performance aspirations of the Company. The Committee is satisfied that the current arrangements meet these objectives. Furthermore, a clawback provision to annual bonuses and long-term incentive awards was introduced in 2011 which helps to guard further against excessive risk-taking.

Remuneration Report

Summary of components of Executive Directors' remuneration

The table below summarises the Committee's policy for the remuneration of Executive Directors which was approved by shareholders at the 2014 Annual General Meeting.

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Basic salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies.	Usually reviewed annually, with any changes normally taking effect from 1 July each year.	Individual pay is determined by the Committee taking into account the role, responsibilities, performance and experience of the individual and market data on comparable roles. Consideration is also given to overall business performance and pay and employment conditions elsewhere in the Company when determining any increases to base salary levels for the Executive Directors. When reviewing salary increases, the Committee also takes into account the impact of any increase to base salaries on the total remuneration package. Details of the current salaries of the Executive Directors are set out in the Annual Report on Remuneration.
Performance related bonus	The annual bonus is designed to drive and reward the short-term operating performance of the Company and encourage the delivery of consistently good customer outcomes.	Annual (determined after the year end)	Annual bonuses are determined by reference to performance against a mix of customer, commercial and personal objectives. Before any bonus is payable a minimum level of both customer and financial performance must be achieved. Bonuses are based on group performance and, if relevant, the specific territory for which an Executive Director is responsible. Individual performance accounts for no more than 20% of the overall bonus opportunity. The maximum potential quantum is 100% of salary and assuming their personal objectives are met in full, the normal 'on-target' bonus is 60% of basic salary. Bonuses are payable in cash but may be deferred into shares under the matching element of the LTIP.
Long-term incentives	To drive long-term delivery of the Group's objectives, to align Directors' interests with those of the Company's shareholders and to encourage exceptional performance.	Three years	Awards of performance and matching shares are granted under the Long-Term Incentive Plan (which was approved by shareholders in 2008). The maximum limit is 200% of salary for performance share awards (currently, awards of 150% of salary are made to the Executive Directors) and a maximum 2:1 match on voluntary investment of bonus into shares. The maximum amount of bonus that may be invested is set at 75% of the maximum bonus potential (i.e. 75% of salary). If the bonus earned is less than 25% of salary, then the executive may invest the equivalent of 25% of salary, from their own money, in shares to receive a matching award. In determining the number of matching awards to be granted, the investment is deemed to be made gross of tax. Both performance and matching awards are subject to the same performance condition which was relative Total Shareholder Return in FY15 (subject to satisfactory underlying earnings performance). Performance is measured over a performance period of at least three years. **Changes to operation in FY16** An Earnings Per Share performance condition will be reintroduced for performance and matching share awards in FY16 and performance share awards will be granted at the policy maximum of 200% of salary. Further details are provided later in this report.
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	Richard Harpin participates in the Water Companies Pension Scheme (a defined benefit scheme which is closed to new members). The other Executive Directors receive a 20% contribution to the HomeServe Money Plan (a defined contribution scheme). The key features of these schemes are set out later in this report. Retirement benefits under both schemes are restricted by a notional earnings cap (£130,867 for FY15). An unapproved pension contribution equal to 20% of the amount by which basic salary exceeds the notional cap is paid annually. Executives may choose to have this amount paid directly into their pension or may receive it as cash. As an alternative to the above arrangements, the Committee may also permit the pension allowance (up to 20% of salary) to be taken solely as a cash allowance.

Remuneration Report

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Other benefits	Provides a competitive package of benefits to assist with recruitment and retention of staff.	N/A	Other benefits comprise a fully expensed car (or cash alternative), fuel allowance, private health cover (for the individual, partner and dependant children), death in service benefits (up to five times salary) and permanent health insurance for members of the HomeServe Money Plan. There is no maximum limit on the value of the benefits provided but the Committee monitors the total cost of the benefit provision.
Save As You Earn Scheme	To encourage employee share ownership.	N/A	The Executive Directors may participate in the Group's Save As You Earn Scheme. The Scheme is subject to limits on the level of individual participation. No performance conditions are attached to this Scheme.
Chairman and Non-Executive Directors' fees	To attract and retain Non-Executive Directors of the right calibre.	N/A	Non-Executive Director fees are determined by the Board. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions. The fee levels are reviewed periodically and are set to reflect the responsibilities and time commitment of the role and the experience of the individual. Fee levels are set by reference to rates in companies of comparable size and complexity. The fees for the Non-Executive Directors comprise a basic Board fee, with additional fees paid for chairing a Committee or for the Senior Independent Directorship. The Chairman receives an all encompassing fee for his role. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. The fees are paid monthly in cash.

Rationale behind performance metrics and targets

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

Annual Bonus

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

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

Changes to operation in FY16

Targets relating to net debt and employee engagement are being introduced to the bonus for FY16. These will operate alongside the customer and commercial measures and personal performance objectives.

Remuneration Report

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

The current performance measure used for LTIP awards is relative total shareholder return performance (TSR). The performance period runs for three years and requires HomeServe's TSR to match that of the FTSE 250 Index for 25% of the shares to vest, rising on a straight-line basis so that full vesting requires out-performance of the Index by 15% per annum. TSR is deemed to be the most appropriate metric to measure sustained long-term performance, is aligned with shareholder interests and does not encourage inappropriate risk taking. However, the Committee retains the discretion to set different measures for future LTIP awards as set out below.

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

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

Awards under the LTIP may be granted as conditional allocations or nil (or nominal) cost options with, or as, forfeitable shares. The Committee may also decide to grant cash based awards of an equivalent value to share based awards or to satisfy share based awards in cash, although it does not currently intend to do so. Awards are satisfied through a mixture of either market purchase or new issue shares. To the extent new issue shares are used, the 2008 LTIP will adhere to a 5% in 10 year dilution limit.

Changes to operation in FY16
The Committee has reviewed the operation of the LTIP and concluded that it remains the most appropriate vehicle for long-term incentives at the current time. However, to support the strategy of sustainable long-term earnings growth, an Earnings Per Share (EPS) performance condition will be re-introduced (alongside TSR) for the FY16 awards.

In addition, a post vesting holding period will be introduced for awards granted in FY16 onwards. There will be a minimum period of five years from the date of grant of an award before shares arising from the vesting of awards can be sold. To the extent that nil cost options are exercised after the three year vesting point, but before five years, the net of tax value of the vested shares must continue to be held. The dividend roll-up on unexercised nil cost options will continue until five years from grant. This five year view will provide a longer-term perspective to the incentive programme than the three year performance period. These changes have been discussed with our major shareholders.

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

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

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

Remuneration Report

Pensions

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

The Water Companies Pension Scheme	A funded, HMRC approved occupational defined benefit scheme
Members	Richard Harpin
Main features	• pension at normal retirement age of one-half of final pensionable salary and a tax free lump sum of one and a half times final pensionable salary on completion of 40 years' service at an accrual rate of 80ths plus 3/80ths cash • life assurance of five times basic salary • pension payable in the event of ill health; and spouse's pension on death • normal retirement at age 60.
Special features	Non-contributory
The HomeServe Money Plan	A funded, HMRC approved occupational defined contribution scheme
Members	Martin Bennett Johnathan Ford
Main features	• employer contributions of 20% • life assurance of five times basic salary • permanent health insurance • spouse's pension on death • normal retirement at age 60.
Unapproved pension provision	A notional earnings cap restricts the benefits provided to members of the Water Companies Pension Scheme and the HomeServe Money Plan. An unapproved pension contribution, equal to 20% of the amount by which basic salary exceeds the notional cap is paid annually. Executives may choose to have this amount paid directly into their pension or may receive it as cash. The notional cap is indexed in line with earnings inflation. For FY15 the notional cap was £130,967.

Shareholding guidelines

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

If the holding guideline has not been fulfilled at the point of exercise of any option or the vesting of any other long-term incentive award, the Director must retain 50% of the net proceeds in the Company's shares until the holding requirement is achieved. Details of the current shareholdings of the Executive Directors are provided later in this report.

Changes to operation in FY16

The shareholding guideline will be increased to two times annual basic salary.

How employees' pay is taken into account

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

There are some differences in the structure of the remuneration policy for the Executive Directors and senior management team compared to other employees reflecting their differing responsibilities, with the principal difference being the increased emphasis on performance related pay for the more senior executives within the organisation. However, there are many common themes. For example, the structure of the annual bonus, with the focus on customer, commercial and personal performance, is the same for employees at management grade and above (albeit with a higher weighting on personal performance at less senior grades).

Employee share ownership is encouraged and facilitated through extending participation in the LTIP to other senior leaders within the business and all UK based employees are able to participate in the Save as You Earn Scheme (subject to meeting the minimum service requirement).

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

Remuneration Report

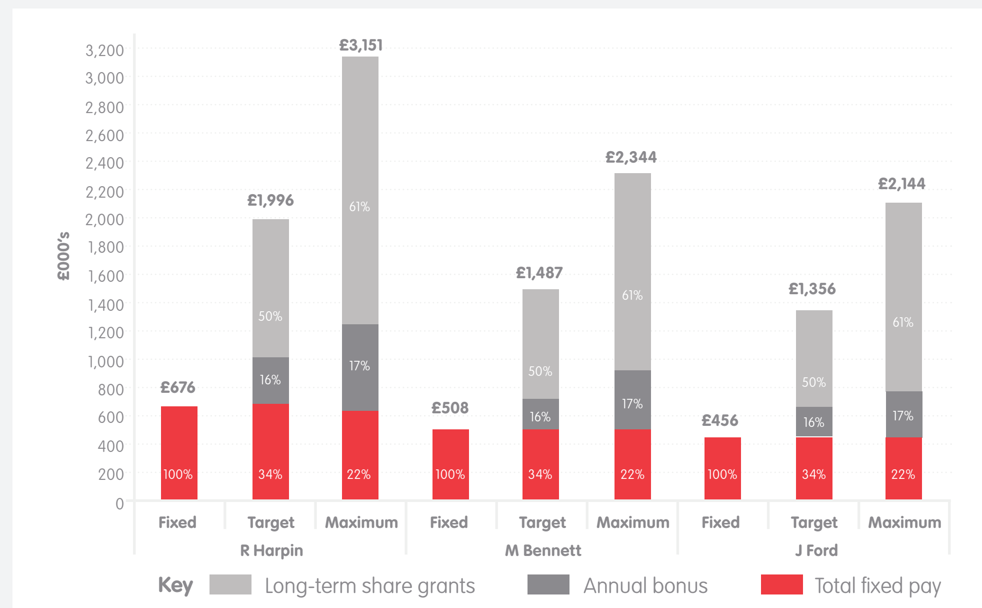
How shareholders' views are taken into account

The Committee considers shareholder feedback received regarding the directors' remuneration report annually and guidance from shareholder representative bodies more generally. These views are key inputs when shaping remuneration policy. The Committee consults with shareholders when considering changes to remuneration arrangements.

Overall balance of measures for variable pay for FY15

Remuneration scenarios for Executive Directors

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



Assumptions

Fixed	fixed pay only (salary plus benefits plus pension).
On target	target annual bonus of 60% of salary plus target LTIP awards of 120% of salary plus matching awards of 60% of salary.
Maximum	maximum annual bonus of 100% of salary plus maximum LTIP awards of 200% of salary plus matching awards of 150% of salary.

Salary levels (on which other elements of the packages are calculated) are based on those applying from July 2015. The value of taxable benefits is based on the actual values paid in FY15.

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

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

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

Dates of current contracts are summarised in the table below:

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

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

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

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

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

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

Remuneration Report

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

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

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

Recruitment Policy

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

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

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

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

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

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

Non-Executive Directors' letters of appointment

Non-Executive Directors serve under letters of appointment for periods of three years. The Non-Executive Directors (including the Chairman) have a notice period of three months but no liquidated damages are payable.

Fees are determined by the Executive Directors within the limits set by the Articles of Association, and are based on information on fees paid in similar companies and the skills and the expected time commitment of the individual concerned. Non-Executive Directors are not entitled to bonus payments or pension arrangements, nor do they participate in the Company's long-term incentive plans.

Details of their current three year appointments are as follows:

Name	Date of contract
J M B Gibson	1 April 2013
I Chippendale[1]	1 January 2013
S David	23 November 2013
B Mingay	1 January 2015
M Morris	27 February 2015

[1] Ian Chippendale stepped down on 31 March 2015.

Outside Appointments

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

Governance

Remuneration Report

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2015 Annual General Meeting.

Remuneration Committee Members

Ian Chippendale (Chairman and member until 31 March 2015)
Stella David (Chairman from 1 April 2015)
JM Barry Gibson
Mark Morris
Ben Mingay (joined the Committee on 1 April 2015)

All of the members are independent Non-Executive Directors. The Board determined that the Company Chairman, Barry Gibson, should remain a member of the Committee taking account of the fact that he was considered to be independent on appointment and also that, as a former Chairman of the Remuneration Committee, his knowledge of the development of the remuneration policy and practices at HomeServe is invaluable. He takes no part in discussions relating to his own remuneration.

Responsibilities

The primary responsibilities of the Committee are to:

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

In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and it periodically monitors both the policies of comparator companies and current market practice in order to ensure that the packages provided are sufficient to attract and retain Executive Directors of the necessary quality.

The Committee aims to develop and recommend remuneration strategies that drive performance and reward it appropriately. In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Code and the guidelines issued by institutions such as the Investment Association, ISS and the NAPF. The Committee operates under the delegated authority of the Board and its terms of reference are available on the website.

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

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

Advisers

During the year New Bridge Street ('NBS'), a firm of independent remuneration consultants, served as advisers to the Committee. The Company also instructed NBS to advise it on a limited number of remuneration matters concerning individuals below the Executive Committee during the year. Other than in relation to advice on remuneration, NBS has no other connections with the Company. NBS is a trading name of Aon Hewitt Ltd, the ultimate parent company of which is Aon plc. Aon Benfield (another Aon company) provided underwriting advice and services to the Company during the year and Aon UK Ltd is now the Group's insurance broker. The Remuneration Committee is comfortable that this does not present a conflict of interest as Aon Benfield, Aon UK and NBS operate entirely independently of one another. The fees paid to NBS during the year for services to the Committee were £56,000.

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

Remuneration Report

Remuneration for the year under review (Audited)

	Year	Salary and Fees £000	Taxable Benefits[2] £000	Pension[3] £000	Bonus £000	LTIP[4] £000	Other[5] £000	**Total 2015 £000**	Total 2014 £000
Executives									
R Harpin	2015	546	25	101	528	—	—	**1,200**	
	2014	536	26	110	536	—	—		1,208
M Bennett	2015	400	20	80	384	—	—	**884**	
	2014	381	21	75	366	—	—		843
J Ford	2015	314	18	63	312	—	—	**707**	
	2014	282	20	55	282	—	—		639
J King[1]	2015	—	—	—	—	—	—	**—**	
	2014	377	38	66	377	—	—		858
Non-Executives									
J M B Gibson	2015	230	—	—	—	—	—	**230**	
	2014	220	—	—	—	—	—		220
I Chippendale	2015	68	—	—	—	—	—	**68**	
	2014	64	—	—	—	—	—		64
S David	2015	50	—	—	—	—	—	**50**	
	2014	48	—	—	—	—	—		48
B Mingay	2015	50	—	—	—	—	—	**50**	
	2014	48	—	—	—	—	—		48
M Morris	2015	60	—	—	—	—	—	**60**	
	2014	58	—	—	—	—	—		58
Total 2015		**1,718**	**63**	**244**	**1,224**	**—**	**—**	**3,249**	
Total 2014		2,014	105	306	1,561	—	—		3,986

[1] Jonathan King stepped down from the Board on 31 March 2014.
[2] Benefits comprise company car, fuel allowance and medical insurance.
[3] Details of pension benefits and contributions may be found later on in the report.
[4] No LTIPs vested in either year as the performance conditions were not met.
[5] 'Other' would include the value of any sharesave options exercised. No such options were exercised in either year.

Details of variable pay earned in the year (Audited)

Annual Bonus

For FY15, the annual bonus was based on the following stretching targets:

Commercial objectives (40% of bonus)	Profit before tax (PBT)	The PBT objective for Richard Harpin and Johnathan Ford was based only on Group performance. For Martin Bennett, who had specific responsibility for the UK, the objective was based half on Group PBT and half on UK PBT The reported adjusted profit before tax for the Group was £85.4m and the reported adjusted profit before tax for the UK was £56.4m. These exceeded the stretch targets set. The stretch targets themselves have not been disclosed in this report as they are considered commercially sensitive by the Board, given the close link between performance targets and long-term strategy. However, the Committee will disclose targets when they are no longer deemed commercially sensitive.
	Core renewable customers	The objective for Richard Harpin and Johnathan Ford was based on Group performance. For Martin Bennett, the objective was based on UK performance. The Group target was to reach 6.3m core renewable customers. This was achieved. The UK target was to reach 2.1m core renewable customers. This was achieved.
Customer objectives (40% of bonus)	A reduction in customer complaints	The Group target (which applied to Richard Harpin and Johnathan Ford) was based on a weighted average reduction in complaints across the UK, US, France, Spain and Italy. The average reduction required was 6%, to 1.4%. An average overall reduction of 6% was achieved. A UK target applied to Martin Bennett. At the start of the year, complaints had been expected to increase as a result of increased activity, particularly in relation to service delivery in respect of gas related policies. In the event, complaints as a percentage of customers decreased. The target was 1.2%, while the actual result was 1.1% and therefore the target was achieved. In both cases, complaints were measured as a percentage of total customers.

Remuneration Report

	An increase in customer satisfaction	The Group target (which applied to Richard Harpin and Johnathan Ford) was based on a weighted average reduction in customer dissatisfaction across the UK, US, France, Spain and Italy. The target was to achieve a weighted average customer dissatisfaction score of 8.3% (FY14: 8.4%) and a score of 8.2% was achieved. The UK target (which applied to Martin Bennett) was to reduce the customer dissatisfaction to 6.1% (FY14: 6.4%). A score of 6% was achieved. Customer dissatisfaction is measured by an independent third party.
Personal objectives (20% of bonus)	Up to five stretching personal objectives	Personal objectives related to the functional or territorial responsibilities of the individual Executives. For the Chief Executive, these related to strategic development, innovation and talent management. All Executives achieved 80% of their personal objectives.

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

Following the strong performance of the business in the year and in particular, reflecting the return to profit growth, the following bonuses were payable:

Name	Bonus £	% of salary
R Harpin	528,000	96
M Bennett	384,000	96
J Ford	312,000	96

Long-term Incentive Plan

Details of the performance conditions for the 2011 and 2012 LTIP awards are set out below.

2011 awards (lapsed during FY15)

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

Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
50% TSR (underpinned by underlying financial performance)	3 years to 14 July 2014	TSR equal to the FTSE 250 index (25% vests)	TSR exceeds the index by an average of 15% p.a. (100% vests)	HomeServe TSR of -25.4% compared to Index TSR of 42%. Threshold performance not achieved	0% vesting
50% EPS	3 years to 31 March 2014	RPI + 4% (25% vests)	RPI + 10% (100% vests)	Average EPS growth for HomeServe of -9.4% p.a. Threshold performance not achieved.	0% vesting

The 2011 awards lapsed on 14 July 2014.

2012 awards (due to vest in FY16)

The 2012 LTIP awards were granted on 27 June 2012. The performance condition for these awards is as follows:

Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
TSR (underpinned by underlying financial performance)	3 years to 27 June 2015	TSR equal to the FTSE 250 index (25% vests)	TSR exceeds the index by an average of 15% p.a. (100% vests)	Performance period not yet ended	—

Based on performance to 31 March 2015, which is 97% above the FTSE 250 Index, the 2012 awards are likely to vest in full. The value of the awards on vesting will be included in remuneration for FY16.

Remuneration Report

Summary of outstanding awards (Audited)

LTIP

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

	31 March 2015	Awarded during year	Lapsed during year	Vested during year	31 March 2014	Date granted	Type of award
R Harpin	**—**	—	158,858	—	158,858	14.7.11	Performance
	—	—	154,213	—	154,213	14.7.11	Matching
	344,822	—	—	—	344,822	27.6.12	Performance
	163,563	—	—	—	163,563	27.6.12	Matching
	289,528	—	—	—	289,528	24.6.13	Performance
	282,464	—	—	—	282,464	24.6.13	Matching
	247,301	247,301	—	—	—	23.6.14	Performance
	247,298	247,298	—	—	—	23.6.14	Matching
M Bennett	**—**	—	101,393	—	101,393	14.7.11	Performance
	—	—	92,525	—	92,525	14.7.11	Matching
	293.448	—	—	—	293,448	27.6.12	Performance
	202,630	—	—	—	202,630	24.6.13	Matching
	192,038	—	—	—	192,038	24.6.13	Performance
	184,615	184,615	—	—	—	23.6.14	Performance
	175,958	175,958	—	—	—	23.6.14	Matching
J Ford	**152,310**		—	—	152,310	24.6.13	Performance
	75,457		—	—	75,457	24.6.13	Matching
	130,096	130,096	—	—	—	23.6.14	Performance
	130,094	130,094	—	—	—	23.6.14	Matching

The performance conditions are as follows:

- 2011 awards – 50% EPS (RPI + 4% to 10% p.a.) and 50% comparative TSR (FTSE 250 Index + 15% pa for maximum vesting)
- 2012, 2013 and 2014 awards – 100% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting).

Further details on awards granted in the year.

On 23 June 2014, the following performance and matching share awards were granted to the Executive Directors under the LTIP:

Performance share awards

	Date of grant	Number of shares	Share price used to determine awards	Award size (% salary)	Face value £	% that vests at threshold
R Harpin	23.6.14	247,301	£3.25	150%	803,728	25%
M Bennett	23.6.14	184,615	£3.25	150%	599,999	25%
J Ford	23.6.14	130,096	£3.25	150%	422,812	25%

Matching share awards

	Date of grant	Number of shares	Award Size	Number of shares subject to Matching Award	Share price used to determine awards	Face value £	% that vests at threshold
R Harpin	23.6.14	65,534	2:1 match	247,298	£3.25	803,719	25%
M Bennett	23.6.14	46,629	2:1 match	175,958	£3.25	571,864	25%
J Ford	23.6.14	34,475	2:1 match	130,094	£3.25	422,806	25%

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

DBP

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

Remuneration Report

ESOP

The ESOP was approved by shareholders in 2001. Options were granted on an annual basis and became exercisable between three and ten years from the date of grant subject to the achievement of stretching performance criteria based on EPS growth. The option price was the market price on the last dealing day prior to the date of grant. All outstanding options shown are fully vested.

	31 March 2015	Granted during year	Lapsed during year	Exercised during year	31 March 2014	Option price	Date granted
R Harpin	**—**	—	—	415,000	415,000	£1.322	27.5.04
	255,000	—	—	—	255,000	£1.922	28.6.05

Richard Harpin exercised an option over 415,000 shares on 21 May 2014. The share price on that day was £3.40.

Save as you earn (Sharesave) schemes

	31 March 2015	Granted during year	Lapsed during year	Exercised during year	31 March 2014	Option price	Date granted	Date exercisable from
R Harpin	**8,152**	—	—	—	8,152	£1.84	19.12.11	1.3.17
M Bennett	**8,152**	—	—	—	8,152	£1.84	19.12.11	1.3.17
J Ford	**4,591**	—	—	—	4,591	£1.96	17.12.12	1.3.16

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

Shareholding Guidelines (Audited)

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

If the holding guideline has not been fulfilled at the point of exercise of any option or the vesting of any other long-term incentive award, the Director must retain 50% of the net proceeds in the Company's shares until the holding requirement is achieved. Details of the current shareholdings of the Executive Directors are in the table below.

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

	No of shares owned		Other interests in shares				
	31 March 2015	31 March 2014	Outstanding LTIP Awards	Outstanding Share Options	**Total 31 March 2015**	Value of shares counting towards guideline holding (as a % of salary)[1]	Guideline met?
R Harpin[2]	40,412,474	40,346,940	1,574,976	520,147	**42,507,597**	28,112%	Yes
M Bennett	187,740	131,041	1,048,689	8,152	**1,244,581**	180%	Yes
J Ford	54,471	19,996	487,957	4,591	**547,019**	64%	No
J M B Gibson	75,000	75,000	—	—	**75,000**	n/a	—
I Chippendale	20,000	20,000	—	—	**20,000**	n/a	—
S David	17,688	17,688	—	—	**17,688**	n/a	—
B Mingay	20,000	20,000	—	—	**20,000**	n/a	—
M Morris	17,500	17,500	—	—	**17,500**	n/a	—

[1] Calculated using the share price on 31 March 2015 of £3.826 divided by the Executive's salary on that date.
[2] Includes an indirect interest of 28,500.

There were no changes in the Directors' interests in shares between 31 March and 19 May 2015.

The guideline holding for Executive Directors has been increased to two times salary for FY16 onwards.

Directors' pensions (Audited)

Members of the Water Companies Pension Scheme

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

	2015 £000	2014 £000
Accrued pension per annum at end of period[1]	**52**	50
Accrued lump sum at end of period[1]	**158**	150
Director's contributions in the period	**—**	—
Single figure of pension remuneration attributable to the Scheme[2]	**18**	31
Unapproved pension contributions paid as cash	**83**	79

[1] The accrued pension and lump sum figures are the leaving service benefits to which the Director would have been entitled had they left the Section at the relevant date.
[2] This is calculated as 20 times the increase in the accrued pension over the period after allowing for CPI inflation plus the increase in accrued lump sum (also after allowing for CPI inflation), less the contributions made by the Director over the period.

Governance

Remuneration Report

Members of the HomeServe Money Plan

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

	2015 £000	2014 £000
M Bennett	**26**	26
J Ford	**26**	26

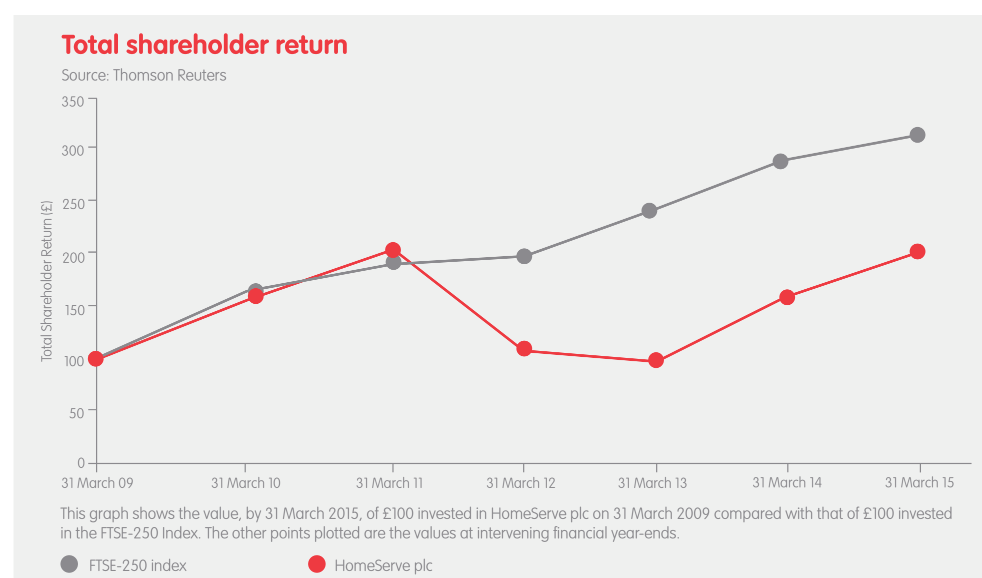
In addition, the following unapproved pension contributions were paid in respect of earnings in excess of the notional earnings cap:

	2015 £000	2014 £000
M Bennett[1]	**54**	49
J Ford[2]	**37**	30

[1] Martin Bennett chose to have his unapproved contributions paid partly into the Plan and partly as cash in both years.
[2] Johnathan Ford chose to take his unapproved contributions as cash in both years.

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-250 Index (also measured by TSR) for the five years ended 31 March 2015. This comparator has been chosen as it is a broad equity index of which the Company is a constituent and it is also the one used in assessing relative TSR performance under the LTIP.



This graph shows the value, by 31 March 2015, of £100 invested in HomeServe plc on 31 March 2009 compared with that of £100 invested in the FTSE-250 Index. The other points plotted are the values at intervening financial year-ends.

Chief Executive's remuneration

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

	2010	2011	2012	2013	2014	**2015**
Total remuneration (£000s)	1,030	953	559	953	1,208	**1,200**
Annual Bonus	100%	87%	0%	75%	100%	**96%**
LTIP awards vesting	21%[1]	51%[2]	60%	0%	0%	**0%**

[1] No LTIPs were due to vest in FY10. The ESOP awards granted in 2006 lapsed as the performance conditions were not met. Awards made under the Deferred Bonus Plan vested on the basis of 1.19 shares out of a maximum 3.
[2] No LTIPs were due to vest in FY11. The ESOP awards granted in 2007 lapsed as the performance conditions were not met. Awards made under the Deferred Bonus Plan vested on the basis of 2.48 shares out of a maximum 3.

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any pension, matching awards and performance awards receivable in the year) between FY14 and FY15 compared to the average for all employees of HomeServe plc.

	% Change from FY14 to FY15		
	Salary	Benefits	Annual Bonus
Chief Executive Officer	+2%	-4%	-1%
Average of other HomeServe plc employees	+6%	+9%	-2%

Relative importance of spend on pay

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

	FY14 £m	**FY15 £m**	% change
Staff costs	161.8	**163.2**	+1%
Dividends	36.7	**36.9**	+1%
Tax	14.4	**20.6**	+43%
Retained profits	10.0	**56.1**	+461%

£5.2m of the staff costs figures relate to pay for the Executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share based awards are accounted for.

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

Loss of Office Payments (Audited)

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

Remuneration Report

Application of the remuneration policy for FY16

Basic salary

Basic salary for each Executive Director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual. Salary levels are determined taking into account pay and employment conditions of employees elsewhere in the Company and market data on salary levels for similar positions at comparable companies in the FTSE 250.

Salaries are normally reviewed in July each year (unless responsibilities change). One final adjustment will be made to the base salary of Johnathan Ford to move his salary from £325,000 to £375,000. This is considered appropriate recognising his strong development in the role, as well as the broader range and strategic contribution of his role compared to many other Chief Financial Officer roles in similar businesses.

We believe that the salary levels for Executive Directors are now set at the correct position and any future increases will be in line with the average increase for the workforce, barring genuinely exceptional circumstances. Martin Bennett's salary will increase from £400,000 to £408,000 and Richard Harpin's salary will remain unchanged at £550,000.

The salaries for the Executive Directors effective from 1 July 2015 will therefore be as follows:

Name of Director	Salary as at 1 July 2014	Salary as at 1 July 2015	Increase %
R Harpin	£550,000	**£550,000**	0%
M Bennett	£400,000	**£408,000**	2%
J Ford	£325,000	**£375,000**	15%

Fees for the Chairman and Non-Executive Directors

As detailed in the remuneration policy, the Company aims to set remuneration for Non-Executive Directors at a level which is sufficient to attract and retain Non-Executive Directors of the right calibre. The fees paid to the Chairman and the Non-Executive Directors are reviewed periodically and were last reviewed during FY14.

Details of the current fees are detailed in the table below.

Chairman's fees	**£230,000**
Senior Independent Director additional fee	**£7,500**
Non-Executive Directors' base fee	**£50,000**
Chair of Remuneration or Audit Committee	**£10,000**

Annual bonus performance targets

The annual bonus plan for FY16 will operate on a similar basis to FY15 and is consistent with the policy detailed earlier in this report. New measures relating to net debt and employee engagement have been introduced for FY16.

The bonus measures will be as follows:

Commercial objectives (40% of bonus)	Customer objectives (40% of bonus)	Personal objectives (20% of bonus)
• Profit before tax (20%) • Core renewable customers (15%) • Net debt (5%)	• A reduction in customer complaints (15%) • A reduction in customer dissatisfaction/reduction in customer effort for the UK (15%) • Employee engagement (10%)	• Up to five stretching personal objectives

Stringent bonus gates will apply with the customer objectives being considered first. If an agreed percentage of the customer objectives is not achieved, no bonus will be payable. If customer objectives are achieved, the level of profit (and therefore affordability) will be considered. The commercial and customer objectives for Richard Harpin and Johnathan Ford will be based on Group performance. The commercial objectives for Martin Bennett will be based on Group and UK performance and the customer objectives will be based on UK performance. The Committee considers the forward looking performance targets to be commercially sensitive but more detailed disclosure will be provided in next year's remuneration report.

Long-term incentives

Grant level

The FY16 performance share awards will be over shares worth 200% of salary (in line with the policy maximum). This is higher than the grant level for FY15 (150% of salary) but is considered appropriate given the stretching performance conditions and the desire to kick-start the new five year strategic plan. Matching awards will also continue to be granted where executives choose to invest their bonus in shares under the LTIP. The performance condition for the matching awards will be the same as for the performance share awards.

Performance criteria

From 2008 until 2011 the performance criteria for long-term incentive awards was a mix of earnings per share and total shareholder return, with each condition applying to a separate 50% of an award. In 2011, during a period of uncertainty for the business, which made setting long-term EPS targets difficult, a decision was made to base the entire award on total shareholder return and this has been the policy applied to all awards since then.

Remuneration Report

Having reviewed the outlook for the business, which is now considered to be more stable, the Committee has considered the performance criteria and instead of the long-term incentive opportunity being solely based on TSR, it is proposed that an EPS performance condition should be re-introduced (alongside TSR).

The Committee believes that incentivising and rewarding Executive D irectors to continue to outperform the stock market is important and that, in the absence of a more bespoke peer group, the FTSE 250 Index remains the most appropriate benchmark. However, the Board has adopted a five year plan for growth and we believe that the focus of the long-term incentive should shift towards sustained long-term earnings growth of the business (alongside a focus on longer-term executive shareholding).

Accordingly, the mix will be 75% based on EPS and 25% based on TSR. The TSR performance condition will be the same as at present, with performance measured against the FTSE 250 Index, with 25% of an award vesting for TSR performance matching the Index, rising on a straight-line basis so that 100% of this part of the award vests for out-performance of the Index by 15% per annum.

The EPS target range will be set each year and will be tailored to the business plan over each three year performance period. We believe that this is an appropriate period over which to measure performance, as this will enable an accurately calibrated range to be set. However, a longer-term perspective than three years will be generated through a minimum holding period on awards or shares resulting from exercised awards.

Recognising the increasingly international range of our business operations, the inflationary outlook and taking into account the business plan (including the planned adjustments to the capital structure to achieve leverage in the range of 1-1.5x adjusted EBITDA), the EPS target range for the 2015 awards will require compound annual growth of 6% to 15% p.a. for between 25% and 100% of this part of the award to vest.

Holding period for vested shares

For FY16 awards onwards, there will be a requirement for a minimum period of five years from the date of grant of an award, before shares arising from the vesting of awards can be sold. So, to the extent nil cost options are exercised after the three year vesting point, but before five years, the net of tax value of the vested shares must continue to be held. The dividend roll-up on unexercised nil cost options will continue until five years from grant. This five year view will provide a longer-term perspective to the incentive programme than the three year performance period.

Clawback

The policy for recovery and withholding has been reviewed during the year in line with changes to the UK Corporate Governance Code and the Committee is comfortable that its approach is robust and workable if this provision ever needs to be operated.

Shareholding guidelines

The minimum required shareholding for each Executive Director will be increased from one times annual basic salary to two times. Executives will be required to retain no less than 50% of the net of tax value of shares from vested awards until this new threshold is exceeded. Shareholding guidelines at two times their fee will also apply to Non-Executive Directors.

All Employee Share Plans

We are seeking approval at the AGM to implement two new all-employee share plans - the UK Share Incentive Plan and the Global Share Incentive Plan. These new plans will provide a valuable incentive and benefit to employees, and will encourage wider employee share ownership and engagement across the Group.

Shareholder voting at the 2014 Annual General Meeting

At last year's Annual General Meeting held on 18 July 2014, the following votes from shareholders were received:

	Remuneration report		Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	206,628,148	94%	248,305,567	90%
Against	13,412,643	6%	26,039,848	10%
Total votes cast (for and against excluding withheld votes)	**220,040,791**	**100%**	**274,345,415**	**100%**
Votes withheld	54,812,044		517,996	
Total votes (including withheld votes)	**274,852,835**		**274,863,411**	

The Committee considered the feedback provided by shareholders in 2014 and that feedback has informed the changes made in respect of the two year holding period for shares vesting under the LTIP and the increase in the shareholding requirement to two times annual basic salary.

General

The market price of the Company's shares at 31 March 2015 was £3.826 (2014: £3.15). During the year the price ranged from £2.995 to £3.826.

The shares required for share options and awards under any of the long-term incentive schemes described above may be fulfilled by the purchase of shares in the market by the Company's Employee Benefit Trust (EBT). As beneficiaries under the EBT, the Directors are deemed to be interested in the shares held by the EBT which at 31 March 2015 amounted to 3,162,325 ordinary shares. Shares may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme (which are fully compliant with investor guidelines).

By Order of the Board

Stella David
Chairman of the Remuneration Committee
19 May 2015

Director's Report

Directors' Report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 March 2015. The Corporate Governance report forms part of this report. An indication of likely future developments is included in the strategic report. Information about the use of financial instruments by the Group is given in note 39 to the financial statements.

Dividends and Share Consolidation

The Directors are recommending the payment on 3 August 2015 of a final dividend of 7.87p per ordinary share to shareholders on the register at the close of business on 3 July 2015 which, together with the net interim dividend of 3.63p per ordinary share paid on 2 January 2015, results in a total net dividend for the year of 11.5p per share (2014: 11.3p).

In addition, the payment of a special dividend of 30 pence per ordinary share is being recommended. This will be paid on 24 July 2015 to shareholders on the register at the close of business on 17 July 2015. As is common when an amount representing a significant proportion of the market capitalisation of a company is returned to shareholders, the Board is recommending that the special dividend is combined with a share consolidation. The share consolidation is intended, so far as possible, to maintain the comparability of the Company's share price before and after the special dividend. Further details are contained in the notice of the Annual General Meeting.

Greenhouse Gas Emissions Reporting

	Global tonnes of CO2e 2015	Global tonnes of CO2e 2014
Combustion of fuel and operation of facilities	**6,815**	6,629
Electricity, heat, steam and cooling purchased for own use	**3,862**	4,521
Total	**10,677**	11,150
Tonnes of CO2e per thousand customers	**1.68**	2.02

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

Capital Structure

Details of the issued share capital, together with details of shares issued during the year, are set out in note 25. There is one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at a general meeting of the Company.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Subject to the Companies Act 2006 and any relevant authority of the Company in general meeting, the Company has authority to issue new shares.

The AGM held in 2014 authorised the Directors to allot shares in the capital of the Company within certain limited circumstances and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2015 AGM.

Authority to purchase shares

The Company was authorised at the 2014 AGM to purchase its own shares, within certain limits and as permitted by the Articles of Association. A renewal of this authority will be proposed at the 2015 AGM. No shares were purchased during the year and no shares are held in Treasury.

Significant agreements – change of control

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

Annual General Meeting

The 2015 Annual General Meeting of the Company is to be held on 17 July 2015. The notice of the meeting accompanies this report.

Director's Report

All Employee Share Plans
Resolutions will be proposed at the AGM seeking approval for the implementation of two new all employee share plans - the UK Share Incentive Plan and the Global Share Incentive Plan. Further details are provided in the notice of the meeting.

Disclosure of Information to Auditor
Each of the Directors confirms that:
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Resolutions proposing the reappointment of Deloitte LLP as auditor and authorising the Board to fix its remuneration will be put to the Annual General Meeting.

Fixed Assets
Capital expenditure on tangible fixed assets amounted to £5.8m (2014: £3.6m) during the year.

Substantial Shareholdings
As far as the Directors are aware, no person had a beneficial interest in 3% or more of the voting share capital at 31 March 2015, except for the following:

Name	As at 31 March 2015 Ordinary shares	%
Invesco Ltd	72,495,749	21.9
Richard Harpin [1]	40,412,474	12.2
Prudential plc	32,395,618	9.8
Marathon Asset Management Ltd	26,779,635	8.1
Woodford Investment Management LLP	16,560,085	5.0
FIL Ltd	16,553,171	5.0

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

During the period from 31 March 2015 and 19 May 2015, the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules.

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

By Order of the Board
Anna Maughan
Company Secretary
19 May 2015

Governance

Director's Responsibilities

Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements under International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRS as adopted by the European Union. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance and make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Responsibility Statement

We confirm to the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

By Order of the Board
Richard Harpin
Chief Executive Officer
19 May 2015

Johnathan Ford
Chief Financial Officer
19 May 2015

Annual Report & Accounts 2015

Independent Auditor's Report to the members of HomeServe plc

Opinion on financial statements of HomeServe plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 35 that the Group is a going concern. We confirm that:

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

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

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Regulatory risk	
As a home emergency and repair services provider, the Group operates within a regulated marketplace. Each component is subject to its own local country regulatory regime, resulting in varying degrees of regulatory complexity and oversight. Remediation activities in relation to the Financial Conduct Authority (FCA) investigation and fine into the UK businesses past practices are substantially complete. However, the Group is required to ensure that its sales and marketing, controls and governance and complaints handling processes are structured in a manner which is compliant with the local countries' regulatory regimes. To the extent this is not the case, the Group may be exposed to further regulatory censure. Further details of the regulatory risk are discussed in the Principal risks and uncertainties section of the Strategic report.	For each of the Group's four main components we have assessed the design and implementation of management's controls in place to monitor and respond to regulatory risks at a local level. As part of our assessment we have held discussions with senior individuals in the risk, compliance and legal functions of the Group as well as considering the frequency of reporting of regulatory risk to the Group Audit and Risk Committee. Where available, we have reviewed any regulatory correspondence between the component and local regulator. In the UK we have spoken directly with the FCA's supervisory team to obtain an independent view of the relationship with the FCA, as well as any immediate concerns that the FCA may have with the UK business.
Carrying value of goodwill and intangible assets	
The carrying value of goodwill and intangible assets is £403.1m (2014: £333.6m). The Group's assessment of the carrying value of goodwill and intangible assets is a judgemental process which requires estimates concerning the future cash flows of each cash generating unit and associated discount rates, growth rates, selling prices and direct costs based on management's view of future business prospects. There is a risk that the management information used to make these judgements is either incomplete or inaccurate, resulting in financial budgets and plans not appropriately predicting actual future cash flows. Further detail on the key judgements involved is set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 to the financial statements.	We challenged management's assessment of whether there are any impairment indicators by considering the performance of each cash generating unit, as well as any notable business developments during the year. We challenged management's key assumptions relating to the estimated future cash flows, growth rates, selling prices, direct costs and the discount rates applied to each cash generating unit. Our procedures included reviewing forecast cash flows with reference to historical trading performance, assessing the Group's ability to accurately forecast business performance, consideration of future prospects of the business and benchmarking assumptions such as the growth rate and discount rate to external macro-economic and market data. We have assessed the appropriateness of new costs capitalised by the Group during the year by considering whether the costs have met the recognition criteria of IAS 38: Intangible Assets.

Independent Auditor's Report to the members of HomeServe plc

Risk	How the scope of our audit responded to the risk
Revenue recognition	
The Group has recognised revenue of £584.2m during the year (2014: £568.8m).	We tested controls over the revenue recognition process within the UK business.
The recognition of revenue requires significant judgement by management to determine key assumptions, particularly regarding the timing of recognising revenue and the expected value of policy cancellations.	We performed testing around the cut off and timing of revenue recognition for policy income. This involved reviewing the trend of cancellations subsequent to the year end to assess whether revenue has been correctly recognised in the year.
Further detail on the Group's revenue recognition policy is set out within the significant accounting policies in note 2 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 to the financial statements.	We assessed the Group's policy for recognising revenue, including considering whether the policy is in accordance with current accounting standards. We also challenged and tested the methodology used for calculating expected policy cancellations by comparing the inputs and assumptions used by reference to the cancellation rates experienced by the Group.

Last year our report included a risk in relation to the provision for FCA remediation activities, FCA investigation and fine. As these remediation activities are substantially complete, we have broadened the definition of this risk to consider any residual issues across the Group as part of the regulatory risk discussed above.

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 59 and 60.

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

Our application of materiality

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

We determined materiality for the Group to be £5.4m (2014: £5.4m), which is based on 7.5% (2014: 7.5%) of profit before tax and exceptional items. The exceptional items are described in note 6 and their exclusion is consistent with the Group's internal and external reporting to facilitate a better understanding of the underlying trading performance.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £100,000 (2014: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focused our Group audit scope primarily on the audit work at the following components:

- UK
- USA
- France, and
- Spain.

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

The UK, USA, France and Spain components account for 97.7% (2014: 97.5%) of the Group's revenue and 100% (2014: 100%) of the Group's profit before tax from profit-making components (there was a loss for the year in the New Markets segment which is not subject to a full audit). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the four components was executed at levels of component materiality applicable to each individual entity which were lower than Group materiality and ranged from £4.1m to £2.7m (2014: £4.1m to £1.4m).

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

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits the USA, France and Spain at least once every two years and the UK at least once a year. In years when we do not visit a significant component we will include the component audit team in discussions about the risk assessment, participate in their audit close meetings and review documentation of the findings from their work.

Independent Auditor's Report to the members of HomeServe plc

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

Corporate Governance Statement

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

Our duty to read other information in the annual report

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

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

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matthew Perkins
Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
19 May 2015

Group income statement

Year ended 31 March 2015

	Notes	2015 £m	2014 £m
Continuing operations			
Revenue	4	**584.2**	568.3
Operating costs	7	**(505.1)**	(541.1)
Operating profit		**79.1**	27.2
Investment income	9	**0.2**	0.5
Finance costs	10	**(2.6)**	(3.3)
Profit before tax, exceptional items and amortisation of acquisition intangibles		**85.4**	84.1
Exceptional items	6	**1.7**	(46.7)
Amortisation of acquisition intangibles	7	**(10.4)**	(13.0)
Profit before tax		**76.7**	24.4
Tax	11	**(20.6)**	(14.4)
Profit for the year, being attributable to equity holders of the parent		**56.1**	10.0
Dividends per share, paid and proposed	12	**11.5p**	11.3p
Special dividend per share proposed		**30.0p**	—
Earnings per share			
Basic	13	**17.2p**	3.1p
Diluted	13	**16.8p**	3.0p

Group statement of comprehensive income

Year ended 31 March 2015

	Notes	2015 £m	2014 £m
Profit for the year		**56.1**	10.0
Items that will not be classified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	37	**(2.1)**	0.3
Tax credit/(charge) relating to components of other comprehensive income	21	**0.4**	(0.1)
		(1.7)	0.2
Items that may be reclassified subsequently to profit and loss:			
Exchange movements on translation of foreign operations	31	**(11.6)**	(2.2)
		(11.6)	(2.2)
Total comprehensive income for the year		**42.8**	8.0

Financial Statements

Group balance sheet

31 March 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	14	**236.6**	246.3
Other intangible assets	15	**166.5**	156.9
Property, plant and equipment	16	**31.3**	30.0
Investments	17	**4.4**	—
Deferred tax assets	21	**9.5**	7.2
Retirement benefit assets	37	**0.1**	1.2
		448.4	441.6
Current assets			
Inventories	18	**0.8**	0.7
Trade and other receivables	19	**318.8**	290.6
Cash and cash equivalents	19	**74.7**	96.2
		394.3	387.5
Total assets		**842.7**	829.1
Current liabilities			
Trade and other payables	22	**(308.2)**	(297.2)
Current tax liabilities		**(7.1)**	(7.9)
Provisions	24	**—**	(7.7)
Obligations under finance leases	35	**(0.6)**	(0.5)
		(315.9)	(313.3)
Net current assets		**78.4**	74.2
Non-current liabilities			
Bank and other loans	20	**(137.6)**	(137.1)
Other financial liabilities	23	**(2.1)**	(2.7)
Deferred tax liabilities	21	**(18.0)**	(22.2)
Obligations under finance leases	35	**(0.6)**	(0.9)
		(158.3)	(162.9)
Total liabilities		**(474.2)**	(476.2)
Net assets		**368.5**	352.9
Equity			
Share capital	25	**8.3**	8.3
Share premium account	26	**40.5**	38.6
Merger reserve	27	**71.0**	71.0
Own shares reserve	28	**(11.1)**	(15.9)
Share incentive reserve	29	**15.7**	14.4
Capital redemption reserve	30	**1.2**	1.2
Currency translation reserve	31	**(9.3)**	2.3
Retained earnings		**252.2**	233.0
Total equity		**368.5**	352.9

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2015. They were signed on its behalf by:

Johnathan Ford
Chief Financial Officer
19 May 2015

Group statement of changes in equity

Year ended 31 March 2015

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Currency translation reserve £m	Retained earnings £m	**Total equity £m**
Balance at 1 April 2014	8.3	38.6	71.0	(15.9)	14.4	1.2	2.3	233.0	**352.9**
Total comprehensive income	—	—	—	—	—	—	(11.6)	54.4	**42.8**
Dividends paid	—	—	—	—	—	—	—	(36.9)	**(36.9)**
Issue of share capital	—	1.9	—	—	—	—	—	—	**1.9**
Issue of trust shares	—	—	—	4.8	—	—	—	(2.9)	**1.9**
Share-based payments	—	—	—	—	4.2	—	—	—	**4.2**
Share options exercised	—	—	—	—	(2.9)	—	—	2.9	**—**
Tax on exercised share options	—	—	—	—	—	—	—	1.2	**1.2**
Deferred tax on share options	—	—	—	—	—	—	—	0.5	**0.5**
Balance at 31 March 2015	**8.3**	**40.5**	**71.0**	**(11.1)**	**15.7**	**1.2**	**(9.3)**	**252.2**	**368.5**

Year ended 31 March 2014

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Currency translation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2013	8.2	38.3	71.0	(17.7)	11.1	1.2	4.5	258.6	375.2
Total comprehensive income	—	—	—	—	—	—	(2.2)	10.2	8.0
Dividends paid	—	—	—	—	—	—	—	(36.7)	(36.7)
Issue of share capital	0.1	0.3	—	—	—	—	—	—	0.4
Issue of trust shares	—	—	—	1.8	—	—	—	(1.1)	0.7
Share-based payments	—	—	—	—	4.1	—	—	—	4.1
Share options exercised	—	—	—	—	(0.8)	—	—	0.8	—
Tax on exercised share options	—	—	—	—	—	—	—	0.4	0.4
Deferred tax on share options	—	—	—	—	—	—	—	0.8	0.8
Balance at 31 March 2014	8.3	38.6	71.0	(15.9)	14.4	1.2	2.3	233.0	352.9

Group cash flow statement

Year ended 31 March 2015

	Notes	2015 £m	2014 £m
Net cash inflow from operating activities	33	**67.4**	67.0
Investing activities			
Interest received		**0.3**	0.5
Purchases of intangible assets		**(46.9)**	(30.2)
Purchases of property, plant and equipment		**(5.9)**	(3.4)
Acquisition of available for sale investments	17	**(4.8)**	—
Net cash outflow on acquisitions	32	**(1.1)**	(2.4)
Net cash used in investing activities		**(58.4)**	(35.5)
Financing activities			
Dividends paid	12	**(36.9)**	(36.7)
Repayment of finance leases		**(0.3)**	(0.4)
Issue of shares from the employee benefit trust		**1.9**	0.7
Proceeds on issue of share capital	25	**1.9**	0.4
Increase in bank and other loans	20	**3.4**	13.1
Net cash used in financing activities		**(30.0)**	(22.9)
Net (decrease)/increase in cash and cash equivalents		**(21.0)**	8.6
Cash and cash equivalents at beginning of year		**96.2**	88.6
Effect of foreign exchange rate changes		**(0.5)**	(1.0)
Cash and cash equivalents at end of year		**74.7**	96.2

Notes to financial statements

Year ended 31 March 2015

1. General information

HomeServe plc is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Cable Drive, Walsall, WS2 7BN.

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

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period as explained in note 39 below.

Adoption of new or revised standards and accounting policies

The following accounting standards have been adopted in the year:

Amendments to IAS32	Offsetting financial assets and liabilities
Amendments to IAS36	Impairment disclosures
Amendments to IAS39	Novation of derivatives and continuation of hedge accounting

The adoption of these standards has not had any significant impact on the amounts reported in these financial statements

Standards in issue but not yet effective

At the date of authorisation of these financial statements the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (not all of which have been endorsed by the EU):

IFRS9	Financial Instruments
IFRS14	Regulatory Deferral Accounts
IFRS15	Revenue from Contracts with Customers
Amendment to IAS19	Defined Benefit Plans: Employee Contributions
IFRIC21	Levies
Amendments to IAS27	Equity method in Separate Financial Statements
Amendments to IAS16 & IAS41	Agriculture: Bearer Plants
Amendments to IAS16 & IAS38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRS11	Accounting for Acquisitions of Interest in Joint Operations
Improvements to IFRSs (2013)	
Improvements to IFRSs (2014)	

Notes to financial statements

Year ended 31 March 2015

2. Significant accounting policies (continued)

Standards in issue but not yet effective (continued)

The implementation of IFRS9 will impact both the measurement and disclosures of Financial Instruments. The Directors do not expect that the adoption of the other Standards and Interpretations listed above will have a material impact on the financial statements of the Group in the future years.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report.

The Directors have reviewed the Group's budgets, forecasts, cash flows and established that the businesses are progressing in line with their expectations for growth in 2016. As a result the Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, is exposed or has rights to variable return from its involvement with the investee, and has the ability to use its power to affect its returns.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period (see below) adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Any adjustments to contingent consideration for acquisitions made prior to 31 March 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS3 (2004) and IAS27 (2005).

Goodwill

Goodwill arising in a business combination is recognised at cost as an asset at the date control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment annually or more frequently if there is an indication that it may be impaired.

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

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

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.

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Year ended 31 March 2015

2. Significant accounting policies (continued)

Revenue recognition

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

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

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

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

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

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

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

Marketing expenses

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

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

Leasing

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

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

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

Foreign currencies

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

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Year ended 31 March 2015

2. Significant accounting policies (continued)

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

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

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

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

Operating profit
Operating profit is stated after charging all operating costs, but before investment income and finance costs.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses and the return on scheme assets (excluding interest) are recognised in full in the year in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income. Remeasurement recorded in the statement of comprehensive income is not recycled.

Past service cost is recognised immediately to the extent that the benefits are already vested, and is otherwise amortised on a straight-line basis over the average period until the benefits become vested. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

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

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

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

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

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

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

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

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

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Year ended 31 March 2015

2. Significant accounting policies (continued)

Property, plant and equipment

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

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

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

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

Intangible assets

Acquisition intangible assets

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

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

Other intangible assets

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

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

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

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

Investments

At each balance sheet date the Group conducts a fair value assessment of its investments, the difference between the fair value and carrying value is charged to the Statement of Comprehensive Income.

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.

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Year ended 31 March 2015

2. Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is measured on a first-in, first-out (FIFO) basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are classified either 'at fair value through profit or loss (FVTPL)' or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Borrowings

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

Trade payables

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

Equity instruments

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

Provisions

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

Share-based payments

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

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

Own shares reserve

Shares of the parent Company that are purchased by the HomeServe plc Employee Benefit Trust are held at cost and shown as a deduction in equity. Cost comprises consideration paid, including directly attributable costs. The shares are held to satisfy obligations under the Group's equity settled share based payment schemes.

Exceptional items

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

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Year ended 31 March 2015

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Revenue recognition

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

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

Valuation of acquisition intangible assets

Acquisitions may result in acquired access rights and acquired customer databases being recognised as intangible assets. These are valued using the excess earnings method. In applying this methodology certain key judgements and estimates are required to be made in respect of future cash flows together with an appropriate discount factor for the purpose of determining the present value of those cash flows.

Impairment of goodwill and acquisition intangible assets

The annual impairment assessment in respect of goodwill and acquisition intangibles requires estimates of the value in use (or fair value less costs to sell) of cash-generating units to which goodwill and acquisition intangibles have been allocated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The carrying value of goodwill is £236.6m (2014: £246.3m). The carrying value of acquisition intangibles is £70.9m (2014: £87.3m). Following the annual impairment review, no impairment charge has been recorded against goodwill or acquisition intangibles.

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

4. Revenue

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

	2015 £m	2014 £m
Provision of services	**584.2**	568.3
Investment income (note 9)	**0.2**	0.5
	584.4	568.8

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5. Business and geographical segments

Segment revenues and results

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

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

The accounting policies of the operating segments are the same as those described in Significant Accounting Policies. Group cost allocations are deducted in arriving at segmental operating profit. Inter-segment revenue is charged at prevailing market prices.

2015	UK £m	USA £m	France £m	Spain £m	New Markets £m	Total £m
Revenue						
Total revenue	**285.5**	**125.3**	**74.9**	**90.9**	**13.8**	**590.4**
Inter-segment	**(5.9)**	**—**	**—**	**—**	**(0.3)**	**(6.2)**
External revenue	**279.6**	**125.3**	**74.9**	**90.9**	**13.5**	**584.2**
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles and exceptional items	**56.4**	**6.4**	**23.4**	**7.5**	**(5.9)**	**87.8**
Exceptional items	**1.7**	**—**	**—**	**—**	**—**	**1.7**
Amortisation of acquisition intangibles	**(0.4)**	**(4.1)**	**(5.6)**	**(0.3)**	**—**	**(10.4)**
Operating profit/(loss)	**57.7**	**2.3**	**17.8**	**7.2**	**(5.9)**	**79.1**
Investment income						**0.2**
Finance costs						**(2.6)**
Profit before tax						**76.7**
Tax						**(20.6)**
Profit for the year						**56.1**

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

Segment information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
UK	**419.4**	419.3	**176.7**	216.6	**30.9**	14.8	**11.1**	11.9
USA	**137.7**	110.1	**127.5**	100.7	**3.8**	5.8	**7.1**	7.2
France	**185.7**	211.3	**63.2**	69.4	**0.6**	0.5	**6.5**	6.9
Spain	**90.4**	77.3	**77.5**	66.3	**15.1**	23.3	**7.1**	6.8
New Markets	**9.5**	11.1	**29.3**	23.2	**0.9**	—	**0.2**	0.2
Total	**842.7**	829.1	**474.2**	476.2	**51.3**	44.4	**32.0**	33.0

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

Revenue from major products and services

	2015 £m	2014 £m
Sale of home assistance and emergency policies	**436.8**	433.9
Provision of repair services	**147.4**	134.4
Consolidated revenue (excluding investment revenue)	**584.2**	568.3

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Year ended 31 March 2015

5. Business and geographical segments (continued)

Geographical information

The Group operates in three principal geographical areas – UK, Continental Europe and the USA.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding deferred tax and retirement benefit assets) by geographical location is detailed below:

	Revenue from external customers		Non-current assets	
	2015 £m	2014 £m	**2015 £m**	2014 £m
UK	**281.6**	283.1	**241.1**	216.3
USA	**125.3**	110.9	**33.7**	33.5
Continental Europe	**177.3**	174.3	**164.0**	183.4
	584.2	568.3	**438.8**	433.2

UK includes the established UK business along with an element of New Markets that operates in the UK.

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

Information about major customers

The Group earned more than 10% of its revenue from Inter Partner Assistance S.A., the principal underwriting partner for its UK business. The UK invoiced £60.2m (2014: £56.1m) in respect of repair services performed on policy claims, including both employed and sub-contract engineers.

6. Exceptional items

Exceptional items amounted to a net income of £1.7m in the year, of which £2.9m relates to the reimbursement of certain costs by our insurers associated with historical UK matters and £1.7m relates to the release of surplus provisions originally created in 2012 and 2014. These were partially offset by the cost of a transaction the Group decided not to pursue. In the prior year, exceptional expenditure of £46.7m was incurred which related to costs associated with the FCA investigation of the UK business, the UK customer re-contact exercise and the FCA penalty.

7. Profit for the year

Profit for the year has been arrived at after charging/crediting:

	2015 £m	2014 £m
Included in operating costs:		
Staff costs	**163.2**	161.8
Cost of inventories recognised as an expense	**8.1**	6.3
Depreciation of property, plant and equipment	**4.6**	4.9
Amortisation of acquisition intangible assets	**10.4**	13.0
Amortisation of other intangibles	**17.0**	15.1
Other impairment loss recognised on trade receivables	**1.9**	1.5
Exceptional operating items	**(1.7)**	46.7

The analysis of auditor's remuneration is as follows:

	2015 £000	2014 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**53**	55
The audit of the Company's subsidiaries pursuant to legislation	**358**	220
Total audit fees	**411**	275
Audit-related assurance services	**39**	45
Tax compliance services	**130**	30
Tax advisory services	**251**	110
Other services	**—**	36
Total non-audit fees	**420**	221

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. During the year Deloitte LLP have been appointed as auditor to HomeServe USA where they will also provide support in connection with the company's tax compliance matters.

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Year ended 31 March 2015

7. Profit for the year (continued)

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

Audit-related assurance services include fees in respect of the half year review of £39,000 (2014: £45,000).

The other services during the prior year comprised training, technical consultations.

8. Staff costs

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

	2015 number	2014 number
UK	**2,088**	2,149
Continental Europe	**1,088**	1,028
USA	**654**	626
	3,830	3,803

	2015 £m	2014 £m
Their aggregate remuneration comprised:		
Wages and salaries	**140.0**	137.5
Social security costs	**20.7**	21.4
Other pension costs (note 37)	**2.5**	2.9
	163.2	161.8

9. Investment income

	2015 £m	2014 £m
Interest on bank deposits	**0.2**	0.5

10. Finance costs

	2015 £m	2014 £m
Interest on revolving credit facilities	**2.5**	3.3
Unwinding of discount on deferred and contingent consideration	**0.2**	0.4
Exchange movements	**(0.1)**	(0.4)
	2.6	3.3

11. Tax

	2015 £m	2014 £m
Current tax		
– Current year	**24.9**	20.4
– Adjustments in respect of prior years	**(1.3)**	(0.2)
Total current tax charge	**23.6**	20.2
Deferred tax (note 21)	**(3.0)**	(5.8)
Total tax charge	**20.6**	14.4

UK corporation tax is calculated at 21% (2014: 23%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2015 £m	2014 £m
Profit before tax on continuing operations	**76.7**	24.4
Tax at the UK corporation tax rate of 21% (2014: 23%)	**16.1**	5.6
Tax effect of expenses that are not deductible in determining taxable profit	**1.6**	7.1
Adjustments in respect of prior years – current tax	**(1.3)**	(0.3)
Overseas tax rate differences	**3.0**	2.2
Decrease/(increase) in estimate of deferred tax asset	**1.4**	(0.8)
Effect of overseas losses	**0.5**	1.0
Deferred tax rate adjustment	**—**	0.2
Utilisation of losses not previously recognised	**(0.7)**	(0.6)
Tax expense for the year	**20.6**	14.4

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11. Tax (continued)

In addition to the amount charged to the income statement, a deferred tax credit relating to retirement benefit obligations amounting to £0.4m (2014: £0.1m charge) has been recognised directly in other comprehensive income. In addition to the amounts charged/credited to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2015 £m	2014 £m
Current tax		
Excess tax deductions related to share-based payments on exercised options	**1.2**	0.4
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**0.5**	0.8
Total tax recognised directly in equity	**1.7**	1.2

The UK corporation tax rate reduced from 23% to 21% with effect from 1 April 2014. A further tax rate reduction to 20% was substantively enacted on 2 July 2013 with effect from 1 April 2015. The rate of 20% is used for the calculation of the UK deferred tax position as at 31 March 2015.

12. Dividends

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2014 of 7.67p (2013: 7.67p) per share	**25.1**	24.9
Interim dividend for the year ended 31 March 2015 of 3.63p (2014: 3.63p) per share	**11.8**	11.8
	36.9	36.7

The proposed final dividend for the year ended 31 March 2015 of 7.87p per share amounting to £25.7m (2014: 7.67p per share amounting to £25.1m) will be paid on 3 August 2015 to the shareholders on the register at the close of business on 3 July 2015. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The proposed special dividend of 30p per share referenced in the Strategic Report has not been included as a liability in these financial statements as it was not proposed by the Directors at 31 March 2015.

13. Earnings per share

	2015 pence	2014 pence
Basic	**17.2**	3.1
Diluted	**16.8**	3.0
Adjusted basic	**19.0**	18.6
Adjusted diluted	**18.6**	18.2

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

Number of shares	2015 m	2014 m
Weighted average number of shares		
Basic	**326.7**	325.0
Dilutive impact of share options	**7.1**	6.9
Diluted	**333.8**	331.9

Earnings	2015 £m	2014 £m
Profit for the year	**56.1**	10.0
Exceptional items (note 6)	**(1.7)**	46.7
Amortisation of acquisition intangibles	**10.4**	13.0
Tax impact arising on amortisation of acquisition intangibles and exceptional items	**(2.6)**	(9.2)
Adjusted profit for the year	**62.2**	60.5

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

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14. Goodwill

	£m
Cost	
At 1 April 2013	292.7
Derecognised on disposal of subsidiary	(14.2)
Exchange movements	(2.4)
At 1 April 2014	276.1
Derecognised on liquidation of subsidiaries	(29.8)
Exchange movements	(9.7)
At 31 March 2015	**236.6**
Accumulated impairment losses	
At 1 April 2013	44.3
Impairments - SFG	(14.2)
Derecognised on disposal of subsidiary	(0.3)
At 1 April 2014	29.8
Derecognised on liquidation of subsidiaries	(29.8)
31 March 2015	**—**
Carrying amount	
At 31 March 2015	**236.6**
At 31 March 2014	246.3

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

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

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

- UK 8.6% (2014: 10.8%)
- USA 11.8% (2014: 14.5%)
- France 8.6% (2014: 12.2%)
- Spain 8.9% (2014: 13.2%)

Pre-tax rates used have reduced from 2014 due to reduced Libor rates and a reduction in margins on floating rates. Beta factors have also reduced following strong business performance across the group.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value, which also reflects the different risk profile of each CGU. The Group believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying amount of goodwill exceeding the recoverable amount. This view is based upon inherently judgmental assumptions, however, it takes account of the headroom in the value in use calculation versus the current carrying value.

The carrying amount of goodwill has been allocated as follows:

	2015 £m	2014 £m
UK	**154.7**	154.7
USA	**4.5**	4.0
France	**65.9**	74.5
Spain	**11.5**	13.1
	236.6	246.3

The Group's CGU's does not have any intangible assets with indefinite useful economic lives. The long-term growth rates are 2% (2014: 2%).

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15. Other intangible assets

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

	Acquired access rights £m	Acquired customer databases £m	**Total acquisition intangibles £m**	Trademarks & access rights £m	Customer databases £m	Software £m	**Total intangibles £m**
Cost							
At 1 April 2013	55.8	111.5	**167.3**	26.3	4.6	46.1	**244.3**
Additions	—	—	**—**	2.3	22.2	16.3	**40.8**
Acquisitions	0.2	—	**0.2**	—	—	—	**0.2**
Disposals	(28.1)	—	**(28.1)**	—	—	(2.4)	**(30.5)**
Exchange movements	(1.2)	(4.2)	**(5.4)**	(0.3)	(0.5)	(0.5)	**(6.7)**
At 1 April 2014	26.7	107.3	**134.0**	28.3	26.3	59.5	**248.1**
Additions	0.1	0.1	**0.2**	1.1	13.4	30.8	**45.5**
Exchange movements	(1.3)	(5.4)	**(6.7)**	0.8	(4.1)	0.3	**(9.7)**
At 31 March 2015	**25.5**	**102.0**	**127.5**	**30.2**	**35.6**	**90.6**	**283.9**
Accumulated amortisation and impairment							
At 1 April 2013	39.5	24.5	**64.0**	7.4	0.2	23.9	**95.5**
Charge for the year	2.5	10.5	**13.0**	4.0	4.2	6.9	**28.1**
Disposals	(28.1)	—	**(28.1)**	—	—	(1.8)	**(29.9)**
Exchange movements	(0.6)	(1.6)	**(2.2)**	(0.3)	—	—	**(2.5)**
At 1 April 2014	13.3	33.4	**46.7**	11.1	4.4	29.0	**91.2**
Charge for the year	2.4	8.0	**10.4**	3.7	5.9	7.4	**27.4**
Exchange movements	(0.6)	0.1	**(0.5)**	0.4	(0.9)	(0.2)	**(1.2)**
At 31 March 2015	**15.1**	**41.5**	**56.6**	**15.2**	**9.4**	**36.2**	**117.4**
Carrying amount							
At 31 March 2015	**10.4**	**60.5**	**70.9**	**15.0**	**26.2**	**54.4**	**166.5**
At 31 March 2014	13.4	73.9	87.3	17.2	21.9	30.5	156.9

16. Property, plant and equipment

	Land & buildings £m	Furniture, fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	**Total £m**
Cost					
At 1 April 2013	30.4	6.1	17.6	2.8	**56.9**
Additions	1.1	1.2	1.1	0.2	**3.6**
Disposals	(1.0)	(0.6)	(6.9)	(0.1)	**(8.6)**
Exchange movements	(0.2)	(0.2)	(0.2)	(0.1)	**(0.7)**
At 1 April 2014	30.3	6.5	11.6	2.8	**51.2**
Additions	0.6	1.1	3.5	0.6	**5.8**
Disposals	(0.2)	(0.1)	(0.5)	(0.1)	**(0.9)**
Exchange movements	—	—	0.3	0.3	**0.6**
At 31 March 2015	**30.7**	**7.5**	**14.9**	**3.6**	**56.7**
Accumulated depreciation and impairment					
At 1 April 2013	7.9	3.1	12.0	0.6	**23.6**
Charge for the year	1.5	1.0	2.0	0.4	**4.9**
Disposals	(0.7)	(0.5)	(5.9)	—	**(7.1)**
Exchange movements	—	—	(0.1)	(0.1)	**(0.2)**
At 1 April 2014	8.7	3.6	8.0	0.9	**21.2**
Charge for the year	1.5	0.9	1.7	0.5	**4.6**
Disposals	(0.2)	—	(0.5)	—	**(0.7)**
Exchange movements	—	0.1	0.1	0.1	**0.3**
At 31 March 2015	**10.0**	**4.6**	**9.3**	**1.5**	**25.4**
Carrying amount					
At 31 March 2015	**20.7**	**2.9**	**5.6**	**2.1**	**31.3**
At 31 March 2014	21.6	2.9	3.6	1.9	30.0

The carrying amount of the Group's property, plant and equipment includes an amount of £1.7m (2014: £1.7m) in respect of assets held under finance leases.

At the balance sheet date, there are no contractual commitments for the purchase of property, plant and equipment (2014: £nil).

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17. Subsidiaries & investments

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.

Other investments

	2015 £m	2014 £m
Available for sale investments carried at fair value	**4.4**	—

On 4 July 2014, HomeServe entered into an equity partnership investment agreement with a manufacturer of smart meter connected home technology. The fair value of this investment has been assessed at 31 March 2015.

18. Inventories

	2015 £m	2014 £m
Consumables	**0.8**	0.7

19. Other financial assets

Trade and other receivables

	2015 £m	2014 £m
Amounts receivable for the provision of services	**220.3**	210.0
Other receivables	**82.4**	70.1
Prepayments and accrued income	**16.1**	10.5
	318.8	290.6

Trade receivables

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

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £6.3m (2014: £4.3m) which are past due at the reporting date but for which the Group has not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 28 days (2014: 29 days). Trade debtors to be received from customers relating to instalments of policy premiums that are not yet due have been excluded from the average age calculation.

Ageing of past due but not impaired receivables:

	2015 £m	2014 £m
1 - 30 days	**4.5**	2.9
31 - 60 days	**1.8**	1.4
61 - 90 days	**—**	—
91 days +	**—**	—
Balance at 31 March past due but not impaired	**6.3**	4.3
Current/not yet due	**214.0**	205.7
Balance at 31 March	**220.3**	210.0

Movement in the allowance for doubtful debts:

	2015 £m	2014 £m
At 1 April	**3.5**	2.4
Impairment losses recognised	**1.9**	1.5
Amounts written off as uncollectable	**(3.6)**	(0.2)
Disposals	**—**	(0.1)
Exchange movements	**—**	(0.1)
Balance at 31 March	**1.8**	3.5

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

Ageing of impaired trade receivables:

	2015 £m	2014 £m
1 - 30 days	**—**	—
31 - 60 days	**—**	—
61 - 90 days	**—**	0.7
91 days +	**1.5**	2.5
Current/not yet due	**0.3**	0.3
	1.8	3.5

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

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19. Other financial assets (continued)

Other receivables

The Group serves as an intermediary, whereby it is responsible for the collection of cash on behalf of third parties. Other receivables mainly represent those amounts to be collected from policyholders, and are remitted to third parties for obligations such as the cost of underwriting and Insurance Premium Tax. The concentration of credit risk is limited due to individual receivables being small and spread across a diverse policyholder base. In addition, overall balance sheet exposure is mitigated as defaults on these receivables can, in the most part, be offset against the corresponding payable included in 'Other creditors'.

Cash balances and cash equivalents

Cash balances and cash equivalents of £74.7m (2014: £96.2m) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

20. Bank and other loans

	2015 £m	2014 £m
US dollar denominated	**49.3**	44.5
Euro denominated	**88.3**	92.6
Due after one year	**137.6**	137.1

The US dollar and euro denominated borrowings are used to provide debt funding to the USA and Continental European operations respectively. The revolving credit facility borrowings of £135.6m (2014: £135.3m) are drawn in the UK and passed to the overseas subsidiaries of the Group by way of intercompany loans, denominated in the same currencies. These external borrowings and the equivalent intercompany receivable loans are treated as monetary liabilities and assets respectively and, as such, the Group's foreign currency exposure risk is minimised.

	2015 %	2014 %
The weighted average interest rates paid were as follows:		
Revolving credit facilities	**1.7**	1.8

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

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

The Group has a £300m revolving credit facility with five banks. This facility was taken out on 31 July 2014 and has a term of five years. This provides the Group with sufficient funding to support its strategic objectives.

The financial covenants associated with the credit facilities are 'net debt to EBITDA of less than 3.0 times' (2014: 3.0 times) and 'interest cover greater than 4.0 times EBITDA' (2014: 4.0 times). The Group has complied with all covenant requirements in the current and prior year.

The Group's principal borrowings are currently at floating rates at margins of 0.9% (2014: 1%) above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk.

At 31 March 2015, the Group had available £164.4m (2014: £114.7m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Information about liquidity risk is presented in note 39.

21. Deferred tax

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

Asset/(liability)	Timing differences £m	Elected goodwill deductions £m	Retirement benefit obligations £m	Share schemes £m	Acquired intangible assets £m	Unutilised losses £m	Acquired property £m	**Total £m**
At 1 April 2013	0.8	(0.1)	—	0.7	(26.3)	3.7	(0.5)	**(21.7)**
(Charge)/credit to Income	4.8	(0.1)	(0.1)	1.4	2.8	(3.0)	—	**5.8**
Credit to equity	—	—	—	0.8	—	—	—	**0.8**
Charge to Comprehensive Income	—	—	(0.1)	—	—	—	—	**(0.1)**
Exchange movements	—	—	—	—	0.4	(0.2)	—	**0.2**
At 1 April 2014	5.6	(0.2)	(0.2)	2.9	(23.1)	0.5	(0.5)	**(15.0)**
Credit/(charge) to Income	1.5	—	(0.2)	0.5	1.6	(0.4)	—	**3.0**
Credit to equity	—	—	—	0.5	—	—	—	**0.5**
Charge to Comprehensive Income	—	—	0.4	—	—	—	—	**0.4**
Exchange movements	—	—	—	0.1	2.5	—	—	**2.6**
At 31 March 2015	**7.1**	**(0.2)**	**—**	**4.0**	**(19.0)**	**0.1**	**(0.5)**	**(8.5)**

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

	UK £m	France £m	Spain £m	USA £m	**2015 £m**	2014 £m
Deferred tax assets	1.6	—	2.9	5.0	**9.5**	7.2
Deferred tax liabilities	—	(18.0)	—	—	**(18.0)**	(22.2)
Net deferred tax asset/(liability)	1.6	(18.0)	2.9	5.0	**(8.5)**	(15.0)

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21. Deferred tax (continued)

At the balance sheet date, the Group recognised a deferred tax asset of £0.1m (2014: £0.5m) on unused tax losses of £0.3m (2014: £1.6m) available for offset against future profits, based on estimates of budgeted profits in the forthcoming years. Deferred tax has not been recognised on £18.4m (2014: £18.1m) of unused losses due to the uncertainty over the timing of future recovery.

There are no expiry dates in respect of the unrecognised tax losses.

22. Current liabilities – trade and other payables

	2015 £m	2014 £m
Trade creditors and accruals	**87.8**	109.5
Contingent consideration	**—**	0.1
Deferred consideration	**0.9**	0.8
Deferred income	**47.1**	33.7
Taxes and social security, excluding current tax	**8.3**	7.9
Other creditors	**164.1**	145.2
	308.2	297.2

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 51 days (2014: 66 days).

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

Other creditors mainly represent those amounts to be collected from policyholders but to be remitted to third parties for obligations such as the cost of underwriting and Insurance Premium Tax.

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

23. Non-current liabilities – other financial liabilities

	Contingent and deferred consideration £m
At 1 April 2014	2.7
Movement in year	(0.6)
At 31 March 2015	**2.1**

Contingent and deferred consideration relates to future amounts payable on prior acquisitions. The movement in the year represents the reclassification of an element of the liability to less than one year, foreign exchange movements and acquisitions in the year.

24. Provisions

	Cost of addressing UK matters £m	FCA investigation £m	Reorganisation costs £m	**Total £m**
At 1 April 2014	7.2	0.2	0.3	**7.7**
Released in the year	(1.7)	—	—	**(1.7)**
Utilised in the year	(5.5)	(0.2)	(0.3)	**(6.0)**
At 31 March 2015	**—**	**—**	**—**	**—**

The provisions for addressing the historical UK matters, the FCA and reorganisation costs, which were originally created in the year ended 31 March 2012 and 2014 decreased by £6.0m in the year. These activities are now complete and the remaining unutilised provision has been released to exceptional items in the profit & loss account.

25. Share capital

	2015 £m	2014 £m
Issued and fully paid:		
331,249,119 ordinary shares of 2.5p each (31 March 2014: 330,225,457 ordinary shares of 2.5p each)	**8.3**	8.3

The Company has one class of ordinary shares which carry no right to fixed income. Share capital represents consideration received for the nominal value of 2.5p per share on all issued and fully paid shares.

During the year, the Company issued 1,023,662 shares (2014: 211,539 shares) with a nominal value of 2.5p creating share capital of £25,592 (2014: £5,288) and share premium of £1,873,369 (2014: £350,750).

26. Share premium account

	£m
Balance at 1 April 2013	38.3
Premium arising on issue of equity shares	0.3
Balance at 1 April 2014	38.6
Premium arising on issue of equity shares	1.9
Balance at 31 March 2015	**40.5**

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

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27. Merger reserve

	£m
Balance at 1 April 2013, 1 April 2014 and 31 March 2015	**71.0**

The merger reserve represents the issue on 6 April 2004 of 11.6m new shares relating to the acquisition of the minority interest held in the Group at that date. The reserve reflects the difference between the nominal value of shares at the date of issue of 12.5p and the share price immediately preceding the issue of 624.5p per share.

28. Own shares reserve

	Number m	£m
Balance at 1 April 2013	5.5	17.7
Issued from the employee benefit trust	(0.8)	(1.8)
Balance at 1 April 2014	4.7	15.9
Issued from the employee benefit trust	(1.5)	(4.8)
Balance at 31 March 2015	**3.2**	**11.1**

The own shares reserve represents the cost of shares in HomeServe plc purchased in the market and held by the HomeServe plc Employee Benefit Trust. The shares are held to satisfy obligations under the Group's share options schemes and are recognised at cost.

29. Share incentive reserve

	£m
Balance at 1 April 2013	11.1
Share-based payment charges in the year	4.1
Share options exercised in the year	(0.8)
Balance at 1 April 2014	14.4
Share-based payment charges in the year	4.2
Share options exercised in the year	(2.9)
Balance at 31 March 2015	**15.7**

The share incentive reserve represents the cumulative charges to income under IFRS2 'Share-Based Payments' on all share options and schemes granted after 7 November 2002 that had not vested as at 1 January 2005, net of share option exercises.

30. Capital redemption reserve

	£m
Balance at 1 April 2013, 1 April 2014 and 31 March 2015	**1.2**

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

31. Currency translation reserve

	£m
Balance at 1 April 2013	4.5
Movement in the year taken to comprehensive income	(2.2)
Balance at 1 April 2014	2.3
Movement in the year taken to comprehensive income	(11.6)
Balance at 31 March 2015	**(9.3)**

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

32. Business combinations and disposals

The Group has incurred a net cash outflow in respect of business combinations and disposals of £1.1m in the year. This principally relates to deferred consideration on prior period business combinations. In the prior year, the net cash outflow relating to acquisitions was £2.4m.

33. Notes to the cash flow statement

	2015 £m	2014 £m
Operating profit	**79.1**	27.2
Adjustments for:		
Depreciation of property, plant and equipment	**4.6**	4.9
Amortisation of intangible assets	**27.4**	28.1
Share-based payments expense	**4.2**	4.1
Loss on disposal of property, plant and equipment and software	**0.2**	2.1
Operating cash flows before movements in working capital	**115.5**	66.4
Decrease in inventories	**—**	0.2
Increase in receivables	**(24.2)**	(18.6)
Increase in payables (excluding exceptional provision)	**11.0**	56.3
Decrease in exceptional provision	**(7.7)**	(12.4)
Cash generated by operations	**94.6**	91.9
Income taxes paid	**(22.8)**	(21.6)
Interest paid	**(4.4)**	(3.3)
Net cash inflow from operating activities	**67.4**	67.0

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34. Operating lease arrangements

The Group as lessee:

	2015 £m	2014 £m
Minimum lease payments under operating leases recognised in income for the year	**7.4**	8.2

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:

	2015 £m	2014 £m
Within one year	**8.5**	6.6
In the second to fifth years inclusive	**19.7**	12.7
After five years	**4.2**	4.4
	32.4	23.7

Operating lease payments principally represent rentals payable by the Group for certain of its land and buildings, motor vehicles and office equipment. The leases have varying terms and some have renewal options.

35. Obligations under finance leases

	2015 £m	2014 £m
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	**0.6**	0.5
Amounts due for settlement after 12 months: in the second to fifth years inclusive	**0.6**	0.9
Present value of lease obligations	**1.2**	1.4
Minimum lease payments		
Within one year	**0.6**	0.5
In the second to fifth years inclusive	**0.6**	0.9
Present value of lease obligations	**1.2**	1.4

Certain motor vehicles are held under finance leases. The average lease term is 4 years (2014: 5 years). For the year ended 31 March 2015, the average effective borrowing rate was 3.0% (2014: 3.0%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in US dollars. The fair value of the Group's lease obligations is approximately equal to their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

36. Share-based payments

During the year ended 31 March 2015, the Group had five (2014: five) share-based payment schemes, which are described below:

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

The LTIP provides for the grant of performance, matching and restricted awards. The vesting period is three years for performance and matching awards. The vesting period for the restricted awards is 2 years for those granted in FY13 and 3 years for those granted in FY14 and FY15. For the performance and matching awards granted in FY13, FY14 and FY15, vesting is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. For the FY12 awards, 50% of the award was dependent upon Total Shareholder Return and 50% was subject to a target based on Earnings per Share growth. The restricted awards granted in FY13, FY14 and FY15 are subject to the continued employment of the participant at the date of vesting.

ii) Save As You Earn Scheme ('SAYE')

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

iii) Executive Share Option Plan ('ESOP')

The ESOP provided for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period was three years and was dependent upon the real increase in Earnings per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The plan is no longer used.

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

The KEIP provided for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vested in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting was dependent upon the Profit before Tax of the Group for the year ended 31 March 2008 and was subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The plan is no longer used.

v) Deferred Bonus Plan ('DBP')

The DBP enabled the individual to defer receipt of their annual cash bonus (up to a maximum of 100%) and to invest an equivalent amount in the ordinary share capital of the Company. The deferred bonus may be matched by the Company dependent upon the Company's relative Total Shareholder Return over a three year period. The shares lapse if not exercised within 10 years from the date of grant. The plan is no longer used.

Notes to financial statements

Year ended 31 March 2015

36. Share-based payments (continued)

	LTIP	SAYE	ESOP	KEIP	DBP
2015					
Number					
Outstanding at 1 April 2014	7,551,677	2,269,832	992,705	72,295	256,995
Granted	2,162,173	888,891	—	—	—
Lapsed	(1,417,604)	—	—	—	—
Forfeited	(783,907)	(316,314)	—	—	—
Exercised	(527,116)	(1,023,632)	(700,000)	(72,295)	—
Outstanding at 31 March 2015	6,985,223	1,818,777	292,705	—	256,995
Exercisable at 31 March 2015	—	99,779	292,705	—	256,995
Weighted average exercise price (£)					
Outstanding at 1 April 2014	—	1.87	1.58	1.92	—
Granted	—	2.60	—	—	—
Lapsed	—	—	—	—	—
Forfeited	—	2.18	—	—	—
Exercised	—	1.86	1.44	1.92	—
Outstanding at 31 March 2015	—	2.25	1.92	—	—
Exercisable at 31 March 2015	—	1.85	1.92	—	—
Range of exercise price of options outstanding at 31 March 2015					
£0.01 to £0.99	—	—	—	—	—
£1.00 to £1.99	—	939,554	292,705	—	—
£2.00 to £2.99	—	869,522	—	—	—
£3.00 to £3.99	—	9,701	—	—	—
Weighted average remaining contractual life	2	3	—	—	—
Weighted average fair value of options awarded in 2015	£2.08	£1.46	—	—	—

	LTIP	SAYE	ESOP	KEIP	DBP
2014					
Number					
Outstanding at 1 April 2013	6,695,599	2,641,454	1,302,100	72,295	256,995
Granted	2,916,015	497,750	—	—	—
Lapsed	(1,542,238)	—	—	—	—
Forfeited	(248,157)	(659,844)	—	—	—
Exercised	(269,542)	(209,528)	(309,395)	—	—
Outstanding at 31 March 2014	7,551,677	2,269,832	992,705	72,295	256,995
Exercisable at 31 March 2014	—	58,817	992,705	72,295	256,995
Weighted average exercise price (£)					
Outstanding at 1 April 2013	—	1.94	1.44	1.92	—
Granted	—	1.92	—	—	—
Lapsed	—	—	—	—	—
Forfeited	—	2.03	—	—	—
Exercised	—	1.68	0.97	—	—
Outstanding at 31 March 2014	—	1.87	1.58	1.92	—
Exercisable at 31 March 2014	—	3.15	1.58	1.92	—
Range of exercise price of options outstanding at 31 March 2014					
£0.01 to £0.99	—	—	—	—	—
£1.00 to £1.99	—	2,189,300	992,705	72,295	—
£2.00 to £2.99	—	18,510	—	—	—
£3.00 to £3.99	—	62,022	—	—	—
Weighted average remaining contractual life	2	2	1	1	1
Weighted average fair value of options awarded in 2015	£2.06	£0.85	—	—	—

Notes to financial statements

Year ended 31 March 2015

36. Share-based payments (continued)

The weighted average share price at the date of exercise for share options exercised during the year was £3.30 (2014: £3.04).

The estimated fair values are calculated by applying a Black-Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP, LTIP and DBP. The assumptions used in the models (which are comparable to the prior year) are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% – 56%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	0.8% – 5.2%

Levels of early exercises and lapses are estimated using historical averages. Volatility is calculated by looking at the historical share price movements prior to the date of grant over a period of time commensurate with the remaining term for each award.

The Group recognised total expenses of £4.2m (2014: £4.1m) related to equity-settled share-based payment transactions.

37. Retirement benefit schemes

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all UK employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme within two years of joining and they choose to take a refund, the contributions paid by the Group are forfeited by the employee.

In addition to the scheme in the UK, the Group operates a defined contribution retirement benefit scheme for USA employees.

The total cost charged to income of £2.4m (2014: £2.7m) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. At 31 March 2015, contributions of £202,000 (2014: £247,000) due in respect of the current reporting period had not been paid over to the scheme.

Defined benefit scheme

The Group participates in a defined benefit scheme, the Water Companies Pension Scheme, which is closed to new members. This is a sectionalised scheme and the Group participates in the HomeServe plc Section of the Scheme. The Section is administered by a Trustee and is independent of the Group's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuary.

The results of the actuarial valuation as at 31 March 2014 were updated to the accounting date by a qualified independent actuary in accordance with IAS19. Remeasurements are recognised immediately through other comprehensive income.

	Valuation at	
	2015	2014
Key assumptions used		
Discount rate at 31 March	**3.3%**	4.5%
Consumer price inflation	**2.3%**	2.6%
Retail price inflation	**3.3%**	3.6%
Expected rate of salary increases	**2.3%**	2.6%
Future pension increases	**2.3%**	2.6%
Life expectancy of female aged 60 at balance sheet date	**29.6yrs**	29.8yrs
Life expectancy of male aged 60 at balance sheet date	**27.7yrs**	27.5yrs

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

As an indication, all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the obligations of the Section of approximately £0.6m
- an increase in the inflation assumption rate of 0.1% would lead to an increase in the value placed on the obligations of the Section of approximately £0.6m
- an increase of life expectancy of 1 year would lead to an increase in the value placed on the obligations of the Section of approximately £0.7m.

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

	2015 £m	2014 £m
Current service cost	**0.1**	0.2
Interest cost	**—**	—
Recognised in operating costs	**0.1**	0.2

The actual return on scheme assets was a profit of £2.6m (2014: loss of £0.1m).

Notes to financial statements

Year ended 31 March 2015

37. Retirement benefit schemes (continued)

Defined benefit scheme (continued)

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

	2015 £m	2014 £m
Present value of defined benefit obligations	**(28.0)**	(22.3)
Fair value of scheme assets	**28.1**	23.5
Surplus in scheme recognised in the balance sheet in non-current assets	**0.1**	1.2

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

	2015 £m	2014 £m
At 1 April	**22.3**	21.9
Employer's part of the current service cost	**0.1**	0.2
Interest cost	**1.0**	0.9
Contributions from scheme members	**0.1**	0.1
Actuarial losses/ (gains)	**4.7**	(0.4)
Benefits paid	**(0.2)**	(0.4)
At 31 March	**28.0**	22.3

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

	2015 £m	2014 £m
At 1 April	**23.5**	21.9
Interest on Section assets	**1.0**	0.9
Actual return less interest on Section assets	**2.6**	(0.1)
Contributions from the employer	**1.1**	1.1
Contributions from scheme members	**0.1**	0.1
Benefits paid	**(0.2)**	(0.4)
At 31 March	**28.1**	23.5

The amount recognised outside the income statement in the statement of comprehensive income for 2015 is a loss of £2.1m (2014: gain of £0.3m). The cumulative amount recognised outside profit and loss at 31 March 2015 is a loss of £4.4m (2014: loss £2.3m).

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

	Fair value of assets	
	2015 £m	2014 £m
Equity instruments	**12.6**	10.4
Diversified growth funds	**3.4**	3.0
Debt instruments	**8.4**	6.7
Other	**3.7**	3.4
	28.1	23.5

The estimated amount of contributions expected to be paid to the scheme during the forthcoming financial year is £1.1m (2015: actual £1.0m) excluding any Pension Protection Fund levy payable.

38. Related party transactions

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

Trading transactions

Group companies purchased services of £0.3m (2014: £0.2m) from a related party, Harpin Limited, which is not a member of the Group. Harpin Limited is a related party of the Group because it is controlled by Richard Harpin, Chief Executive Officer of the Group and Director of the parent company of the Group. There were no amounts outstanding by or to Harpin Limited at the year end.

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

Remuneration of key management personnel

The remuneration of the Directors and members of the Executive Committee, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report.

Notes to financial statements

Year ended 31 March 2015

38. Related party transactions (continued)

Remuneration of key management personnel (continued)

	2015 £m	2014 £m
Short-term employee benefits	**4.5**	5.7
Post-employment benefits	**0.2**	0.3
Share-based payments expense	**2.5**	2.3
	7.2	8.3

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

39. Financial instruments

Principal financial instruments

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

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- other receivables
- trade payables
- contingent and deferred consideration
- other creditors
- Investments

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

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

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

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

	2015 £m	2014 £m
Investments	**4.4**	—
Contingent and deferred consideration:		
Current liabilities	**0.9**	0.9
Non current liabilities	**2.1**	2.7
	7.4	3.6

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

	£m
Balance at 1 April 2014	6.0
Unwinding of discount through the income statement	0.4
Payments	(2.2)
Acquisitions	(0.2)
Exchange	(0.4)
Balance at 1 April 2014	3.6
Unwinding of discount through the income statement	0.2
Payments	(1.1)
Exchange	0.3
Balance at 31 March 2015	**3.0**

Capital risk management

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 25 to 31 and the Group Statement of Changes in Equity.

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

	2015 £m	2014 £m
Shareholders' funds	**368.5**	352.9
Bank and other loans	**137.6**	137.1

Notes to financial statements

Year ended 31 March 2015

39. Financial instruments (continued)

Capital risk management (continued)

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

Financial risk management objectives

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

Financial risk management is overseen by the Board according to objectives, targets and policies set by the Board. Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with objectives, targets and policies set by the Board. Treasury is not a profit centre and does not enter into speculative transactions.

Classification of financial instruments

In addition to the other financial assets and liabilities set out above in 'Principal financial instruments', the Group also has financial assets and liabilities disclosed in notes 19, 22 and 23. The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk.

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	**Total £m**
2015					
Under 2 months	0.3	73.6	48.1	—	**122.0**
Between 2 and 6 months	0.5	6.6	60.6	0.1	**67.8**
Between 6 and 12 months	0.8	7.6	53.5	0.9	**62.8**
Between 1 and 2 years	3.3	—	1.9	0.9	**6.1**
Between 2 and 3 years	1.5	—	—	0.9	**2.4**
Between 3 and 4 years	1.5	—	—	0.2	**1.7**
Between 4 and 5 years	136.1	—	—	0.1	**136.2**
After 5 years	—	—	—	—	**—**
Total	**144.0**	**87.8**	**164.1**	**3.1**	**399.0**

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Total £m
2014					
Under 2 months	0.3	66.9	72.5	0.2	139.9
Between 2 and 6 months	0.6	31.3	41.5	0.1	73.5
Between 6 and 12 months	0.8	11.3	29.5	0.8	42.4
Between 1 and 2 years	1.7	—	1.7	0.9	4.3
Between 2 and 3 years	137.6	—	—	0.9	138.5
Between 3 and 4 years	—	—	—	0.9	0.9
Between 4 and 5 years	—	—	—	0.2	0.2
After 5 years	—	—	—	—	—
Total	141.0	109.5	145.2	4.0	399.7

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

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

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

	2015	2014
Increase in interest rate	**10%**	10%
Reduction in profit before tax (£m)	**0.1**	0.2

Credit risk

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

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

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

Notes to financial statements

Year ended 31 March 2015

39. Financial instruments (continued)

Credit risk (continued)

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

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

Liquidity risk

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

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

Company statement of comprehensive income

Year ended 31 March 2015

	Notes	2015 £m	2014 £m
Profit for the year		**43.3**	33.3
Items that will not be classified subsequently to the profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	52	**(2.1)**	0.3
Tax credit/(charge) relating to components of other comprehensive income	49	**0.4**	(0.1)
Total comprehensive income for the year		**41.6**	33.5

Company balance sheet

31 March 2015

	Notes	**2015 £m**	2014 £m
Non-current assets			
Other intangible assets	43	**2.3**	11.1
Investment in subsidiaries	45	**194.6**	194.6
Deferred tax assets	49	**1.6**	0.4
Retirement benefit assets	52	**0.1**	1.2
		198.6	207.3
Current assets			
Trade and other receivables	46	**182.0**	154.8
Cash and cash equivalents	46	**46.2**	58.8
		228.2	213.6
Total assets		**426.8**	420.9
Current liabilities			
Trade and other payables	47	**(8.9)**	(23.0)
Current tax liabilities		**(3.4)**	(0.9)
Provisions	48	**—**	(0.2)
		(12.3)	(24.1)
Net current assets		**215.9**	189.5
Non-current liabilities			
Bank loans	20	**(135.6)**	(135.3)
		(135.6)	(135.3)
Total liabilities		**(147.9)**	(159.4)
Net assets		**278.9**	261.5
Equity			
Share capital	25	**8.3**	8.3
Share premium account	26	**40.5**	38.6
Merger reserve	27	**71.0**	71.0
Share incentive reserve	53	**13.3**	5.3
Capital redemption reserve	30	**1.2**	1.2
Retained earnings		**144.6**	137.1
Total equity		**278.9**	261.5

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 19 May 2015. They were signed on its behalf by:

Johnathan Ford
Chief Financial Officer
19 May 2015

Company statement of changes in equity

Year ended 31 March 2015

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	**Total equity £m**
Balance at 1 April 2014	8.3	38.6	71.0	5.3	1.2	137.1	**261.5**
Total comprehensive income	—	—	—	—	—	41.6	**41.6**
Dividends paid	—	—	—	—	—	(36.9)	**(36.9)**
Issue of share capital	—	1.9	—	—	—	—	**1.9**
Issue of trust shares	—	—	—	—	—	(2.9)	**(2.9)**
Share-based payments	—	—	—	4.2	—	—	**4.2**
Share options exercised	—	—	—	(1.5)	—	1.5	**—**
Tax on exercised share options	—	—	—	—	—	0.4	**0.4**
Deferred tax on share options	—	—	—	—	—	0.4	**0.4**
Capital Contribution repayment	—	—	—	5.3	—	3.4	**8.7**
Balance at 31 March 2015	**8.3**	**40.5**	**71.0**	**13.3**	**1.2**	**144.6**	**278.9**

Year ended 31 March 2014

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2013	8.2	38.3	71.0	3.9	1.2	140.6	263.2
Total comprehensive income	—	—	—	—	—	33.5	33.5
Dividends paid	—	—	—	—	—	(36.7)	(36.7)
Issue of share capital	0.1	0.3	—	—	—	—	0.4
Issue of trust shares	—	—	—	—	—	(1.1)	(1.1)
Share-based payments	—	—	—	2.1	—	—	2.1
Share options exercised	—	—	—	(0.7)	—	0.7	—
Tax on exercised share options	—	—	—	—	—	0.1	0.1
Balance at 31 March 2014	8.3	38.6	71.0	5.3	1.2	137.1	261.5

Company cash flow statement

Year ended 31 March 2015

	Notes	2015 £m	2014 £m
Net cash outflow from operating activities	41	**(38.7)**	(41.9)
Investing activities			
Interest received		**5.8**	5.2
Dividends received from subsidiary undertakings		**50.0**	40.0
Purchases of intangible assets		**(13.4)**	(5.3)
Issue of shares from the employee benefit trust		**1.9**	0.7
Proceeds from sale of intangible assets		**2.7**	—
Net cash from investing activities		**47.0**	40.6
Financing activities			
Dividends paid		**(36.9)**	(36.7)
Share capital issued		**1.9**	0.4
Increase in bank loans		**6.0**	12.0
Capital contribution from subsidiary undertaking		**8.7**	—
Net cash used in financing activities		**(20.3)**	(24.3)
Net movement in cash and cash equivalents		**(12.0)**	(25.6)
Cash and cash equivalents at beginning of year		**58.8**	84.9
Effect of foreign exchange rate changes		**(0.6)**	(0.5)
Cash and cash equivalents at end of year		**46.2**	58.8

Notes to financial statements

Year ended 31 March 2015

Company only

The following notes 40 to 54 relate to the Company only position for the year ended 31 March 2015.

40. Significant accounting policies

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's profit for the year was £43.3m (2014: £33.3m).

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except that investments in subsidiaries are stated at cost less impairment.

Included within 'Amounts receivable from Group companies' are amounts advanced to the HomeServe plc Employee Benefit Trust for the purchase of shares. The shares are held in trust to satisfy obligations under share option schemes and are recognised at cost.

41. Notes to the cash flow statement

	2015 £m	2014 £m
Operating loss	**(18.0)**	(16.5)
Adjustments for:		
Amortisation of intangible assets	**1.2**	0.6
Share-based payment expense	**1.8**	2.1
Operating cash flows before movements in working capital	**(15.0)**	(13.8)
Increase in receivables	**(6.5)**	(42.2)
(Decrease)/increase in payables (excluding exceptional provision)	**(15.8)**	15.9
Decrease in exceptional provision	**(0.2)**	(1.0)
Cash used in operations	**(37.5)**	(41.1)
Income taxes received	**2.9**	3.1
Interest paid	**(4.1)**	(3.9)
Net cash outflow from operating activities	**(38.7)**	(41.9)

Notes to financial statements

Year ended 31 March 2015

42. Other information

	2015 £000	2014 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**53**	55
Total audit fees	**53**	55

43. Other intangible assets

	Trademarks & access rights £m	Software £m	Total intangibles £m
Cost			
At 1 April 2013	1.8	5.2	**7.0**
Additions	—	5.2	**5.2**
At 1 April 2014	1.8	10.4	**12.2**
Additions	—	13.7	**13.7**
Transfer to Subsidiary undertaking	—	(22.2)	**(22.2)**
At 31 March 2015	**1.8**	**1.9**	**3.7**
Accumulated amortisation and impairment			
At 1 April 2013	0.3	0.2	**0.5**
Charge for the year	0.1	0.5	**0.6**
At 1 April 2014	0.4	0.7	**1.1**
Additions	0.1	1.1	**1.2**
Transfer to Subsidiary undertaking	—	(0.9)	**(0.9)**
At 31 March 2015	**0.5**	**0.9**	**1.4**
Carrying amount			
At 31 March 2015	**1.3**	**1.0**	**2.3**
At 31 March 2014	1.4	9.7	11.1

44. Property, plant and equipment

	Computer equipment £m
Cost	
At 1 April 2013, 1 April 2014 and 31 March 2015	**0.3**
Accumulated depreciation and impairment	
At 1 April 2013	0.3
Charge for the year	—
At 1 April 2014	0.3
Charge for the year	—
At 31 March 2015	**0.3**
Carrying amount	
At 31 March 2015	**—**
At 31 March 2014	—

45. Subsidiaries

Details of the Company's principal subsidiaries at 31 March 2015 are as follows. All companies are accounted for using the acquisition method.

	Place of incorporation ownership (or registration) and operations	Proportion of voting interest %	Proportion of power held %
Intermediate Holding Companies			
HomeServe Assistance Limited[1]	England	100	100
HomeServe Enterprises Limited[1]	England	100	100
HomeServe International Limited	England	100	100
UK			
HomeServe Membership Limited	England	100	100
HomeServe Alliance Limited	England	90	90
Continental Europe			
Doméo SAS	France	100	100
Reparalia Direct SL	Spain	100	100
Reparalia SA	Spain	100	100
Assistenza Casa Srl	Italy	100	100
HomeServe GmbH	Germany	100	100
USA			
HomeServe USA Corp	USA	100	100
HomeServe USA Energy Services (New England) LLC	USA	100	100
HomeServe USA Energy Services LLC	USA	100	100
HomeServe USA Repair Management Corp	USA	100	100
HomeServe USA Repair Management (Florida) Corp	USA	100	100

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

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Year ended 31 March 2015

45. Subsidiaries (continued)

	£m
Cost and net book value	
At 1 April 2013, 1 April 2014 and 31 March 2015	**194.6**

46. Financial assets

Trade and other receivables

	2015 £m	2014 £m
Amounts receivable from Group companies	**179.2**	153.1
Other receivables	**0.7**	0.9
Prepayments and accrued income	**2.1**	0.8
	182.0	154.8

Trade receivables

The Company has a policy of 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.

Ageing of past due but not impaired receivables:

	2015 £m	2014 £m
Current	**179.2**	153.1
Balance at 31 March	**179.2**	153.1

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is mitigated through the close management and regular review of performance of the subsidiary companies.

No allowance for doubtful debts is considered necessary based on prior experience and the Directors' assessment of the current economic environment.

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £46.2m (2014: £58.8m) comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

47. Financial liabilities

Trade and other payables

	2015 £m	2014 £m
Trade creditors and accruals	**5.4**	8.2
Amounts payable to Group companies	**0.1**	11.2
Taxes and social security, excluding corporation tax	**1.5**	0.6
Other creditors	**1.9**	3.0
	8.9	23.0

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 8 days (2014: 12 days).

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

48. Provisions

	£m
At 1 April 2014	0.2
Utilised in the year	(0.2)
At 31 March 2015	**—**

The Company used the remaining provision during the year to finalise the reorganisation programme.

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Year ended 31 March 2015

49. Deferred tax

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

	Retirement benefit obligations £m	Share schemes £m	Timing differences £m	**Total £m**
At 1 April 2013	—	0.3	—	**0.3**
Transfer	—	0.3	(0.3)	**—**
(Charge)/credit to income	(0.1)	0.4	(0.1)	**0.2**
Charge to comprehensive income	(0.1)	—	—	**(0.1)**
At 1 April 2014	(0.2)	1.0	(0.4)	**0.4**
(Charge)/credit to income	(0.2)	0.4	0.2	**0.4**
Credit to equity	—	0.4	—	**0.4**
Credit to comprehensive income	0.4	—	—	**0.4**
At 31 March 2015	**—**	**1.8**	**(0.2)**	**1.6**

50. Related party transactions

The Company purchased services of £0.3m (2014: £0.2m) from a related party, Harpin Limited. Harpin Limited is a related party of the Company because it is controlled by Richard Harpin, Chief Executive Officer of the Group and Director of the Company. There were no amounts outstanding by or to Harpin Limited at the year end.

The Company also provided goods of £21.3m (2014: £nil), provided services of £5.2m (2014: £5.6m), lent monies to of £nil (2014: £46.0m) and borrowed monies from of £nil (2014: £15.3m) with subsidiary companies of the Group. Amounts due to subsidiary companies amount to £0.1m (2014: £11.2m). Amounts owed by subsidiary companies amount to £179.2m (2014: £153.1m).

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report.

	2015 £m	2014 £m
Short-term employee benefits	**3.5**	4.3
Post-employment benefits	**0.2**	0.3
Share-based payments expense	**2.1**	1.8
	5.8	6.4

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

51. Share-based payments

During the year ended 31 March 2015, the Company had five (2014: five) share-based payment arrangements, which are described in note 36.

	LTIP	SAYE	ESOP	KEIP	DBP
2015					
Number					
Outstanding at 1 April 2014	4,097,532	141,350	955,000	72,295	256,995
Granted	895,383	72,815	—	—	—
Lapsed	(778,190)	—	—	—	—
Forfeited	(428,740)	(16,846)	—	—	—
Exercised	(167,884)	(78,308)	(700,000)	(72,295)	—
Outstanding at 31 March 2015	3,618,101	119,011	255,000	—	256,995
Exercisable at 31 March 2015	—	2,934	255,000	—	256,995
Weighted average exercise price (£)					
Outstanding at 1 April 2014	—	1.93	1.57	1.92	—
Granted	—	2.60	—	—	—
Lapsed	—	—	—	—	—
Forfeited	—	2.30	—	—	—
Exercised	—	1.86	1.44	1.92	—
Outstanding at 31 March 2015	—	2.33	1.92	—	—
Exercisable at 31 March 2015	—	1.84	1.92	—	—
Range of exercise price of options outstanding at 31 March 2015					
£0.01 to £0.99	—	—	—	—	—
£1.00 to £1.99	—	45,306	255,000	—	—
£2.00 to £2.99	—	72,815	—	—	—
£3.00 to £3.99	—	890	—	—	—
Weighted average remaining contractual life	2	3	—	—	—
Weighted average fair value of options awarded in 2015	£1.95	£1.46	—	—	—

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Year ended 31 March 2015

51. Share-based payments (continued)

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

The weighted average share price at the date of exercise for share options exercised during the year was £3.31 (2014: £3.03).

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

The Company recognised total expenses of £1.8m (2014: £2.1m) related to equity-settled share-based payment transactions.

52. Retirement benefit schemes

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

53. Share incentive reserve

	£m
Balance at 1 April 2013	3.9
Share-based payment charges in the year	2.1
Share options exercised in year	(0.7)
Balance at 1 April 2014	5.3
Share-based payment charges in the year	4.2
Share options exercised in year	(1.5)
Capital Contribution repayment	5.3
Balance at 31 March 2015	**13.3**

The Capital Contribution repayment of £5.3m relates to cash received by the company from HomeServe Membership Limited, a wholly owned subsidiary, in respect of share options granted to employees of HomeServe Membership Limited.

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Year ended 31 March 2015

54. Financial instruments

Principal financial instruments

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

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

All principal financial instruments are stated at amortised cost.

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in notes 25, 26, 27, 30 and 53 and the Company Statement of Changes in Equity.

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

	2015 £m	2014 £m
Shareholders' funds	**278.9**	261.5
Revolving credit facilities	**135.6**	135.3

Financial risk management objectives

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

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates primarily relates to the Company's long-term debt requirements with floating interest rates. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts.

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

	Bank overdrafts and revolving credit facilities £m	Trade, other and group payables £m	**Total £m**
2015			
Under 2 months	0.3	5.4	**5.7**
Between 2 and 6 months	0.5	2.0	**2.5**
Between 6 and 12 months	0.8	—	**0.8**
Between 1 and 2 years	1.5	—	**1.5**
Between 2 and 3 years	1.5	—	**1.5**
Between 3 and 4 years	1.5	—	**1.5**
Between 4 and 5 years	136.2	—	**136.2**
Total	**142.3**	**7.4**	**149.7**

	Bank overdrafts and revolving credit facilities £m	Trade, other and group payables £m	Total £m
2014			
Under 2 months	0.3	19.4	19.7
Between 2 and 6 months	0.6	3.0	3.6
Between 6 and 12 months	0.8	—	0.8
Between 1 and 2 years	1.7	—	1.7
Between 2 and 3 years	135.8	—	135.8
Between 3 and 4 years	—	—	—
Total	139.2	22.4	161.6

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

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

	2015	2014
Increase in interest rate	**10%**	10%
Reduction in profit before tax (£m)	**0.2**	0.2

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54. Financial instruments (continued)

Foreign currency risk

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

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

	Assets		Liabilities	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Euro	**5.9**	9.5	**(107.7)**	(114.0)
US dollar	**1.0**	1.3	**(48.3)**	(42.7)

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

	2015	2014
Increase in £:$ exchange rate:	**10%**	10%
Effect on profit before tax (£m)	**4.3**	3.8
Effect on equity (£m)	**4.3**	3.8
Increase in £:€ exchange rate:	**10%**	10%
Effect on profit before tax (£m)	**9.3**	9.5
Effect on equity (£m)	**9.3**	9.5

Liquidity risk

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

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

Five year summary

Continuing operations

Unaudited	**2015 £m**	2014 £m	2013 £m	2012 £m	2011 £m
External revenue					
UK	**279.6**	283.1	302.0	349.4	355.8
USA	**125.3**	110.9	100.8	82.3	52.6
France	**74.9**	77.3	73.8	31.2	—
Spain	**90.9**	82.6	60.5	60.2	48.8
New Markets	**13.5**	14.4	9.4	11.6	9.9
External sales	**584.2**	568.3	546.5	534.7	467.1
Profit/(loss)					
UK	**56.4**	53.4	78.3	103.1	104.3
USA	**6.4**	12.9	9.5	9.0	6.1
France	**23.4**	22.3	21.5	15.3	5.2
Spain	**7.5**	4.0	3.1	2.8	1.7
New Markets	**(5.9)**	(5.7)	(4.8)	(3.4)	(1.1)
	87.8	86.9	107.6	126.8	116.2
Amortisation of acquisition intangibles	**(10.4)**	(13.0)	(13.4)	(10.4)	(9.3)
Exceptional items	**1.7**	(46.7)	(25.1)	(31.1)	—
Operating profit	**79.1**	27.2	69.1	85.3	106.9
Net interest	**(2.4)**	(2.8)	(2.6)	(2.2)	(2.1)
Gain on re-measurement of joint venture interest on acquisition of control	**—**	—	—	54.9	—
Profit before tax	**76.7**	24.4	66.5	138.0	104.8

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Shareholder information

Financial calendar

2015

17 July	Annual General Meeting
24 July	Special dividend payment date
3 August	Final dividend payment date
17 November	Interim results for the six months ending 30 September 2015

2016

January	Interim dividend for the year ending 31 March 2016
May	Preliminary results for the year ending 31 March 2016
June	2015 Annual Report and Accounts available

Shareholder helpline

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

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

Website

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