**HomeServe plc**
**Results for the year ended 31 March 2010**

## Strong growth and a step change in international operations

| | Continuing Operations 2010 | 2009 Restated | Change |
|---|---|---|---|
| Revenue† | £369.0m | £304.3m | 21% |
| Operating profit* | £104.4m | £92.3m | 13% |
| Profit before tax* | £100.6m | £88.7m | 13% |
| Profit before tax | £102.2m | £80.8m | 27% |
| Earnings per share^ | 110.9p | 96.9p | 14% |
| Dividend per share | 44.0p | 35.5p | 24% |

- Worldwide membership operations:
  - 21% revenue† growth to £369.0m
  - 13% growth in operating profit* to £104.4m
  - 10.3m policies (2009: 9.2m) and 4.7m customers (2009: 4.3m)
  - access to 68m households (2009: 56m)
- 24% increase in dividend per share
- 14% growth in earnings per share^
- 3% customer growth in the UK and a retention rate of 82.5% (2009: 83.0%)
- 72% increase in international operating profits* to £8.7m (2009: £5.1m)
- Acquisition of National Grid Energy Services' contract business
- Doubling the US footprint with signing of long term affinity partner agreements with National Grid USA, Piedmont Natural Gas and Southern California Gas
- Long term affinity partner agreement signed with Agbar in Spain
- Exit from UK Emergency Services complete resulting in loss of £42.0m in Discontinued Operations
- Statutory profit after tax of £30.7m (2009: loss of £35.3m)

Richard Harpin, Chief Executive, commented:

*"We are pleased to announce another year of strong growth with profit before tax* increasing by 13% to £100.6m and earnings per share^ by 14%. This strong financial performance has been driven by an 8% increase in customers worldwide, with high levels of retention in all countries demonstrating the resilience of our business model. We have achieved our growth targets in the UK and internationally with our affinity partner households in the US doubling to over 20m and the financial contribution from our international operations increasing by 72%.*

*Reflecting our confidence in the continuing strength and attractive cash generation characteristics of the business, the Board is proposing a total dividend for the year of 44.0p, a year on year increase of 24%.*

*The new financial year has started positively with all of our membership businesses performing in line with our expectations and we look forward to another year of strong growth."*



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

A presentation for analysts and investors will take place at 9am this morning at UBS, 1 Finsbury Avenue, London, EC2M 2PP. There will also be a live webcast available via www.homeserveplc.com.

**Enquiries:**

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## CHAIRMAN'S STATEMENT

### Introduction

We are pleased to announce that HomeServe has delivered another year of double-digit profits growth with earnings per share^ growing by 14% driven by the strong performance of our UK and international operations. Revenues† for our continuing operations have grown by 21% to £369.0m and profit before tax* by 13% to £100.6m on the back of continuing good levels of customer and policy growth with over 10.3m policies from 4.7m customers worldwide.

### Strategic developments

During the year we successfully completed the exit from our UK Emergency Services business allowing us to focus all of our resources on the growth and development of our membership businesses.

We announced the acquisition of SFG in France in May 2009, an important step in the development of our European appliance warranty business and, after the period end, the acquisition in the US of the service contract business from National Grid Energy Services.

We have also expanded our global marketing footprint with the addition of a number of new affinity partners including Dyson and GB Oils in the UK, Agbar in Spain and Piedmont Gas in the US. After the period end, we also announced the further expansion of our US footprint with the signing of long term affinity partner agreements with National Grid USA and Southern California Gas.

### Results

In the year, revenues† grew by 21% to £369.0m (2009: £304.3m) and operating profit* by 13% to £104.4m (2009: £92.3m) with operating margin reducing in line with our expectations by 2.0 percentage points to 28.3% (2009: 30.3%) reflecting the planned increase in customer acquisition marketing in the UK and continued investment in business development across all our membership businesses. Earnings per share^ grew by 14% to 110.9p per share (2009: 96.9p per share).

I am pleased to say that we have delivered against the targets we set ourselves at the start of the year including 3% customer growth and a retention rate of 82.5% in the UK, a maiden operating profit* in the US and the continued expansion of our international household footprint.

The business continues to be very cash generative delivering a cash inflow from continuing and discontinued operations of £73.4m (2009: £92.2m) representing cash conversion of 93.4% (2009: 115.7%). Our balance sheet remains strong with net debt at the year end of £52.9m (2009: £34.0m) and £150m of banking facilities in place until December 2012 providing us with significant flexibility to take advantage of selective acquisition opportunities as they arise.



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^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

**Dividend**

The Board is proposing a final dividend of 8.5p per share bringing the total dividend for the year to 44.0p (2009: 35.5p), a year on year increase of 24%. This reflects the Board's confidence in the continuing strength and resilience of our membership businesses following the exit from UK Emergency Services. The Board intends to continue to follow a policy of growing future dividends in line with earnings per share^ growth.

**Share sub-division**

A 5 for 1 sub-division of the share capital of the company is proposed, the intended effect of which is to seek to improve the liquidity and marketability of the ordinary shares of the company by reducing the market price of an ordinary share and increasing the number of shares in issue. The Board will seek approval from shareholders for the proposed sub-division at the company's AGM on 30 July 2010.

**Board changes**

There were a number of changes to the Board during the year. On 26 June 2009, Martin Bennett was appointed Chief Financial Officer following the departure of Jonathan Simpson-Dent and on 31 March 2010, Brian Whitty, Executive Chairman since 2004 retired from the Board. As a result, I was appointed Non-Executive Chairman on 1 April 2010 and Ian Chippendale was appointed Senior Independent Director. The Board is extremely grateful for the significant contribution to the development and growth of the business made by Brian over the last 14 years not only as Chairman of HomeServe but also before that as Chief Executive of South Staffordshire Group plc.

**People**

These results and the fulfilment of the company's future potential are only made possible by the dedication of its people, whose expertise and commitment remain our most important assets. On behalf of the Board, I should like to thank them for their contribution to another set of excellent results.

**Outlook**

We have made a positive start to the new financial year with all of our membership businesses performing well and the recent announcement of two new large affinity partner deals in the US.

Our focus remains on delivering long term value for shareholders through a combination of strong organic growth on the back of the continuing development of our existing membership businesses and selective acquisitions.

With a clear and focused membership-only strategy and a strong pipeline of business development opportunities HomeServe remains well positioned for the future and we look forward to another year of strong growth.

**Barry Gibson**
**Chairman**
**25 May 2010**



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## CHIEF EXECUTIVE'S REVIEW

Our mission is to provide a membership service which frees our customers from the worry and inconvenience of home emergencies and repairs. We deliver this through building long-term relationships with business partners, leveraging our product development expertise, producing winning sales and marketing, delivering excellent customer service and investing in great people.

These results demonstrate strong progress in all our membership businesses and reinforce our strategy to focus solely on policy membership. We now have access to 68.1m~ households globally through our affinity partners, of which two-thirds are outside the UK. We sold 2.7m gross new policies in the year (2009: 2.6m) and increased total customers and policies by 8% and 12% respectively.

With the exception of affinity partner households which for the US shows the position as at 25 May 2010, the policy, customer and market performance metrics of our membership businesses as at 31 March 2010 were as follows:

| | UK | Continental Europe | USA | Total 2010 | Total 2009 | Change |
|---|---|---|---|---|---|---|
| **Affinity Partner Households (m)** | 23.4 | 24.3 | 20.3~ | 68.1 | 55.5 | 22.7% |
| **Customers (m)** | 3.3 | 0.8 | 0.6 | 4.7 | 4.3 | 8.1% |
| **Policies (m)** | 7.6 | 2.0 | 0.8 | 10.3 | 9.2 | 12.1% |
| **Policies per customer** | 2.32 | 2.38 | 1.30 | 2.21 | 2.13 | |
| **Retention (%)** | 82.5 | 88.3 | 82.6 | 83.6 | 83.7 | -0.1ppts |
| **Penetration (%)** | 13.9 | 3.5 | 2.9 | 6.9 | 7.8 | -0.9ppts |

~Includes 5.3m households from SoCalGas and 5m households from National Grid USA which were announced after the period end.

## UK MEMBERSHIP

As at 31 March 2010, the policy, customer and market performance metrics of our UK Membership business were:

| | 2010 | 2009 | Change |
|---|---|---|---|
| Total number of households (m) | 25.9 | 25.9 | |
| Affinity partner households (m) | 23.4 | 23.4 | |
| **Total customers ('000)** | **3,255** | **3,159** | **3.0%** |
| Penetration of affinity partner households (%) | 13.9 | 13.5 | |
| Policies per customer | 2.32 | 2.23 | |
| **Number of policies ('000):** | | | |
| - Plumbing & drains and water supply pipe | 4,175 | 4,100 | |
| - Electrical | 780 | 767 | |
| - Gas and gas supply pipe | 843 | 845 | |
| - Manufacturer warranties | 387 | 331 | |
| - Other, including housebuilder | 1,367 | 1,011 | |
| **Total policies ('000)** | **7,552** | **7,054** | **7.0%** |
| **Retention rate (%)** | **82.5** | **83.0** | **-0.5ppts** |
| **Income per customer (£)** | **74** | **65** | **13.7%** |



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Revenue† increased by 16% to £286.7m (2009: £246.6m) driven by high levels of renewals income and new policy sales. As reported at our interim results, the UK business increased investment in marketing in line with our focus on customer growth resulting in operating profit* increasing by 10% to £95.8m (2009: £87.2m).

I am pleased to report that the UK business achieved a key objective of 3% customer growth for the year which was mainly driven by our core utility and manufacturer marketing channels. This, combined with the continued success of cross-sell, enabled the business to deliver gross new policy sales of 1.83m (2009: 1.83m).

We are particularly pleased with our retention performance having delivered a retention rate of 82.5% (2009: 83.0%) which is ahead of our expectations at the start of the year. This performance reflects the success of a range of retention-specific initiatives including the introduction of the customer magazine, the use of personalised renewals notices and improved call centre efficiency.

The continued success of Combined Policies which now represent 17% (2009: 14%) of our customers helped to increase policies per customer to 2.32 (2009: 2.23) with income per customer growing 14% to £74 (2009: £65).

Our UK manufacturer warranty business has had another successful year with total policies growing by 17% to 387,000 (2009: 331,000). We have recently signed a long term agreement with Dyson to undertake the marketing and administration of their manufacturer extended warranty scheme in the UK. The addition of Dyson and Baumatic earlier in the year takes the total number of manufacturer partner brands to 24 across the boiler, shower, white and brown goods sectors and the pipeline of potential partners remains strong. We are now actively applying our UK warranty expertise and best practice to the development of our European warranty business Societe Francaise de Garantie ("SFG").

As well as meeting our customer growth targets through our core marketing channels, we have made good progress with a number of new customer growth initiatives aimed at attracting customers from outside our core demographic through new marketing channels.

We have made good progress developing our pay on use service, One Contact, which is now available on a national basis. In September we purchased Reactfast, a national emergency trades business, which is providing an excellent source of new customer leads and emergency jobs for our repair networks having been fully integrated into our membership operations. Having proved the business model of converting pay on use customers into full policy members our focus now is to create additional ways of maximising the number of emergency jobs and new customer leads by leveraging existing and accessing new marketing channels.

In the energy sector, we announced in March the signing of a long-term affinity partner agreement with GB Oils, the UK's leading residential oil distributor to offer boiler breakdown cover to their oil customers. We believe that this part of the domestic energy market represents a significant opportunity for us, with over 1m households in the UK using oil as their main source of fuel. At the start of April we signed a two year agreement with nPower to market electrical breakdown and emergency cover as a customer acquisition product and we will be working closely with them to develop a range of home assistance products during the financial year.



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Our product for Landlords is making good progress on the back of direct advertising under the HomeServe brand and we are now in discussions with a range of potential partners to broaden our marketing channels and accelerate take up rates for this product.

Discussions with other potential distribution partners including credit card companies, IFAs and travel companies to offer an insured home emergency product are progressing well.

We have continued to improve the efficiency of our network during the year through the successful acquisition and integration of a number of small plumbing businesses and as at the end of the year, over 80% of all plumbing jobs were being carried out by our network of 285 directly employed plumbers. Increasing the proportion of work carried out by our own engineers will enable us to deliver enhanced customer service together with productivity gains and to steadily reduce the average cost per job. Having completed the franchising of our Electrics and Gas networks we have now started to franchise our plumbing network in remote parts of the UK thereby further increasing the number of HomeServe branded vehicles and engineers in the network. In addition, we continue to invest in systems that support our network to improve customer service and operational efficiency.

Our expectations for the UK business for the coming year are to build on the success we have had this year with the delivery of further customer growth of 3-4% and up to a 1 percentage point reduction in the retention rate.

## CONTINENTAL EUROPE

Our European business has had another very good year with local currency revenues increasing by 31% (36% in GBP) and operating profit* by 27% (35% in GBP). We now have access to 24.3m (2009: 22.7m) households in Europe and 2.0m (2009: 1.6m) policies with total penetration of 3.5% (2009: 3.2%).

### *France - Doméo*

As at 31 March 2010, the policy, customer and market performance metrics of our French business were as follows:

| | 2010 | 2009 | Change |
|---|---|---|---|
| Total number of households (excl apartments) (m) | 18.9 | 18.6 | |
| **Affinity partner households (excl apartments) (m)** | **14.3** | **13.5** | |
| Penetration of affinity partner households (%) | 5.4 | 5.1 | |
| **Total customers ('000)** | **769** | **683** | **12.6%** |
| Policies per customer | 2.51 | 2.29 | |
| **Number of policies ('000):** | | | |
| - Plumbing & drains and water supply pipe | 1,060 | 876 | |
| - Electrical | 228 | 174 | |
| - Other, including waterloss and gas products | 640 | 517 | |
| **Total policies** | **1,928** | **1,567** | **23.1%** |
| **Retention rate (%)** | **88.3** | **87.9** | **0.4ppts** |
| **Income per customer (€)** | **88** | **80** | **10%** |



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The total number of policies in our French joint venture, Doméo, has increased by 23% in the year to 1.93m (2009: 1.57m). Gross new policy sales in the year were 0.53m (2009: 0.53m) with 15% of new sales on the back of the successful introduction of two new products Internal Plumbing and Plumbing and Drainage "Max". The retention rate remained high at 88.3% (2009: 87.9%).

Doméo has grown its policy book across all categories through a combination of customer growth and the sale of additional policies to existing customers through cross-sell. During the period, customer numbers grew by 13% to 769,000 (2009: 683,000) with policies per customer increasing from 2.29 to 2.51.

The operating profit* contribution from our share of the Doméo joint venture in the period was £5.7m (2009: £4.8m) representing growth of 17%.

This year, the key focus for the Doméo business will be to generate further customer growth and increased penetration through a combination of signing up new affinity partners and new product development.

In May 2009, we acquired SFG, France's leading provider of warranties for domestic appliances. In the period to 31 March 2010, SFG contributed £7.0m of revenue and £0.7m operating profit* to the European result. Having invested in personnel and systems during the year, the infrastructure required to replicate our successful UK manufacturer warranty model is now in place and discussions with potential manufacturer warranty partners are well underway.

***Spain***

As at 31 March 2010, the policy, customer and market performance metrics of our Spanish business were as follows:

| | 2010 | 2009 | Change |
|---|---|---|---|
| Total number of households (m) | 20.8 | 20.8 | |
| **Affinity partner households (m)** | **10.0** | **9.2** | |
| Penetration of affinity partner households (%) | 0.8 | 0.5 | |
| **Total customers ('000)** | **79** | **47** | **67.0%** |
| Policies per customer | 1.19 | 1.01 | |
| **Total policies ('000)** | **94** | **48** | **97.6%** |

Given the relative size of the Spanish policy business, the retention rate and income per customer metrics have not been presented.

Our Spanish business grew revenues by 14% in local currency (19% in GBP) during the year with another strong performance from our claims handling business Reparalia on the back of increased volumes from key customers.

As in the previous financial year, the overall operating profit* result for Spain of £0.4m (2009: £0.1m) reflects the reinvestment of profits from our claims handling business in the development of our Spanish policy business where we continue to make good progress. In the 12 months to March 2010, the number of policies nearly doubled to 94,000 (2009: 48,000) following an encouraging start to full scale marketing with Endesa and against a backdrop of an extremely tough economic environment.



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^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

In February, we announced a significant development for our Spanish business with the signing of a long term marketing agreement with Agbar, Spain's largest water company with over 4 million residential customers. The agreement represents an important step for our Spanish business enabling us to launch full scale marketing in Spain under a water brand and increasing our footprint of affinity partner households to 10.0m.

***Belgium***

Our Belgian business, under its first full year of HomeServe ownership, reported revenues of £2.8m (2009: £0.9m) and operating profit* of £0.4m (2009: £0.4m). The operating profit result reflects the investment we have made during the year in building our marketing capability and the infrastructure required to start a policy business in the Benelux region. At the end of the financial year we successfully conducted a small operational marketing test and we continue to progress discussions with potential utility and other affinity partners in the region.

**UNITED STATES OF AMERICA**

With the exception of affinity partner households which shows the position as at 25 May 2010, the policy, customer and market performance metrics of our US Membership business as at 31 March 2010 were as follows:

| | **2010** | **2009** | **Change** |
|---|---|---|---|
| Total number of households (m) | 128 | 128 | |
| **Affinity partner households (m)** | **20.3~** | **9.4** | |
| **Total customers ('000)** | **580** | **442** | **31.2%** |
| Penetration of affinity partner households (%) | 2.9 | 4.7 | |
| Policies per customer | 1.30 | 1.24 | |
| **Number of policies ('000):** | | | |
| - Plumbing & drains and water supply pipe | 518 | 419 | |
| - Electrical | 82 | 60 | |
| - Other | 156 | 70 | |
| **Total policies** | **756** | **549** | **37.6%** |
| **Retention rate (%)** | **82.6** | **80.0** | **2.6ppts** |
| **Income per customer ($)** | **70** | **65** | **8%** |

~Includes 5.3m households from SoCalGas and 5m households from National Grid USA which were announced after the year end.

The US has had another strong year generating an increase in revenue† in local currency of 41% (GBP 43%) and a maiden operating profit* of £1.5m. The total number of policies has grown by 38% to 756,000, driven by continued high levels of gross new policy sales of 290,000 (2009: 246,000) and an increase in customer numbers of 31% to 580,000. The retention rate has also increased to 82.6% (2009: 80.0%) as a result of a greater proportion of customers paying for their policies via their utility bill and the success of "Easi-Pay" which encourages cheque paying customers to switch to continuous payment.

Policy growth in the US has been driven by strong take-ups with our new gas affinity partners SEMCO Energy and Piedmont Gas and we have also been successful in attracting new customers under our own brand in those areas where we have not yet signed up an affinity partner.



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*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

On 14 April 2010, we announced the further development and expansion of our US business with the acquisition of National Grid Energy Services' service contract business and the signing of a 10 year marketing agreement with National Grid USA, one of the largest utilities in the USA with over 5 million residential households. The contract business has 365,000 annual service contracts across 186,000 customers and delivers its services through a network of directly employed engineers. The acquisition and marketing agreement, which we expect to complete by the end of August, provides our US operations with a robust and profitable platform to support further business development in the region as well as a significant increase in the scale of our operations in terms of customer and policy numbers and marketing footprint.

On 29 April 2010, we announced the signing of a 5 year marketing agreement with Southern California Gas Co. ("SoCalGas") an energy and services company primarily engaged in the distribution of gas throughout southern California with 5.3 million residential customers. The agreement with SoCalGas and expected completion of the transaction with National Grid USA doubles our US household footprint to over 20m.

**Summary**

We are pleased to report a year of significant progress for HomeServe and another set of strong results for our membership businesses despite the economic conditions. The market opportunities for all our membership businesses are exciting and we are confident that each of them will continue to deliver strong growth over the coming years. The disposal of our UK Emergency Services business allows us to focus exclusively on maximising shareholder value from policy membership through growth in existing markets and further international expansion.

**Richard Harpin**
**Chief Executive**
**25 May 2010**



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**FINANCIAL REVIEW**

These financial results, which have been prepared in accordance with International Financial Reporting Standards (IFRS), focus on the performance of our continuing membership operations following the exit from our UK Emergency Services business during the year, which is treated as a discontinued operation within these results.

Partner commission is included within revenue in these results reflecting our membership-only status (see note 2 to the accounts). The results for the year ending 31 March 2009 have been restated on this basis. This has resulted in an increase in both revenue and operating costs of £23.3m in the year ended 31 March 2010 (2009: £20.4m). Aside from this change, the accounting policies used are consistent with the prior year.

**Group statutory results**

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

| **Continuing operations** | **2010** | **2009 Restated** |
|---|---|---|
| **£million** | | |
| Revenue† | 369.0 | 304.3 |
| Exceptional revenue | 10.2 | - |
| **Total revenue** | **379.2** | **304.3** |
| Operating profit | 106.1 | 84.4 |
| Net interest | (3.9) | (3.6) |
| Profit before tax* | 100.6 | 88.7 |
| Amortisation of acquisition intangibles | (6.5) | (3.7) |
| Exceptional items | 10.2 | (2.3) |
| Tax on joint venture | (2.0) | (1.9) |
| | | |
| Statutory Profit before tax | 102.2 | 80.8 |
| Tax | (29.5) | (24.4) |
| **Profit for the period** | **72.7** | **56.4** |
| | | |
| **Discontinued operations** | | |
| Loss for the period from discontinued operations | (42.0) | (91.7) |
| | | |
| **Profit/(loss) for the period, being attributable to equity holders of the parent** | **30.7** | **(35.3)** |

In accordance with IFRS, statutory operating profit for continuing operations, which has increased by 26% to £106.1m (2009: profit of £84.4m), includes exceptional income of £10.2m, amortisation of acquisition intangibles of £6.5m and our share of the operating result of our joint venture in France £3.6m. The amortisation of acquisition intangibles of £6.5m (2009: £3.7m) principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The year on year increase principally reflects the impact of the SEMCO, SFG, SPT and Reactfast acquisitions. Exceptional operating income of £10.2m relates to the recovery of previous years' Insurance Premium Tax in UK Membership. For our French joint venture, the operating result is defined as profit after tax and hence £2.0m (2009: £1.9m) of taxation is reported within operating profit and profit before tax.



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*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

In accordance with IFRS, statutory operating profit for continuing operations, after amortisation of acquisition intangibles, tax on joint ventures and exceptional operating items, were: UK Membership £104.7m (2009: £83.9m); Continental Europe £1.4m (2009: £2.2m); and USA £35k (2009: loss of £1.7m) resulting in a statutory operating profit for continuing operations of £106.1m (2009: £84.4m). The discontinued operations reported a statutory operating loss of £42.0m.

The Group's net interest charge increased marginally in the year to £3.9m (2009: £3.6m) with a more benign interest rate environment offset by an increase in the deferred consideration interest charge relating to past acquisitions. The interest charge was covered 27 times by operating profit*.

The effective rate of corporation tax is 28.9% (2009: 30.1%). The reduction in the rate is primarily due to the availability of brought forward tax losses in our international businesses which we can start to utilise as those businesses reach profitability.

The earnings of our Doméo joint venture are shown net of tax within pre tax profit. With the increasing profitability (and tax impact of Doméo), it is appropriate to highlight the joint venture adjusted tax rate. Adjusting the tax rate to show the tax relating to joint ventures on a gross basis, the joint venture adjusted tax rate is 30.3% (2009: 31.8%).

Based on current corporation tax rates applicable to our businesses, with the increasing significance of international profits chargeable at higher tax rates than the UK, we anticipate that the joint venture adjusted tax rate will increase marginally over the medium term.

Earnings per share^ for our continuing operations in the period has increased by 14% from 96.9p to 110.9p.

## Group reported results

We continue to consider that profit before the amortisation of acquisition intangibles and tax on our joint venture in France represents an important performance measure for monitoring the business. In addition, in the current year exceptional income of £10.2m (2009: exceptional cost of £2.3m) is excluded in calculating these pro-forma managerial measures. The revenue† and operating profit* of our continuing operations is set out below:

| **£million** | **2010** | **2009 Restated** | **Change** |
|---|---|---|---|
| **Continuing Operations** | | | |
| **Revenue†** | | | |
| - UK | 286.7 | 246.6 | 16% |
| - Continental Europe | 86.5 | 63.4 | 36% |
| - USA | 25.7 | 17.9 | 43% |
| - JV | (29.8) | (23.7) | -26% |
| **Total continuing operations** | **369.0** | **304.3** | **21%** |
| **Operating profit*** | | | |
| - UK | 95.8 | 87.2 | 10% |
| - Continental Europe | 7.2 | 5.3 | 35% |
| - USA | 1.5 | (0.3) | +£1.8m |
| **Total continuing operations** | **104.4** | **92.3** | **13%** |
| Interest | (3.9) | (3.6) | £(0.3)m |
| **Profit before tax*** | **100.6** | **88.7** | **13%** |



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

Revenue† for continuing operations has increased by 21% to £369.0m (2009: £304.3m). Operating profit* has increased by 13% to £104.4m (2009: £92.3m). Excluding the impact of acquisitions (SFG which completed in the year, a full year contribution from SPT in Belgium acquired in December 2008 and Reactfast) and foreign currency movements, revenue† increased by 15% and operating profit* increased by 13%.

Our UK business has delivered another strong year of growth with operating profit* up 10% (2009: 14%), policy growth of 7% (2009: 7%), a retention rate of 82.5% (2009: 83.0%) and improved efficiency in handling customer claims and service delivery.

The contribution from our Continental European business increased by 35% with operating profit* increasing to £7.2m (2009: £5.3m) and revenue growing by 36% to £86.5m (2009: £63.4m). The operating profit* result for Continental Europe of £7.2m comprises £5.7m contribution from our share in the French joint venture Doméo (2009: £4.8m), a £0.7m contribution from SFG, a £0.4m contribution from Spain (2009: £0.1m) and a £0.4m contribution from Belgium. Excluding acquisitions and the impact of foreign currency translation, operating profit* in Europe grew by 28%.

Policy growth of 38% in the US on the back of successful marketing and good take up rates with our gas utility partners and own brand marketing has resulted in a maiden operating profit* of £1.5m (2009: loss* of £0.3m).

The reconciliation between the statutory and pro-forma measures is as follows:

| **£million** | **2010** | **2009** |
|---|---:|---:|
| **Continuing operations** | | |
| Operating profit (statutory) | 106.1 | 84.4 |
| Amortisation of acquisition intangibles | 6.5 | 3.7 |
| Exceptional items | (10.2) | 2.3 |
| Tax on joint ventures | 2.0 | 1.9 |
| **Operating profit*** | **104.4** | **92.3** |
| | | |
| Profit before tax (statutory) | 102.2 | 80.8 |
| Amortisation of acquisition intangibles | 6.5 | 3.7 |
| Exceptional items | (10.2) | 2.3 |
| Tax on joint ventures | 2.0 | 1.9 |
| **Profit before tax*** | **100.6** | **88.7** |
| | | |
| **Pence per share** | | |
| Earnings per share (statutory) | 114.7 | 89.8 |
| Amortisation of acquisition intangibles | 7.8 | 4.4 |
| Exceptional items | (11.6) | 2.8 |
| **Earnings per share^** | **110.9** | **96.9** |



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

**Cash flow and financing**

Cash generated from continuing and discontinued operations amounted to £73.4m (2009: £92.2m), representing a cash conversion (defined as cash generated from operations as a proportion of operating profit*) ratio of 93.2% (2009: 115.7%).

| **£million** | **2010** | **2009** |
|---|---|---|
| Operating profit* from continuing operations | 104.4 | 92.3 |
| Exceptional items, tax on joint venture and amortisation of acquisition intangibles | 1.7 | (7.9) |
| Operating loss from discontinued operations | (27.6) | (4.7) |
| **Operating profit/loss from continuing and discontinued operations** | **78.6** | **79.7** |
| Depreciation, amortisation and other non-cash items | 15.7 | 23.3 |
| Increase in working capital | (20.8) | (10.8) |
| **Cash generated by cont. and disc. operations** | **73.4** | **92.2** |
| Net interest | (3.4) | (4.4) |
| Taxation | (21.5) | (21.0) |
| Capital expenditure | (25.5) | (16.9) |
| Acquisitions/disposals | (25.8) | (23.4) |
| Equity dividends paid | (23.2) | (20.4) |
| Equity dividends received | 3.3 | - |
| Issue of shares | 4.1 | 3.0 |
| Net movement in cash and bank borrowings | (18.6) | 9.1 |
| Impact of foreign exchange | (0.3) | |
| Net (debt)/cash | (52.9) | (34.0) |

During the year, we incurred net capital expenditure of £25.5m (2009: £16.9m) in respect of information systems to support our growing membership businesses and capital payments made to affinity partners for provision of exclusive database access rights.

Overall, net debt in the year increased by £18.9m to £52.9m (2009: £34.0m), including the impact of acquisitions and disposals of £25.8m (2009: £23.4m). There was a net cash inflow of £3.1m (2009: £29.5m) before acquisitions and disposals, share purchases and financing. We continue to have a low level of financial gearing and our priority remains to use our financial leverage to fund strategic acquisitions which accelerate the development of our UK and international membership businesses.

In the year we had a working capital outflow of £20.8m reflecting growth in our membership businesses, with a greater proportion of customers moving to combined policies and paying for their policies monthly via direct debit.

**Dividend**

The proposed payment of a final dividend of 8.5p per share together with the payment of the first and second interim dividend payments of 11.5p and 24.0p per share respectively brings the total dividend for the year to 44.0p (2009: 35.5p), a year on year increase of 24% (2009: 14%). The final dividend is to be paid on 4 August 2010 to shareholders on the register on 2 July 2010.



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

## Discontinued Operations

The loss from our discontinued operations of £42.0m reflects the decision to exit our UK Emergency Services business.

## Exceptional items

During the period, we benefited from a one off exceptional revenue gain of £10.2m (2009: exceptional cost of £2.3m relating to the reorganisation of our UK businesses) in respect of previous years' Insurance Premium Tax following a successful appeal to the High Court.

## Foreign exchange impact

The financial performance reported for our international businesses and comparison with last year is impacted by foreign exchange movements on translation. The reported revenue growth in Europe and the US of 36% and 43% respectively, equates to 31% and 41% in local currency. The total reported operating profit* of £8.7m in our international membership divisions was reduced by £0.4m as a result of adverse foreign currency movements, reflecting the seasonality of the business and weighting of profits towards the second half.

## Acquisitions

HomeServe continues to add to its organic growth through the completion of carefully selected acquisitions. Acquisition expenditure during the year totalled £25.5m, including the purchase of SFG (£15.6m), acquisitions within our UK Plumbing and Drainage business (£7.0m), and Reactfast (£2.0m), with a further £0.9m of deferred consideration paid in relation to acquisitions completed in prior years. After the year end, we announced the acquisition of National Grid Energy Services' contract business for net consideration of $14m. This transaction is expected to complete by the end of August 2010.

## Key Performance Indicators

In order to assist in the management of the business and to provide evidence of achieving its strategic priorities, the Board regularly reviews a number of Key Performance Indicators ("KPIs") including customer and policy numbers which are set out below for our membership businesses.

### *Changing the way we measure and report our KPIs*

"Core Renewable Customers" ("CRCs"), are those customers that we have recruited under an affinity partner brand (such as a utility or manufacturer) or our own brand and where we have a direct ongoing relationship with the customer including the right to renew. "Revenue Customers" are those customers where we receive income for providing a policy or service but where we do not have a direct ongoing customer relationship or renewal rights.



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

In the future, our KPIs will be reported on a Core Renewable basis only as we believe this represents a more accurate picture of our customer numbers and associated KPIs (policies, policies per customer, retention etc). This change in approach only impacts our UK Membership business as all of our international businesses already report KPIs on a Core Renewable basis.

**UK KPIs**

| | Old basis including Revenue | | | Core Renewable Basis | | |
|---|---|---|---|---|---|---|
| | **2010** | **2009** | **Change** | **2010** | **2009** | **Change** |
| **UK Membership** | | | | | | |
| Affinity Partner Households** (m) | 23.4 | 23.4 | - | 23.4 | 23.4 | - |
| Total Policies ('000) | 7,552 | 7,054 | 7.0% | 7,097 | 6,645 | 6.8% |
| Customers ('000) | 3,255 | 3,159 | 3.0% | 2,876 | 2,807 | 2.4% |
| Retention rate (%) | 82.5 | 83.0 | -0.5ppts | 83.0 | 83.2 | -0.2ppts |
| Policies per customer | 2.32 | 2.23 | | 2.47 | 2.37 | |
| Income per customer £ | 74 | 65 | 13.7% | 82 | 72 | 14.6% |
| Gross new policies ('000) | 1,834 | 1,826 | 0.5% | 1,581 | 1,619 | -2.4% |

**International KPIs**

With the exception of affinity partner households which for the US shows the position as at 25 May 2010, the policy, customer and market performance metrics of our membership businesses as at 31 March 2010 were as follows:

| | **2010** | **2009** | **Change** |
|---|---|---|---|
| **France** | | | |
| Affinity Partner Households** (excl apartments) (m) | 14.3 | 13.5 | 6.2% |
| Total Policies ('000) | 1,928 | 1,567 | 23.1% |
| Customers ('000) | 769 | 683 | 12.6% |
| Retention rate (%) | 88.3 | 87.9 | 0.4ppts |
| Policies per customer | 2.51 | 2.29 | |
| Gross new policies ('000) | 532 | 526 | 1.1% |
| **Spain** | | | |
| Affinity Partner Households** (m) | 10.0 | 9.2 | 8.7% |
| Total Policies ('000) | 94 | 48 | 97.6% |
| Customers ('000) | 79 | 47 | 67.0% |
| Policies per customer | 1.19 | 1.01 | |
| Gross new policies ('000) | 53 | 47 | 13.1% |
| **USA** | | | |
| Affinity Partner Households** (m) | 20.3~ | 9.4 | 117% |
| Total Policies ('000) | 756 | 549 | 37.6% |
| Customers ('000) | 580 | 442 | 31.2% |
| Retention rate % | 82.6 | 80.0 | 2.6ppts |
| Policies per customer | 1.30 | 1.24 | |
| Gross new policies ('000) | 290 | 246 | 17.6% |

** Affinity Partner households are those households that we market to under an affinity partner brand

~ Includes 5.3m households from SoCalGas and 5m from National Grid USA announced after the year end



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

## Risks and uncertainties

There are a number of potential risks and uncertainties that could have an impact on the Group's performance as detailed below.

## Financial Risk

As part of its ordinary activities, HomeServe is exposed to a number of financial risks, principally liquidity risk and credit risk. The Group has policies and procedures on how these risks will be monitored and managed.

Liquidity risk relates to the Group's ability to meet the cash flow requirements of the operations, while avoiding excessive levels of debt. The Group's borrowings are principally in the form of short and medium term revolving credit facilities, which can be drawn down on demand, providing flexible access to debt when required. The total amount available under the facility is £150m and the renewal date is December 2012. The amount of any committed undrawn facilities is closely monitored by the Board on a regular basis.

The business is not currently exposed to significant foreign currency risk in relation to overseas transactions. However, as the overseas businesses grow, its exposure to risks relating to the translation of overseas profits increases. These risks are kept under constant review and policies exist to mitigate them should they increase in significance.

Credit risk principally relates to trade receivables from customers. Detailed policies and procedures for the assessment of all customers are in place including reviewing credit history and setting appropriate credit limits before trading commences. The majority of our trade receivable balances within our continuing operations relate to our membership customers who pay for their policies on a monthly or quarterly basis through continuous payment methods, such as direct debit.

## Interest rate risk

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

## Commercial relationships

Underpinning the success in each of our chosen markets are close commercial relationships with a number of utility companies, household insurers, household appliance manufacturers and furniture retailers. Many of these are long term contractual relationships and the loss of these relationships could have a significant effect on the Group's future profitability and cash flows. This risk is managed through regular reviews and contact with the senior management of these customers in order to ensure that we respond to their needs and deliver the service that they expect.



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

## Competitors

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

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement. Principal risks and uncertainties are detailed in this review. In addition, this review includes, amongst other things, cash flow and financing information.

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

## Summary

I am pleased to report another very good financial performance for HomeServe for the year. Our membership businesses have once again delivered strong levels of profit growth including an increased contribution from our international operations. With the UK delivering another good year including customer growth of 3% and a significant increase in our international footprint, the Group is well placed to continue to deliver further profitable growth this financial year and into the future. The business continues to generate strong levels of cash conversion and this, combined with low financial gearing enables us to access the funds required to make strategic acquisitions and accelerate development as a membership-focused business.

**Martin Bennett**
**Chief Financial Officer**
**25 May 2010**



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

**Responsibility statement**

The responsibility statement below has been prepared in connection with the company's full annual report for the year ending 31 March 2010. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- the management report, which is incorporated into the directors' 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 they face.

This responsibility statement was approved by the board of directors on 25 May 2010 and is signed on its behalf by:

**Richard Harpin**
**Chief Executive**

**Martin Bennett**
**Chief Financial Officer**



†Including restatement to gross up commissions in 2010 and 2009, but excluding exceptional operating income received during the period, see Financial Review and notes 2 and 4.
*Excluding amortisation of acquisition intangibles, exceptional operating items and joint venture taxation, see Financial Review and notes 4 and 7.
^Excluding amortisation of acquisition intangibles and exceptional operating items, see Financial Review and notes 4 and 7.

**Group Income Statement**
**Year ended 31 March 2010**

| | Note | 2010 £000 | Restated (note 3) 2009 £000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | | 368,995 | 304,281 |
| Exceptional revenue[1] | **4** | 10,195 | - |
| **Total revenue** | **3** | **379,190** | **304,281** |
| Operating costs: | | | |
| Exceptional operating costs[1] | **4** | - | (2,317) |
| Amortisation of acquisition intangibles | | (6,484) | (3,664) |
| Other operating costs | | (270,250) | (217,392) |
| Operating costs | | (276,734) | (223,373) |
| Share of profit of joint ventures | | 3,643 | 3,451 |
| **Operating profit** | | **106,099** | **84,359** |
| Investment income | | 191 | 1,237 |
| Finance costs | | (4,054) | (4,808) |
| **Profit before tax, amortisation of acquisition intangibles, exceptional items[1] and tax on joint ventures** | | **100,574** | **88,710** |
| Exceptional revenue[1] | **4** | 10,195 | - |
| Exceptional operating costs [1] | **4** | - | (2,317) |
| Amortisation of acquisition intangibles | | (6,484) | (3,664) |
| Tax on joint ventures | | (2,049) | (1,941) |
| **Profit before tax** | | **102,236** | **80,788** |
| Tax | **5** | (29,513) | (24,352) |
| **Profit for the year** | | **72,723** | **56,436** |
| **Discontinued operations** | | | |
| Loss from discontinued operations | **8** | (42,025) | (91,742) |
| **Profit/(loss) for the year, being attributable to equity holders of the parent** | | **30,698** | **(35,306)** |
| **Dividends per share, paid and proposed** | **6** | **44.0p** | **35.5p** |
| **Earnings/(loss) per share** | **7** | | |
| From continuing operations | | | |
| Basic | | **114.7p** | 89.8p |
| Diluted | | **111.0p** | 87.0p |
| From continuing and discontinued operations | | | |
| Basic | | **48.4p** | (56.2)p |
| Diluted | | **46.8p** | (56.2)p |

[1] In the current year, exceptional revenue of £10,195,000 relates to income arising from the successful recovery of previous years' Insurance Premium Tax. In the prior year, exceptional operating costs of £2,317,000 relate to the reorganisation of our UK business.

**Group Balance Sheet**
**31 March 2010**

| | Note | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | 190,186 | 175,667 |
| Other intangible assets | | 56,386 | 43,814 |
| Property, plant and equipment | | 32,923 | 34,518 |
| Interests in joint ventures | | 5,924 | 5,224 |
| Deferred tax assets | | 2,937 | 4,189 |
| | | 288,356 | 263,412 |
| **Current assets** | | | |
| Inventories | | 950 | 9,495 |
| Trade and other receivables | | 235,122 | 206,132 |
| Cash and cash equivalents | **9** | 25,409 | 21,345 |
| | | 261,481 | 236,972 |
| **Total assets** | | **549,837** | **500,384** |
| **Current liabilities** | | | |
| Trade and other payables | | (206,297) | (206,033) |
| Current tax liabilities | | (9,500) | (11,790) |
| Derivative financial instruments | | - | (1,947) |
| Bank and other loans | **9** | (28,300) | (55,300) |
| | | (244,097) | (275,070) |
| **Net current liabilities** | | **17,384** | **(38,098)** |
| **Non-current liabilities** | | | |
| Bank and other loans | **9** | (50,000) | - |
| Other financial liabilities | | (17,431) | (10,411) |
| Retirement benefit obligation | | (4,248) | (1,919) |
| | | (71,679) | (12,330) |
| **Total liabilities** | | **(315,776)** | **(287,400)** |
| **Net assets** | | **234,061** | **212,984** |
| **Equity** | | | |
| Share capital | **10** | 8,218 | 8,167 |
| Share premium account | | 36,102 | 33,486 |
| Merger reserve | | 70,992 | 70,992 |
| Own shares reserve | | (24,958) | (27,523) |
| Share incentive reserve | | 6,538 | 8,381 |
| Capital redemption reserve | | 1,200 | 1,200 |
| Hedging and currency translation reserve | | 8,722 | 2,336 |
| Retained earnings | | 127,247 | 115,945 |
| **Total equity** | | **234,061** | **212,984** |

## Group Statement of Comprehensive Income
## Year ended 31 March 2010

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| **Profit/(loss) for the year** | **30,698** | **(35,306)** |
| Exchange differences on translation of foreign operations | 4,439 | 4,173 |
| Actuarial losses on defined benefit pension scheme | (2,664) | (2,049) |
| Movement on cash flow hedge | 1,947 | (1,947) |
| Tax on items taken directly to equity | 746 | 537 |
| **Total comprehensive income/(expense) for the year attributable to equity holders of the parent** | 35,166 | (34,592) |

## Group Statement of Changes in Equity
## Year ended 31 March 2010

| | Share capital | Share premium account | Merger reserve | Own shares reserve | Share incentive reserve | Capital redemption reserve | Hedging and translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2009** | **8,167** | **33,486** | **70,992** | **(27,523)** | **8,381** | **1,200** | **2,336** | **115,945** | **212,984** |
| Total comprehensive income | - | - | - | - | - | - | 6,386 | 28,780 | **35,166** |
| Dividends paid | - | - | - | - | - | - | - | (23,180) | **(23,180)** |
| Issue of share capital | 51 | 2,616 | - | - | - | - | - | - | **2,667** |
| Issue of trust shares | - | - | - | 2,565 | - | - | - | (1,111) | **1,454** |
| Share based payments | - | - | - | - | 2,397 | - | - | - | **2,397** |
| Share options exercised | - | - | - | - | (2,297) | - | - | 2,297 | **-** |
| Tax on exercised share options | - | - | - | - | - | - | - | 1,798 | **1,798** |
| Deferred tax on share options | - | - | - | - | - | - | - | 775 | **775** |
| Transfer from share incentive reserve | - | - | - | - | (1,943) | - | - | 1,943 | **-** |
| **Balance at 31 March 2010** | **8,218** | **36,102** | **70,992** | **(24,958)** | **6,538** | **1,200** | **8,722** | **127,247** | **234,061** |

## Group Statement of Changes in Equity
## Year ended 31 March 2009

| | Share capital | Share premium account | Merger reserve | Own shares reserve | Share incentive reserve | Capital redemption reserve | Hedging and translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2008** | **8,147** | **32,507** | **70,992** | **(29,586)** | **6,550** | **1,200** | **110** | **175,493** | **265,413** |
| Total comprehensive income | - | - | - | - | - | - | 2,226 | (36,818) | **(34,592)** |
| Dividends paid | - | - | - | - | - | - | - | (20,415) | **(20,415)** |
| Issue of share capital | 20 | 979 | - | - | - | - | - | - | **999** |
| Issue of trust shares | - | - | - | 2,063 | - | - | - | (53) | **2,010** |
| Share based payments | - | - | - | - | 3,217 | - | - | - | **3,217** |
| Share options exercised | - | - | - | - | (1,386) | - | - | 1,386 | **-** |
| Tax on exercised share options | - | - | - | - | - | - | - | 1,129 | **1,129** |
| Deferred tax on share options | - | - | - | - | - | - | - | (4,777) | **(4,777)** |
| **Balance at 31 March 2009** | **8,167** | **33,486** | **70,992** | **(27,523)** | **8,381** | **1,200** | **2,336** | **115,945** | **212,984** |

**Group Cash Flow Statement**
**Year ended 31 March 2010**

| | Note | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **Operating profit from continuing operations** | | **106,099** | **84,359** |
| Operating loss from discontinued operations | | (27,555) | (101,851) |
| **Operating profit/(loss) from continuing and discontinued operations** | | **78,544** | **(17,492)** |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 4,580 | 6,706 |
| Amortisation of acquisition intangibles | | 11,871 | 16,322 |
| Impairment of UK Emergency Services assets | | - | 97,184 |
| Share based payments expense | | 2,397 | 3,217 |
| Share of results of joint ventures | | (3,643) | (3,451) |
| Profit on disposal of property, plant and equipment and software | | 446 | 527 |
| **Operating cash flows before movements in working capital** | | **94,195** | **103,013** |
| Decrease/(increase) in inventories | | 3,615 | (1,547) |
| Increase in receivables | | (27,039) | (14,435) |
| Increase in payables | | 2,624 | 5,199 |
| **Net movement in working capital** | | **(20,800)** | **(10,783)** |
| **Cash generated by operations** | | **73,395** | **92,230** |
| Income taxes paid | | (21,490) | (21,009) |
| Interest paid | | (3,610) | (5,739) |
| **Net cash from operating activities** | | **48,295** | **65,482** |
| **Investing activities** | | | |
| Interest received | | 191 | 1,353 |
| Dividend from joint venture | | 3,255 | - |
| Proceeds on disposal of property, plant and equipment | | 1,329 | 1,104 |
| Purchases of intangible assets | | (21,624) | (13,210) |
| Purchases of property, plant and equipment | | (5,022) | (4,065) |
| Net cash outflow on acquisitions | **11** | (25,541) | (23,380) |
| Disposal of subsidiary undertakings | | (241) | - |
| Acquisition of investment in joint venture | | (223) | (731) |
| **Net cash used in investing activities** | | **(47,876)** | **(38,929)** |
| **Financing activities** | | | |
| Dividends paid | | (23,180) | (20,415) |
| Issue of shares from the employee benefit trust | | 1,453 | 2,010 |
| Proceeds on issue of share capital | | 2,667 | 999 |
| Increase/(decrease) in bank loans | | 23,000 | (35,000) |
| **Net cash from/(used in) financing activities** | | **3,940** | **(52,406)** |
| **Net increase/(decrease) in cash and cash equivalents** | | 4,359 | (25,853) |
| **Cash and cash equivalents at beginning of year** | | 21,345 | 47,198 |
| **Effect of foreign exchange rate changes** | | (295) | - |
| **Cash and cash equivalents at end of year** | | **25,409** | **21,345** |

**Notes to the condensed set of financial statements**

**1. General information**

While the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) adopted for use by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs. The Company will publish full financial statements that comply with IFRSs in June 2010.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 March 2010 or 31 March 2009, but is derived from those financial statements. Statutory financial statements for 2009 prepared under IFRSs have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's Annual General Meeting. The auditors, Deloitte LLP, have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) Companies Act 2006 or equivalent preceding legislation. These financial statements were approved by the Board of Directors on 25 May 2010.

**2. Accounting policies**

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest audited financial statements, except as described below.

*Restatement*
The Directors have concluded that commissions payable to third parties should be shown gross within revenue and operating costs. This has resulted in an increase in both revenue and operating costs of £23,300,000 (2009: £20,400,000).

*Standards affecting presentation and disclosure*
IAS 1 (revised 2007) Presentation of Financial Statements: IAS 1 (revised 2007) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

*Standards not affecting the reported results nor the financial position*
Amendment to IAS 38 Intangible Assets: IAS 38 has been amended to state that an entity is permitted to recognise a prepayment asset for advertising or promotional expenditure only up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of the services. In the past HomeServe has recognised inventories of brochures as an asset up to the date of dispatch to the customer. The adoption of this amendment has not resulted in any significant impact on these financial statements.

**3. Segmental analysis**

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 Executive to allocate resources to the segments and to assess their performance. The Group is managed around three operating divisions – UK Membership, Continental Europe and United States of America. Segment information about these businesses is presented below:

| **2010** | **UK Membership £000** | **Continental Europe £000** | **United States of America £000** | **Total £000** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **286,650** | **86,511** | **25,676** | **398,837** |
| Exceptional revenue | **10,195** | **-** | **-** | **10,195** |
| Joint venture revenues not recognisable for statutory reporting | **-** | **(29,842)** | **-** | **(29,842)** |
| External sales | **296,845** | **56,669** | **25,676** | **379,190** |
| Inter-segment sales are charged at prevailing market prices. | | | | |
| **Result** | | | | |
| Segment operating profit pre amortisation of acquisition intangibles, tax on joint ventures and exceptional items | **95,754** | **7,200** | **1,483** | **104,437** |
| Amortisation of acquisition intangibles | **(1,258)** | **(3,778)** | **(1,448)** | **(6,484)** |
| Tax on joint ventures | **-** | **(2,049)** | **-** | **(2,049)** |
| Exceptional revenue | **10,195** | **-** | **-** | **10,195** |
| Operating profit | **104,691** | **1,373** | **35** | **106,099** |
| Investment income | | | | **191** |
| Finance costs | | | | **(4,054)** |
| Profit before tax from continuing operations | | | | **102,236** |
| Tax | | | | **(29,513)** |
| Profit after tax from continuing operations | | | | **72,723** |
| Loss from discontinued operations | | | | **(42,025)** |
| Profit for the year | | | | **30,698** |

| 2009 | Restated UK Membership £000 | Continental Europe £000 | Restated United States of America £000 | Restated Total £000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | 246,609 | 63,404 | 17,919 | 327,932 |
| Eliminations | (497) | - | - | (497) |
| Joint venture revenues not recognisable for statutory reporting | - | (23,154) | - | (23,154) |
| External sales | 246,112 | 40,250 | 17,919 | 304,281 |
| Inter-segment sales are charged at prevailing market prices. | | | | |
| **Result** | | | | |
| Segment operating profit/(loss) pre amortisation of acquisition intangibles, tax on joint ventures and exceptional items | 87,228 | 5,347 | (294) | 92,281 |
| Amortisation of acquisition intangibles | (984) | (1,244) | (1,436) | (3,664) |
| Tax on joint ventures | - | (1,941) | - | (1,941) |
| Exceptional operating costs | (2,317) | - | - | (2,317) |
| Operating profit/(loss) | 83,927 | 2,162 | (1,730) | 84,359 |
| Investment income | | | | 1,237 |
| Finance costs | | | | (4,808) |
| Profit before tax from continuing operations | | | | 80,788 |
| Tax | | | | (24,352) |
| Profit after tax from continuing operations | | | | 56,436 |
| Loss from discontinued operations | | | | (91,742) |
| Loss for the year | | | | (35,306) |

**4. Exceptional items**

In the current year, exceptional revenue of £10,195,000 (2009: £nil) relates to income arising from the successful recovery of previous years' Insurance Premium Tax. This has been treated as revenue to reflect where this income would originally have been recorded. In the prior year, exceptional operating costs of £2,317,000 relate to the reorganisation of our UK business.

**5. Tax**

The effective rate of corporation tax is 28.9% (2009: 30.1%). The reduction in the rate is primarily due to the availability of brought forward tax losses in international businesses which can be utilised as those businesses reach profitability.

The earnings of Doméo, a joint venture, are shown net of tax within pre tax profit. With the increasing profitability (and tax impact of Doméo), it is appropriate to highlight the joint venture adjusted tax rate. Adjusting the tax rate to show the tax relating to joint ventures on a gross basis, the joint venture adjusted tax rate is 30.3% (2009: 31.8%).

| | Continuing operations | | Discontinued operations | | **Total** | Total |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Current tax | **32,129** | 22,427 | **(11,133)** | 572 | **20,996** | 22,999 |
| Deferred tax | **(2,616)** | 1,925 | **1,472** | (11,328) | **(1,144)** | (9,403) |
| Total tax charge/(credit) | **29,513** | 24,352 | **(9,661)** | (10,756) | **19,852** | 13,596 |

**6. Dividends per share**

An interim dividend of 11.5p per share amounting to £7,313,000 (2009: 10.5p per share amounting to £6,643,000) was paid on 4 January 2010.

The second interim dividend of 24.0p per share amounting to £15,278,000 was paid on 1 April 2010 to shareholders on the register at the close of business on 5 March 2010.

The proposed final dividend for the year ended 31 March 2010 is 8.5p per share amounting to £5,440,000 (2009: 25.0p per share amounting to £15,867,000) will be paid on 4 August 2010 to the shareholders on the register at the close of business on 2 July 2010.

## 7. Earnings per share

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS 33 Earnings Per Share. Basic earnings per share is calculated by dividing the profit or loss in the financial year by the weighted average number of ordinary shares in issue during the period. Adjusted earnings per share is calculated excluding amortisation of acquisition intangibles and exceptional items (note 4). This is considered to be a better indicator of the performance of the Group. As profit for the year and adjusted profit for the year are stated after tax, it is not considered necessary to include in the reconciliation below the impact of the adjustment for the tax charge on joint ventures of £2,049,000 (2009: £1,941,000). Diluted earnings per share includes the impact of dilutive share options in issue throughout the period.

| | Continuing operations | | Discontinued operations | | Continuing and discontinued operations | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **pence** | pence | **pence** | pence | **pence** | pence |
| Basic | **114.7** | 89.8 | **(66.3)** | (145.9) | **48.4** | (56.2) |
| Diluted | **111.0** | 87.0 | **(66.3)** | (145.9) | **46.8** | (56.2) |
| Basic adjusted | **110.9** | 96.9 | | | | |
| Diluted adjusted | **107.3** | 93.9 | | | | |

| | | |
|---|---|---|
| Weighted average number of shares (000s) | | |
| Basic | **63,387** | 62,878 |
| Dilutive impact of share options | **2,144** | 2,003 |
| Diluted | **65,531** | 64,881 |

| | **2010** | 2009 |
|---|---|---|
| **From continuing operations** | **£000** | £000 |
| Profit for the year | **72,723** | 56,436 |
| Amortisation of acquisition intangibles | **6,484** | 3,664 |
| Exceptional operating costs (note 4) | **-** | 2,317 |
| Exceptional operating revenue (note 4) | **(10,195)** | - |
| Tax impact arising on amortisation of acquisition intangibles and exceptional operating items | **1,308** | (1,477) |
| Adjusted profit for the year | **70,320** | 60,940 |

## 8. Discontinued operations

On 24 September 2009, the Group announced the sale of its Emergency Services Division (excluding the HomeServe Property Repairs businesses) (the “HES Disposal Division”) to a newly incorporated company backed by Lloyds TSB Development Capital Limited and management. The total consideration will be up to £11,000,000 of which £7,652,000 was paid in cash on completion. Deferred consideration relates to successful future contract renewals and the resolution of indemnities as part of the sale. The sale of the HES Disposal Division is consistent with HomeServe plc’s previously announced strategic objectives enabling it to focus on the Group’s higher margin, higher growth membership businesses.

The HES Disposal Division consisted of the businesses operated by HomeServe Glazing & Locks, HomeServe Contents Services and ChemDry. These businesses provide repair and replacement services primarily to the end customer/policyholder of general insurers in the United Kingdom through a network of directly employed, franchised and sub-contract engineers.

Following the disposal of the HES Disposal Division the Board announced the proposed closure of HomeServe Property Repairs Limited, based in Nottingham, and Anglia (NW) Limited, based in Dyserth, North Wales (together the “Property Repairs” business) on 20 October 2009. This closure process was completed during the year ended 31 March 2010. Accordingly, the results of HES Disposal Division and Property Repairs have been treated as discontinued in these financial statements.

The results of the discontinued operations (consisting of HES Disposal Division and Property Repairs), which have been included in the consolidated income statement, were as follows:

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| Revenue | **81,983** | 233,601 |
| Expenses | **(109,538)** | (238,268) |
| Impairment of UK Emergency Services assets | **-** | (97,184) |
| Operating loss | **(27,555)** | (101,851) |
| Interest | **(187)** | (647) |
| Loss before tax | **(27,742)** | (102,498) |
| Attributable tax credit | **9,661** | 10,756 |
| Loss on disposal of discontinued operations | **(23,944)** | - |
| **Net loss attributable to discontinued operations** | **(42,025)** | **(91,742)** |

During the year, the discontinued operations had a net cash outflow of £17,705,000 (2009: cash inflow of £28,387,000) in respect of operating cash flows, paid £962,000 (2009: £5,641,000) in respect of investing activities and paid £nil (2009: £nil) in respect of financing activities.

The net assets of HES Disposal Division at 24 September 2009 (the date of disposal) and at 31 March 2009 were as follows:

| | 24 September 2009 | 31 March 2009 |
|---|---|---|
| | £000 | £000 |
| Goodwill | 14,936 | 15,854 |
| Other intangible assets | 4,550 | 5,593 |
| Property, plant and equipment | 704 | 2,622 |
| Inventories | 4,952 | 5,885 |
| Trade and other receivables | 20,178 | 15,946 |
| Cash and cash equivalents | 9,788 | 2,384 |
| Trade and other payables | (28,828) | (33,762) |
| Current and deferred tax assets | 1,792 | 1,877 |
| Net assets disposed | 28,072 | 16,399 |
| Total consideration recognised | (9,547) | |
| Loss on disposal before disposal costs and sale indemnities | 18,525 | |
| Disposal costs and sale indemnities | 5,419 | |
| **Loss on disposal** | **23,944** | |

Disposal costs and indemnities consist of professional fees associated with the disposal, together with indemnities for anticipated liabilities arising from the disposal. These costs are expected to be incurred by 31 March 2011.

Total consideration can be analysed as follows:

| | £000 |
|---|---|
| Cash on completion | 7,652 |
| Deferred consideration received post completion | 1,895 |
| Total consideration recognised | **9,547** |

The deferred consideration is expected to be settled in cash by the purchaser by 31 March 2011.

**9. Analysis of net debt**

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| Bank loans net of cash and cash equivalents | **2,591** | 33,655 |
| Bank loans - non-current | **50,000** | - |
| Loan notes | **300** | 300 |
| Net debt | **52,891** | 33,955 |

**10. Share capital**

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| Authorised: | | |
| 70,400,000 ordinary shares of 12.5p each | **8,800** | 8,800 |
| | | |
| Issued and fully paid: | | |
| 65,741,000 ordinary shares of 12.5p each (2009: 65,333,000 ordinary shares of 12.5p each) | **8,218** | 8,167 |

During the year, the Company issued 408,000 shares with a nominal value of 12.5p creating share capital of £51,000 and share premium of £2,616,000.

**11. Acquisitions**

On 22 May 2009, the Group acquired 100% of the share capital of Société Française de Garantie S.A. (SFG), a leading French extended warranty seller and service provider. There were also a number of other acquisitions in the year which individually were not significant.

All these transactions have been accounted for by the purchase method of accounting. Fair values are reported as provisional for a period of 12 months following acquisition to allow the incorporation of any subsequent amendments to completion accounts, contingent consideration or directly attributable costs.

Fair value adjustments to the acquired underlying book value of assets and liabilities, prior to the recognition of fair values on intangible assets identified on acquisition, were not significant, and in summary terms consisted of:

- SFG – Acquired book value of net assets of £3,146,000 increased by £241,000 to eliminate certain historic liabilities.
- Other acquisitions – Acquired book value of net liabilities of £65,000, reduced by £279,000 for provision of certain receivables and payables, to recognise impairment against redundant fixed assets and to recognise additional liabilities.

As these adjustments were not significant, no separate tabular summary of pre-adjusted balance sheets, together with analysis of the line items that these adjustments relate to, has been presented.

The provisional fair values, after the adjustments noted above, together with the assessment of the fair value of intangible assets identified on acquisition, are set out in the table below:

| | SFG £000 | Other £000 | Total £000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 257 | 131 | 388 |
| Intangible assets | 259 | 111 | 370 |
| Inventories | - | 22 | 22 |
| Trade and other receivables | 22,489 | 542 | 23,031 |
| Cash and cash equivalents | 7,191 | 792 | 7,983 |
| Trade and other payables | (26,809) | (1,942) | (28,751) |
| Deferred tax liability | (1,893) | (153) | (2,046) |
| | 1,494 | (497) | 997 |
| Intangible assets identified on acquisition | 6,311 | 546 | 6,857 |
| Goodwill | 14,981 | 9,792 | 24,773 |
| Total consideration | 22,786 | 9,841 | 32,627 |
| Satisfied by: | | | |
| Cash | 22,365 | 9,473 | 31,838 |
| Directly attributable costs | 421 | 368 | 789 |
| | 22,786 | 9,841 | 32,627 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration | 22,786 | 9,841 | 32,627 |
| Cash and cash equivalents acquired | (7,191) | (792) | (7,983) |
| | 15,595 | 9,049 | 24,644 |

Intangible assets identified on the acquisitions of SFG and Other acquisitions represent the Directors' estimate of the value of the customer relationships at acquisition, the expected value of trade names associated with the business or the value of acquired customer policy databases. Goodwill represents future cross sell opportunities, efficiency savings and synergies from these acquisitions.

If all the acquisitions had been completed on the first day of the financial year, the Group revenues for the year and Group profit before tax attributable to equity holders of the parent would have been £380,807,000 and £102,240,000 respectively, for continuing operations.

In addition to the net cash outflow arising on the acquisitions above of £24,644,000, contingent and deferred consideration of £897,000 was paid relating to prior period acquisitions; and additional goodwill of £582,000 was recognised in respect of adjustments to consideration relating to other prior acquisitions.

The post acquisition operating profit from these acquisitions in the year ended 31 March 2010 was as follows:

| | SFG £000 |
|---|---|
| Operating profit pre amortisation of acquisition intangibles | 722 |
| Operating loss post amortisation of acquisition intangibles | (550) |

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

**12. 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 Group and its related parties are disclosed below.

**Trading transactions**

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

| | Provision of services | | Purchases of services | | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Harpin Limited | - | - | **326** | 232 | **-** | - | 92 | 35 |
| Pilot Services (GB) Limited | - | - | **18** | 39 | **-** | - | - | 5 |
| Joint ventures | **2,331** | 2,026 | **1,000** | - | **887** | 1,581 | 387 | - |

Harpin Limited and Pilot Services (GB) Limited are related parties of the Group because they are controlled by Richard Harpin.

In addition to the transactions above, Home Service USA Corp purchased advisory services of £65,000 (2009: £nil) from Lexicon Partners (US) LLC, which is a New York based US subsidiary of the Lexicon Partnership LLP , a UK based limited liability partnership of which Andrew Sibbald, Non-Executive Director, is the Senior Partner. The balance outstanding at the end of the year was £65,000 (2009: £nil).

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.

**13. Events after the balance sheet date**

On 14 April 2010 the Group announced the further development of its US business with the acquisition of National Grid Energy Services' ("NGES") service contract business from National Grid Energy Services LLC. Home Service USA has also entered into a marketing agreement to use the National Grid Energy Services name. National Grid Energy Services is a subsidiary of National Grid USA, one of the largest utilities in the US serving 6.7 million customers including over 5 million residential households. Completion is expected to take place within 120 days of 14 April 2010.

On 29 April 2010 the Group announced another development in its US business, Home Service USA, with the signing of a five-year agreement with Southern California Gas Co. (SoCalGas). SoCalGas is an energy and services company primarily engaged in the distribution of natural gas throughout Southern California with approximately 5.3 million residential customers.

There were no other post balance sheet events between the balance sheet date and the signing of the financial statements.

**14. Other information**

An analysts' presentation will be held at 9.00am on Tuesday 25 May 2010 at UBS Investment Bank, 1 Finsbury Avenue, London EC2M 3PP. The Annual Report and Accounts for the year ended 31 March 2010 were approved by the Board on 25 May 2010 and will be made available on the Company's website and posted to those shareholders who have requested it in June 2010. Copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.