HomeServe plc
Preliminary results for the year ended 31 March 2017

	2017	2016	Change
Revenue	**£785.0m**	£633.2m	+24%
Statutory operating profit	**£104.7m**	£86.9m	+20%
Statutory profit before tax	**£98.3m**	£82.6m	+19%
Basic earnings per share	**24.0p**	19.6p	+22%
Adjusted operating profit [1]	**£118.8m**	£97.3m	+22%
Adjusted profit before tax	**£112.4m**	£93.0m	+21%
Adjusted earnings per share	**27.0p**	21.8p	+24%
EBITDA	**£154.2m**	£122.7m	+26%
Ordinary dividend per share	**15.3p**	12.7p	+20%
Net debt	**£261.4m**	£169.5m	+54%
Total number of customers	**7.8m**	7.0m	+11%

Strong momentum across the Group, with a record performance in North America

- Statutory operating profit up 20% to £104.7m; Adjusted operating profit up 22% to £118.8m reflecting strong underlying performance –both included a £10.3m foreign exchange benefit.
- Solid UK performance; 2.2m customers up 1%, launched Aviva Home Response product range
- Rapid expansion in North America
  - Record partner signings; 100 new partners and affinity partner households now at 50m
  - Significant growth in customer numbers and adjusted operating profit - up 28% to 3.0m and 75% to £21.2m
- France and Spain customer numbers up 4% and 7% respectively
- Our Italian business agreed a joint venture with Edison Energia, a major utility in Italy
- Investment in Checkatrade and acquisition of Habitissimo
- Strong cash generation - 118% cash conversion [2]
- Net debt 1.7x adjusted EBITDA, reflecting recent M&A activity
- Dividend up 20% to 15.3p

Richard Harpin, Chief Executive, HomeServe plc, commented:

"It has been a very good year for HomeServe with all of our businesses performing well. In North America we had a transformational year, achieving the 3m customer milestone and signing 100 new partners. The acquisition of Utility Service Partners (USP) has accelerated our progress in this large and important market.

The investments we have made in Checkatrade and Habitissimo are a major step forward and position HomeServe at the fore of the online revolution we are seeing in home services. We are focused on developing an online platform to connect a wider customer demographic to a broader range of expert tradespeople – "Home Experts".

With these opportunities, and the positive outlook for the rest of our business, HomeServe has an exciting future this coming year and beyond."

1. The Group uses adjusted operating profit, EBITDA, adjusted profit before tax and adjusted earnings per share as its primary performance measures. These are non-IFRS measures which exclude the impact of the amortisation of acquisition intangible assets (FY17: £14.1m, FY16: £10.4m). Acquisition intangible assets principally arise as a result of the past actions of the former owners of businesses in respect of marketing and business development activity. Therefore, the adjusted measures reflect the post acquisition revenue attributable to, and operating costs incurred by, the Group. A reconciliation between the adjusted and statutory equivalent is included in the Financial Review.
2. Cash conversion is calculated as cash generated by operations divided by adjusted operating profit.

Enquiries

A presentation for analysts and investors will take place at 9am this morning at UBS, 5 Broadgate, London EC2M 2QS.

There will be a listen-only conference call via +44 02031394830, pin code 41948608#, and also a live webcast available via www.homeserveplc.com.

HomeServe plc Tel: 01922 427997
Richard Harpin, Chief Executive Officer
David Bower, Chief Financial Officer
Linda Hardy, Finance Director

Tulchan Group Tel: 0207 353 4200
Martin Robinson
Siobhan Weaver

STRATEGIC AND BUSINESS REVIEW

This has been another very good year for HomeServe, delivering strong profit growth while implementing our customer focused growth strategy. Before focusing on the year's performance and financial results, set out below are our vision and strategic priorities.

HomeServe's vision is to be the world's most trusted provider of home repairs and improvements, expanding beyond plumbing, heating and electrics. This will be achieved through a clearly-defined strategy; focusing on increasing long-term affinity partnerships, investing to deliver great customer service, driving relentless innovation and expanding into new markets.

Extending our long-term affinity partnerships

HomeServe is built on developing long-term affinity partnerships with brands that complement our home assistance products. We work with over 500 affinity partners and invest in business development to establish and expand new partnerships. During FY17, rapid progress was made through signing 100 new partners in North America; renewing a significant partnership in the UK; and signing a joint venture with Edison Energia in Italy. As the Group enters FY18 we are well-placed for growth, with a strong pipeline of further partner prospects.

Investing to deliver great customer service

During FY17, HomeServe completed a job every 14 seconds, demonstrating our commitment to our customers when they need us most. Great customer service results in increased customer loyalty and higher levels of retention. Our market-leading customer service is delivered by the hard work and dedication of all our people. Globally, HomeServe has been recognised for customer service excellence and in FY17 won a number of customer service and employee engagement awards in the UK, North America and France.

HomeServe continues to invest in technology to ensure the delivery of efficiencies and to meet customer demand for seamless service. There is continued investment in the core customer management system in the UK, optimisation of website designs, and improvement of the claims handling and job deployment systems across the businesses to facilitate a better customer experience.

Driving relentless innovation

Demand for digital engagement at every stage of the customer journey continues to increase. In line with our ambition to offer a complete home repair and improvement service to a broader customer demographic, we have started to develop an online platform offering these services, which we call Home Experts. As part of this development, we purchased a 40% stake in Checkatrade (UK), and a 70% interest in Habitissimo (Spain). Combined, these businesses bring over 45,000 approved local tradesmen, who carry out an estimated £3.5bn of home repairs and improvements annually.

We continue to focus on innovation in our membership business and during the year we launched LeakBot, a smart home water leak detector that enables early leak detection preventing or limiting damage to customers' homes. We have continued with our heating strategy in the UK and are increasing our boiler and smart thermostat installations.

Expanding into new markets

Utilities around the world recognise that providing home assistance services is proven to increase customer loyalty and drive higher retention rates in their core energy businesses. During FY17, HomeServe's Italian business agreed a joint venture with Edison Energia, Italy's third-largest energy supplier and a member of the EDF Group. We are prospecting in a number of countries and intend to form joint ventures with utilities, replicating our success with South Staffordshire Water in the UK and Veolia in France.

BUSINESS REVIEW

We have had a very good year with strong underlying performance enhanced by foreign exchange tailwinds. Affinity partner households increased by 10m to 102m, with a significant increase in North America. This is in addition to 11% customer growth, with customer numbers now at 7.8m. Statutory operating profit increased 20% to £104.7m, and adjusted operating profit increased 22% to £118.8m; both included a £10.3m foreign exchange benefit.

A solid performance in the UK delivered over half of the Group's operating profit, while we also continued to invest in new partnerships, network capability, LeakBot and heating services.

The business in North America had a transformational year, completing the acquisition and integration of Utility Service Partners Inc. (USP) while continuing to sign new partners organically. As a result, we made rapid progress towards the targeted 80m affinity partner households, where 18m households were added during the year, taking total access to 50m households. Organic customer growth was 10% and, together with USP, customer numbers increased to 3.0m, up 28% on the prior year.

We have seen good customer growth and profit progression in our established businesses in France and Spain, while we invested £6.0m in the New Markets segment, as planned (FY16: £5.9m).

The Group retention rate was strong at 82% (FY16: 83%).

HomeServe has five operating segments: the UK; the three established international businesses of North America (previously named USA), France and Spain; and New Markets. The New Markets segment comprises our business in Italy, investment in innovation and digital initiatives, together with international development.

Financial performance for the year ended 31 March

£million	**Revenue**		**Statutory operating profit/(loss)**		**Adjusted operating profit/(loss)**	
	2017	2016	**2017**	2016	**2017**	2016
UK	**326.5**	291.8	**62.0**	57.4	**63.2**	58.0
North America	**227.8**	152.6	**14.7**	7.8	**21.2**	12.1
France	**91.1**	77.4	**21.1**	18.0	**27.1**	23.2
Spain	**130.2**	97.5	**13.0**	9.6	**13.3**	9.9
	449.1	327.5	**48.8**	35.4	**61.6**	45.2
New Markets	**16.6**	20.1	**(6.1)**	(5.9)	**(6.0)**	(5.9)
Inter-segment	**(7.2)**	(6.2)	**-**	-	**-**	-
Group	**785.0**	633.2	**104.7**	86.9	**118.8**	97.3

Adjusted operating profit/(loss) excludes the amortisation of acquisition intangibles as reconciled to the statutory equivalent in the Financial Review.

Performance metrics for the year ended 31 March

	Affinity partner households (m)		**Customer numbers (m)**		**Policy retention rate**	
	2017	2016	**2017**	2016	**2017**	2016
UK	**24**	24	**2.2**	2.2	**80%**	82%
North America	**50**	32	**3.0**	2.3	**82%**	82%
France	**15**	15	**1.0**	1.0	**89%**	89%
Spain	**12**	15	**1.3**	1.2	**78%**	77%
	77	62	**5.3**	4.5	**83%**	83%
New Markets	**1**	6	**0.3**	0.3	**-**	-
Group	**102**	92	**7.8**	7.0	**82%**	83%

BUSINESS REVIEW (continued)

United Kingdom

- Solid performance with 2.2m customers
- Expanded partnership with Aviva, launched a range of new home assistance products
- Strengthened heating capability with the acquisition of npower's service contracts business
- Voted *3rd* on Glassdoor's *Best Places to Work,* with a highly engaged and focused team

UK results £million	**2017**	2016	Change
Revenue			
Net policy income	**213.4**	200.2	+6%
Repair network	**100.3**	81.0	+23%
Other	**12.8**	10.6	+21%
Total revenue	**326.5**	291.8	+12%
Adjusted operating costs	**(263.3)**	(233.8)	+13%
Adjusted operating profit	**63.2**	58.0	+9%
Adjusted operating margin	**19%**	20%	-1ppt

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

UK performance metrics		**2017**	2016	Change
Affinity partner households	m	**24**	24	-
Customers	m	**2.2**	2.2	+1%
Income per customer	£	**96**	94	+2%
Policies	m	**5.6**	5.5	+2%
Policy retention rate	%	**80**	82	-2ppts

Income per customer is calculated by dividing the past twelve months' net policy income by the number of customers. The FY16 income per customer measure excluded Home Energy Services Limited (HESL), a business acquired in October 2015.

The strength of our affinity partnerships and continued investment in networks, heating services and product innovation, provided the base for a solid and profitable performance in FY17 and ensures good medium-term prospects. Staff engagement remains high and is continuing to drive high levels of customer service and satisfaction.

Operational performance

Through affinity partner relationships, HomeServe offers home assistance products, under a utility brand, to around 90% of the addressable UK market. One of our largest affinity partnerships was successfully renewed in the year and we were also pleased to sign a new partnership in July 2016 with Dee Valley Water, which provides water services to over 250,000 customers.

In February, our partnership with Aviva, the UK's largest general insurer, was expanded as we jointly launched Aviva Home Response, a range of products, powered by HomeServe and sold through Aviva's marketing channels, offering cover for heating, plumbing, electrics and security. This exciting opportunity enables HomeServe to market heating-led products under the widely-recognised Aviva brand.

Our multi-channel marketing activity added 0.4m gross new customers in the year (FY16: 0.4m) and we are pleased that new customers joining us do so on fuller products, enjoying the benefits of higher usage and increasing our average net income per customer.

The policy retention rate was good at 80% (FY16: 82%) with more Year 1 customers choosing to renew with us than in the prior year. New customers typically enrol on an introductory offer and so we expect our policy retention rate in year 1 to be lower than subsequent years. Customer retention also continues to perform well, with the overall rate maintained at 82% (FY16: 82%).

We continue to invest in our network of contractors and engineers and during December 2016 we extended the directly-employed heating network with the acquisition of npower's 'domestic care and maintenance' contracts business together with its 76 heating engineers. Combined with our plumbing engineers and the successful integration of the Home Energy Services Limited (HESL) business that was acquired in FY16, our network now comprises over 850 directly-employed engineers, up from 700 last year.

Our heating business previously focused on boiler repairs and services, but we have now expanded our services to include boiler and smart thermostat installations. Although early days, this installation business is growing month-on-month and we aim to expand it nationally, through both organic growth and further appropriate bolt-on opportunities.

During the year, we completed 0.9m jobs, up from 0.7m in the prior year while still retaining high levels of customer service. Internally we measure customer satisfaction at different contact points along the customer journey (e.g. when the customer buys the policy / when the customer makes a claim), and this increased in the year. Our ratings on TrustPilot (the leading third party review provider in the UK) and Reevoo (an independent customer ratings provider) remain high at 8.3 and 93% respectively (FY16: 8.3 and 93%).

In February 2017, we were recognised by the Institute of Customer Service as the only company to have consistently improved customer service since January 2014. Our satisfaction rating of 79.9 placed us in the top three UK "Services" companies for customer satisfaction in 2017. This great customer service is due to the hard work and dedication of our people across all areas of the business, so we were delighted to receive the accolade of 3rd on Glassdoor's *Best Places to Work* in 2017.

Our investment in innovation resulted in the launch of LeakBot, a smart home water leak detector that enables early leak detection, preventing or limiting damage to customers' homes. The product appeals to the home insurance market, with escape of water the biggest expense incurred by home insurers. We have launched tests with home insurers including Aviva and, more recently, RSA and its More Than brand. Results are encouraging and support our focus on innovation.

Technology plays an increasingly important role in how we operate and in our interaction with customers. We are investing in upgrading our technology and are pleased with the implementation of our new Customer Relationship Management (CRM) system, which will be rolled out during FY18. The system is in live test with a small number of customer records, where agents are now presented with a single view of the customer, a system generated "next best customer action" and more intuitive screens. This is leading to better conversations between our agents and customers, and is expected to drive sales and efficiency benefits in the medium term. We are also investing in our extended network of engineers and plan to upgrade our claims management and deployment systems to deliver further operational efficiencies.

Financial performance

Revenue in the year was 12% higher than the prior year at £326.5m (FY16: £291.8m), principally reflecting an increase in net policy income and repair network revenue. Net policy income benefited from a slightly higher number of customers and higher income from each customer. Net income per customer was up £2 to £96, reflecting the mix of customers holding fuller cover products, and we expect further progression in net income per customer in FY18.

Repair network revenue increased by 23% to £100.3m (FY16: £81.0m), reflecting an increase in the number of jobs completed. Other income of £12.8m (FY16: £10.6m) includes transactions with other Group companies, on demand repairs, smart thermostat and boiler installations.

Adjusted operating costs increased 13% to £263.3m (FY16: £233.8m), reflecting the first full year of ownership of HESL and the integration of the engineer network of npower's 'domestic care and maintenance' contracts business. Adjusted operating margin was 19% (FY16: 20%), principally due to the increase in repair revenue. With continued high levels of repair revenue, we expect margins to remain at this level going forward.

North America

- Rapid progress adding 18m new affinity partner households to reach 50m
- Record new partner signings adding 100 partners
- Significant customer growth up 28% to 3.0m
- Integration of USP on track to deliver $15m EBITDA in FY18

North America results $million	**2017**	2016	Change
Revenue			
Net policy income	**273.5**	211.0	+30%
Other	**19.5**	17.4	+12%
Total revenue	**293.0**	228.4	+28%
Adjusted operating costs	**(266.8)**	(210.9)	+26%
Adjusted operating profit	**26.2**	17.5	+50%
Adjusted operating margin	**9%**	8%	+1ppt

North America results £million	**2017**	2016	Change
Revenue			
Net policy income	**212.7**	141.1	+51%
Other	**15.1**	11.5	+31%
Total revenue	**227.8**	152.6	+49%
Adjusted operating costs	**(206.6)**	(140.5)	+47%
Adjusted operating profit	**21.2**	12.1	+75%
Adjusted operating margin	**9%**	8%	+1ppt

North America performance metrics		**2017**	2016	Change
Affinity partner households	m	**50**	32	+54%
Customers	m	**3.0**	2.3	+28%
Income per customer	$	**97**	91	+7%
Policies	m	**4.5**	3.5	+28%
Policy retention rate	%	**82**	82	-

Income per customer is calculated by dividing the last twelve months' net policy income by the number of customers. The policy retention rate and income per customer performance measures exclude USP, a business acquired in July 2016. FY17 policy income includes $27.7m in respect of USP.

This was a transformational year for HomeServe in North America, with good underlying organic growth enhanced by the acquisition of Utility Service Partners Inc. (USP). We have achieved the milestone of 3.0m customers, added 100 new partners and reached 50m affinity partner households, making good progress towards our 80m household target.

Operational performance

North America achieved record partner signings, increase in households and gross new customers. We delivered a 50% increase in adjusted operating profit to $26.2m, driven by the continued success of our underlying business.

On 1 July 2016, we completed the acquisition of USP, a leading provider of home assistance services, for a net cash outflow of $72.6m (£54.5m). Like our existing business, USP operates an affinity partner model and it is also the exclusive home warranty partner of the National League of Cities (NLC), an organisation that advocates to around 19,000 towns and cities, covering 66m municipal households in the USA. The NLC relationship is a strong endorsement with smaller municipals. We have streamlined our approach for these prospects with a resulting increase in the number of municipals signed in the year. The operational integration of USP is largely complete and we are pleased to have retained the Canonsburg facility together with key personnel.

Our acquisition of USP advanced our expansion into Canada, a country with 13m households, and offers further good growth prospects for our business. USP made a strategic investment in Canada working with the Association of Municipalities of Ontario (AMO), an endorsing partner across Canada's largest province. We have started marketing in Ontario and now have 30 partnerships in this region.

We now offer our products to 50m utility households (FY16: 32m) and we are confident of reaching our stated goal of 80m utility households across North America. During the year, we signed 100 new utility partnerships and entered into a relationship with the American Public Gas Association (APGA) which is an endorsing body that works with 700 municipal gas distributors across the USA. Our strategic plan is focused on our core policy business – developing, marketing and selling policies in partnership with utilities, municipals and membership organisations. We have invested in building an experienced business development capability, focused on driving new partnership signings. Our pipeline of potential partner opportunities is strong, with negotiations at all stages of the process.

Customer numbers increased 28% to 3.0m customers (FY16: 2.3m), with 0.4m customers acquired with the USP acquisition and a further 0.8m gross new customers added during the year (FY16: 0.7m). Direct mail continues to be the most significant marketing channel, with continued progress in sales through our partner channels. We re-launched our website, enabling more effective digital marketing, with a 55% increase in the number of new customers joining online. Retention remained strong at 82% (FY16: 82%).

Good customer service is central to the business and we have invested in technology across the claims process to improve the customer journey. We now deploy over 80% of all contractor jobs directly to technician's mobile devices. Going forward we expect to make further investment in claims technology to enhance the customer experience and to drive operational efficiency.

Our network of 151 directly-employed engineers (FY16:152) and almost 1,100 sub-contractors (FY16: 1,000) carried out 0.4m jobs during the year (FY16: 0.4m). In line with our strategy, we have progressed our HVAC (heating, ventilation and air conditioning) installation business, with a 15% increase in the number of units installed in FY17 compared to the prior year.

We were delighted to win a recognised '*Top Places to Work*' award for the third year in a row together with a *Grand Stevie Award* for our high levels of customer satisfaction.

Financial performance

Revenue was up 28% to $293.0m (FY16: $228.4m), driven by a 30% increase in policy income, reflecting an increase in renewal income and $27.7m post-acquisition revenue from USP. Our growing installation volumes are reflected in the 12% increase in other income to $19.5m (FY16: $17.4m).

Income per customer was up 7% to $97 (FY16: $91), principally reflecting the higher proportion of renewals and a reduced cost to serve as we realised operational efficiencies in our network. Income per customer excludes USP customers who have yet to go through a full renewal cycle with HomeServe. Typically income per customer is lower in USP, reflecting the product mix, and as a result we expect to see a small reduction in net income per customer in FY18.

Adjusted operating costs in North America were $266.8m (FY16: $210.9m), up 26% on the prior year, due principally to continued investment in business development, marketing and the impact of USP. USP incurred a loss of $0.9m in the period post acquisition reflecting related transaction and integration costs. We continue to expect USP to add $15m incremental EBITDA in FY18, our first full year of ownership. Adjusted operating profit increased 50% to $26.2m, resulting in an adjusted operating margin of 9%, up from 8% in FY16. We remain confident of a longer-term adjusted operating profit margin of 20%.

France

- Good sales momentum delivered a 4% increase in customer numbers to 1.0m
- Outstanding customer loyalty reflected in 89% retention rate, the highest in the Group
- Maintained strong adjusted operating profit margin of 30%

France results €million	**2017**	2016	Change
Total revenue	**107.4**	105.0	+2%
Adjusted operating costs	**(75.9)**	(73.6)	+3%
Adjusted operating profit	**31.5**	31.4	-
Adjusted operating margin	**30%**	30%	-

France results £million	**2017**	2016	Change
Total revenue	**91.1**	77.4	+18%
Adjusted operating costs	**(64.0)**	(54.2)	+18%
Adjusted operating profit	**27.1**	23.2	+17%
Adjusted operating margin	**30%**	30%	-

France performance metrics		**2017**	2016	Change
Affinity partner households	m	**15**	15	-
Customers	m	**1.0**	1.0	+4%
Income per customer	€	**101**	101	-
Policies	m	**2.3**	2.3	+1%
Policy retention rate	%	**89**	89	-

HomeServe France demonstrated a solid performance this year via its two major partnerships with Veolia and Suez, while continuing to invest in business development, product development and digital initiatives.

Operational performance

Our strong partnership with Veolia, France's largest water provider, continues to deliver customer growth and during the year we saw an increase in the number of customers joining through Veolia's own sales channels. We continue to develop our relationship with Suez (formerly Lyonnaise des Eaux), which offers HomeServe products through its sales channels, and accounted for a third of all new sales during the year.

Across all of our marketing channels we added 0.2m gross new customers (FY16: 0.2m). This sales activity combined with a continued strong retention performance at 89% (FY16: 89%) resulted in a 4% increase in customer numbers to 1.0m (FY16: 1.0m).

Our business development team has a good pipeline of partner prospects, with some initial testing in progress. We have also signed a new partnership with SARP, part of the Veolia Group, to offer a new plumbing, drainage and septic tank product to its 0.6m customers.

We have enhanced the digital functionality across the customer journey from sale through to claim, which we believe has improved our relationship with both customers and contractors. We were proud to win a nationally-renowned award - *Service Client de l'Annee 2017, Home Services sector* - for the first time, reflecting our focus on delivering exceptional customer service.

All our repairs in France are completed by our network of over 900 contractors (FY16: 700). We now deploy over 50% of jobs direct to contractors' mobile devices, driving improved customer service, operational efficiencies and an enhanced relationship with these contractors.

Financial performance

Total revenue increased 2% to €107.4m (FY16: €105.0m), principally reflecting an increase in renewal income generated by Suez. Adjusted operating costs were up 3% to €75.9m (FY16: €73.6m), due to an increase in amortisation and further investment in business and product development. In line with the prior year, income per customer was €101 (FY16: €101).

In accordance with Group policy, where a partner originates customers on our behalf, the cost of acquisition is capitalised, held as an intangible asset and amortised as an operating expense. During FY17, we paid €3.0m (FY16: €4.2m) in respect of customers acquired by Suez, and, as at March 2017, the net book value of the intangible asset was €5.9m (FY16: €4.3m). The associated amortisation during the year was €1.0m (FY16: €0.4m).

Adjusted operating profit increased to €31.5m, (FY16: €31.4m), maintaining a strong adjusted operating margin of 30% (FY16: 30%), while continuing to support customer growth.

Spain

- Continued customer growth, up 7% to 1.3m
- Strong adjusted operating profit growth, up 13% to €15.8m
- Record number of jobs completed – up 19% across the network

Spain results €million	**2017**	2016	Change
Revenue			
Membership	**57.2**	50.4	+13%
Claims handling	**97.1**	82.4	+18%
Total revenue	**154.3**	132.8	+16%
Adjusted operating costs	**(138.5)**	(118.9)	+16%
Adjusted operating profit	**15.8**	13.9	+13%
Adjusted operating margin	**10%**	10%	-

Spain results £million	**2017**	2016	Change
Revenue			
Membership	**48.3**	37.1	+31%
Claims handling	**81.9**	60.4	+35%
Total revenue	**130.2**	97.5	+34%
Adjusted operating costs	**(116.9)**	(87.6)	+33%
Adjusted operating profit	**13.3**	9.9	+34%
Adjusted operating margin	**10%**	10%	-

Spain performance metrics		**2017**	2016	Change
Affinity partner households	m	**12**	15	-20%
Customers	m	**1.3**	1.2	+7%
Income per customer	€	**43**	41	+4%
Policies	m	**1.5**	1.4	+6%
Policy retention rate	%	**78**	77	+1ppt

This year our Spanish business, Reparalia, rebranded as HomeServe Spain. We have achieved good growth in both our Membership and Claims businesses as we saw confidence returning to the Spanish market. Performance in the claims handling business was particularly strong, as we continued to gain market share and increased claims volumes across our third-party insurance network.

Operational performance

Endesa, our largest partner in Spain, continued to successfully offer our products through its sales channels and this will continue throughout FY18. We were unable to make the progress we wanted with Agbar, a water utility with 3m households and so, following a period of limited marketing activity, we agreed to end the partnership and removed it from our affinity partner household count. We have retained the 39,000 customers previously acquired and will look to renew them under our brand going forward. Our business development team is in active discussions with other potential partners.

Customer numbers increased 7% to 1.3m, reflecting continued good sales and retention. During the year, we developed new products to appeal to a broader market, including water products and "Tech Angel", a 24/7 home technology support product, which has been well received. Retention in the year was 78%, marginally higher than the prior year (FY16: 77%).

Our Claims business works with 16 Spanish insurance companies managing home insurance claims across 26 trades. During the year it completed 19% more jobs than in the prior year, closing a record 0.8m jobs

(FY16: 0.7m), which reflects an increase in our market share together with our diversification into new channels. Our network comprises over 2,000 sub-contractors and 197 franchised engineers.

Financial performance

Revenue increased 16% to €154.3m (FY16: €132.8m) with increases in both Membership and Claims. Membership revenue was up 13% to €57.2m (FY16: €50.4m), reflecting the higher number of customers, while Claims revenue increased to €97.1m (FY16: €82.4m), benefitting from an increase in the number of completed jobs.

Income per customer (relating to the Membership business) was up 4% to €43 (FY16: €41), reflecting the increased maturity of the customer base.

In accordance with Group policy, where a partner originates customers on our behalf, the cost of acquisition is capitalised, held as an intangible asset and amortised as an operating expense. During FY17 we paid €13.5m (FY16: €20.2m), in respect of customers acquired by Endesa and, as at 31 March 2017, the intangible asset amounted to €46.0m (FY16: €42.1m). Amortisation in FY17 was €12.8m, €2.9m higher than the prior year (FY16: €9.9m).

Adjusted operating costs increased 16% to €138.5m (FY16: €118.9m), primarily reflecting the increase in direct costs to serve the higher job volumes in the Claims business and an increase in amortisation in the Membership business. Adjusted operating profit was up 13% to €15.8m (FY16: €13.9m) following good performance in both Membership and Claims.

New Markets

- Our Italian business agreed a joint venture with Edison Energia, a major utility in Italy
- Positive discussions in new international markets
- Strategic investment in Checkatrade and acquisition of Habitissimo

Our New Markets segment comprises our business in Italy, investment in innovation and digital initiatives, together with international development.

In Italy, we have 0.3m customers acquired through a test agreement with Enel. There continues to be good customer demand for our products but due to a change in Enel's approach to home services, the test agreement was not extended. During March 2017, we established a joint venture with Edison Energia, Italy's third-largest energy supplier and a member of the EDF Group, through its purchase of 51% of our Italian business (we retain a 49% share). We have commenced marketing a range of home assistance products, principally through Edison Energia's sales channels, including television advertising.

We continue to progress our international development plans where we are targeting multiple countries under our preferred joint venture model.

We have invested in technology to drive enhanced performance across the Group. Consistent platforms across all of our businesses will deliver more effective product sales and efficiencies. During the year, we launched new customer-facing websites in the USA, France and Spain.

In line with our ambition to offer our services to more homeowners, we are developing a compelling online on demand service which we are calling Home Experts. This platform will connect customers to a range of expert tradespeople, enabling an end to end digital experience.

Our investment in Checkatrade, which is treated as an associate and acquisition of Habitissimo, which is fully consolidated, will accelerate the development of this proposition. Both businesses are established market leaders in home repairs and improvements. Combined, they have 45,000 local Home Experts carrying out an estimated £3.5 billion of home repairs and improvements annually.

Checkatrade is the UK's most recognised and trusted online directory of high-quality, customer-recommended tradespeople with nearly 1m unique customer visits a month, resulting in approximately 1.3m jobs per annum. Our recent research indicates that around 50% of consumers go online to find a tradesman and of these, around 47% go directly to Checkatrade, making it a market leader in online home services.

Based in Mallorca, Habitissimo receives more than 3.6 million unique customer visits a month, resulting in approximately 0.25 million jobs a year across four countries in Europe (Spain, Portugal, Italy and France), and also in Latin America.

Financial performance

Reported revenue was £16.6m, down £3.5m compared to the prior year (FY16: £20.1m), reflecting a reduction in customers due to the cessation of activity with Enel in June 2016. Following the formation of a joint venture with Edison Energia in March 2017, our business in Italy is treated as an associate and going forward we will not report annual revenue in respect of this business.

Our investment in New Markets resulted in a loss of £6.0m (FY16: £5.9m). We expect a similar level of investment in FY18, covering our continued investment in Italy, innovation and digital initiatives, together with international development.

Board Changes

During the year David Bower was appointed as Chief Financial Officer and Johnathan Ford as Chief Operating Officer. We have also strengthened the Board with the appointment of three new Directors with effect from 23 May 2017. Tom Rusin has been appointed as an Executive Director and Katrina Cliffe and Edward Fitzmaurice have both been appointed as Non-Executive Directors. Katrina will also join the Audit & Risk Committee. Tom has been Chief Executive Officer of HomeServe USA since July 2011 and is currently a member of the HomeServe plc Executive Committee.

Outlook

All our businesses are performing well and have good prospects. Looking ahead, we expect further strong growth in FY18, principally driven by our rapidly-expanding business in North America. This reflects the increase in customer numbers, combined with the benefit of the USP acquisition, which we expect to deliver around $15m EBITDA this coming year.

We are excited about the future for all of our businesses. We have a strong platform for growth over the years ahead and our strategic focus on home assistance, repairs and improvements will enable us to meet the needs of a wide range of customers.

Richard Harpin
Chief Executive
23 May 2017

FINANCIAL REVIEW

These financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union.

Group statutory results

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

£million	2017	2016
Total revenue	**785.0**	633.2
Operating profit	**104.7**	86.9
Net finance costs	**(6.4)**	(4.3)
Adjusted profit before tax	**112.4**	93.0
Amortisation of acquisition intangibles	**(14.1)**	(10.4)
Statutory profit before tax	**98.3**	82.6
Tax	**(23.9)**	(21.0)
Profit for the year	**74.4**	61.6
Attributable to:		
Equity holders of the parent	**74.4**	61.6
Non-controlling interests	**-**	-
	74.4	61.6

The Group delivered 19% growth in profit before tax to £98.3m, an increase of £15.7m compared to FY16 (FY16: £82.6m). Statutory profit before tax is reported after the amortisation of acquisition intangibles. The individual financial performance of each business is considered in the business review.

Amortisation of acquisition intangibles

The amortisation of acquisition intangibles of £14.1m (FY16: £10.4m) relates to customer and other contracts held by businesses, which were acquired as part of business combinations and has increased this year principally due to the acquisition of USP in July 2016, where £34.8m acquired intangible assets were identified.

Tax strategy

The Group has a tax strategy that was approved by the Board during the year and which reflects our status as a plc, which requires strong governance and consideration of our reputation. Our tax strategy also reflects the regulated nature of our business which requires further compliance with local laws, regulations and guidance. We made the UK elements of our tax strategy document publicly available in April 2017 as required by UK legislation.

Our Group tax strategy covers the following matters: (i) how we maintain ongoing application of tax governance with strong internal controls in order to substantially reduce tax risk to materially acceptable levels; (ii) how we will not engage in artificial transactions the sole purpose of which is to reduce tax; (iii) our strategic aim to maintain the Group's low UK tax risk rating as determined by the UK Tax Authorities Business Risk Review process; and (iv) to continue to work with all tax authorities in an open, honest and transparent manner.

Tax charge and effective tax rate

The Group's tax charge in the financial year was £23.9m (FY16: £21.0m). The corporate income tax rates in the overseas countries in which we operate are currently higher than the UK corporate income tax rate of 20% (FY16: 20%), i.e. the US at 40% (FY16: 40%), France at 33% (FY16: 33%), Spain at 25% (FY16: 27%) and Italy at 28% (FY16: 28%). The UK corporation tax rate is 19% in FY18 and expected to remain at this level in FY19 and FY20, with a further reduction to 17% in FY21 onwards. To the extent our profits are more weighted towards our overseas countries we would expect the effective tax rate of 24% (FY16: 25%) to increase in future years.

Cash flow and financing

Our business model continues to be highly cash generative with cash generated by operations in FY17 amounting to £139.9m (FY16: £121.7m), representing a cash conversion ratio against adjusted operating profit of 118% (FY16: 125%).

£million	**2017**	2016
Adjusted operating profit	**118.8**	97.3
Amortisation of acquisition intangibles	**(14.1)**	(10.4)
Operating profit	**104.7**	86.9
Depreciation and amortisation	**49.5**	35.8
Non-cash items	**6.8**	5.1
Increase in working capital	**(21.1)**	(6.1)
Cash generated by operations	**139.9**	121.7
Net interest	**(6.4)**	(3.0)
Taxation	**(20.0)**	(17.3)
Capital expenditure	**(58.5)**	(63.7)
Repayment of finance leases	**(1.0)**	(0.5)
Free cash flow	**54.0**	37.2
Acquisition of associate	**(24.7)**	-
Acquisition of available for sale investments	**-**	(0.5)
Acquisitions of subsidiaries	**(74.2)**	(5.3)
Disposal of subsidiary	**(1.7)**	-
Equity dividends paid	**(40.3)**	(137.0)
Issue of shares	**0.9**	1.8
Net movement in cash and bank borrowings	**(86.0)**	(103.8)
Impact of foreign exchange	**(6.3)**	(0.7)
Net debt acquired	**(0.4)**	-
Finance leases	**0.8**	(0.9)
Opening net debt	**(169.5)**	(64.1)
Closing net debt	**(261.4)**	(169.5)

Working capital increased by £21.1m in FY17 reflecting continued growth in all of our businesses. As the business grows further, we expect additional working capital absorption, though we continue to expect the cash conversion ratio to be in excess of 100%.

During the year, we invested capital expenditure of £58.5m (FY16: £63.7m), which was £6.5m lower than planned principally due to the timing of partner payments, which we now expect to incur in FY18. Expenditure during FY17 included partner payments of £14.1m (FY16: £17.9m) in respect of the acquisition of customers that Endesa and Suez originated and payments to certain US partners.

Technology plays an increasingly important role throughout our business. We have continued to invest in the replacement of our core customer system, together with normal investment, principally technology-related, across all the businesses. As we roll out the core customer system in FY18, we are also planning to replace the claims handling and job deployment systems in the UK, improve the claims management systems in Spain and North America, while also investing in the development of our Home Experts platform. We expect these investments will make us more efficient, improve our customer service and will be an ‘enabler’ for our online on demand business. As a result of these investments, together with ongoing partner payments, we expect capital expenditure to be around £70m in FY18. Going forward we expect capital expenditure to normalise at around £35m.

Investment in associates

On 13 December 2016 the Group acquired a 40% stake in Sherrington Mews Limited, the holding company of the Checkatrade Group, for cash consideration of £24.0m. There is further contingent consideration of £4.0m that is payable subject to financial performance conditions being met by the business, the present value of which is £2.7m. There were also legal costs associated with the transaction that were added to the cost of the investment amounting to £0.7m.

On 9 March 2017 the Group disposed of 51% of Assistenza Casa Srl, a wholly owned Group company. The remaining 49% has been accounted for as an associate using the equity method. The Group realised a gain of £0.1m as a result of this transaction.

Acquisitions

The Group has incurred a net cash outflow in respect of business combinations of £74.2m in the year.

There were three material acquisitions in the year ended 31 March 2017.

On 1 July 2016 Homeserve USA Corp, a Group company, acquired 100% of the issued share capital and obtained control of Utility Service Partners Inc (USP).

On 1 December 2016 HomeServe Membership Limited, a Group company, purchased npower’s ‘domestic care and maintenance’ contracts business. The acquisition included 76 heating engineers.

On 27 January 2017 HomeServe International Limited, a Group company, acquired 70% of the issued share capital and obtained control of Habitissimo S.L., a specialist online lead generation business operating across Southern Europe and South America.

In addition to the net cash outflow on the acquisitions above of £71.8m, deferred consideration was paid relating to prior period business combinations of £3.1m (FY16 £1.1m) and net cash was acquired as part of an immaterial acquisition in Spain of £0.7m.

Earnings per share

Earnings per share for the year increased from 19.6p to 24.0p, an increase of 22%. On an adjusted basis, earnings per share increased 24% from 21.8p to 27.0p. The weighted average number of shares decreased from 313.9m to 309.9m due to the impact of the share consolidation in the prior year, offset in part by new shares issued in fulfilment of a number of share schemes in the year.

Dividends

Given the Group’s good performance and the Board’s confidence in its future prospects, the Board is proposing to increase the final dividend to 11.2p per share (FY16: 8.9p) to be paid on 3 August 2017 to shareholders on the register on 7 July 2017.

Together with the interim dividend declared in November 2016 of 4.1p (November 2015: 3.8p), this represents a 20% increase in the total ordinary dividend payment for the year of 15.3p (FY16: 12.7p), which is 1.76x covered by the FY17 adjusted earnings per share compared to 1.72x cover in FY16. As previously indicated, the Board intends to adopt a progressive dividend policy and targets a dividend cover in the range 1.75 - 2x over the medium term.

In the prior year, in July 2015, a special dividend of £99.4m was also paid to shareholders, which was followed by a share consolidation.

Net debt and finance costs

The Group targets net debt in the range of 1.0-1.5x EBITDA, measured at 31 March each year. With net debt of £261.4m and EBITDA of £154.2m, the Group was outside this range at 1.7x.

As previously stated, we are prepared to see leverage increase for reasonable periods of time if circumstances warrant this. The opportunity to acquire USP in North America in July 2016 together with our other investments, principally relating to the investment in Checkatrade and acquisition of Habitissimo, which we expect to accelerate our Home Experts proposition, represented such circumstances. Absent the M&A activity which took place in the year, we would have been at the lower end of our target range, while the range itself remains subject to periodic review.

During the year, the Group obtained €50m medium-term funding in the form of a term loan due for repayment by instalments through to 2020. In addition, during March 2017, the Group obtained a further £60m medium-term funding in the form of a Private Placement due for repayment in 2024.

The Group's net interest paid was £6.4m with an interest accrual of £1.1m as at 31 March 2017, of which £0.8m was subsequently paid in April 2017. Cash finance costs in the prior year were £3.0m with an interest accrual of £0.9m as at 31 March 2016.

Foreign exchange impact

HomeServe is well-positioned to meet the challenges of the UK's exit from the European Union and our growth prospects remain strong. Our businesses each operate in their own territories, buying goods and services from local businesses and supplying local consumers within those territories, almost exclusively in local currencies. Our businesses have also proved resilient to economic turmoil over a number of years.

The depreciation of sterling against the US Dollar and Euro following the UK's decision to leave the European Union has, however, had a significant impact on our reported results due to the impact of translating the results of our overseas businesses.

Specifically, changes in the US Dollar and Euro exchange rates between FY16 and FY17 have resulted in the reported revenue of our international businesses increasing by £63.3m and adjusted operating profit increasing by £10.3m as summarised in the table below.

		Average exchange rate			Effect on (£m)	
					Revenue	Adjusted operating profit
		2017	2016	Change	**2017**	**2017**
North America	$	**1.31**	1.51	(13%)	32.3	3.6
France	€	**1.19**	1.37	(13%)	12.0	3.7
Spain	€	**1.19**	1.37	(13%)	16.9	2.2
New Markets	€	**1.19**	1.37	(13%)	2.1	0.8
Total International					**63.3**	**10.3**

In addition, as the Group holds certain of its cash, bank and other loans in foreign currencies, the depreciation of sterling resulted in an increase in the reported net debt of the Group of £0.2m in relation to Euro-denominated net debt, and £6.5m in relation to US Dollar-denominated net debt.

Statutory and pro-forma reconciliations

The Group uses adjusted operating profit, EBITDA, adjusted profit before tax and adjusted earnings per share as its primary performance measures. These are non-IFRS measures which exclude the impact of the amortisation of acquisition intangible assets (FY17: £14.1m, FY16: £10.4m). Acquisition intangible assets principally arise as a result of the past actions of the former owners of businesses in respect of marketing and business development activity. Therefore, the adjusted measures reflect the post acquisition revenue attributable to, and operating costs incurred by, the Group.

As at 31 March 2017, the net book value of the acquisition intangible asset was £114.0m (FY16: £75.3m) and the related amortisation charge in FY17 was £14.1m (FY16:£10.4m)

The tables below provides a reconciliation between the statutory and adjusted items.

£million	**2017**	2016
Operating profit (statutory)	**104.7**	86.9
Depreciation	**6.9**	5.4
Amortisation	**28.5**	20.0
Amortisation of acquisition intangibles	**14.1**	10.4
EBITDA	**154.2**	122.7
Operating profit (statutory)	**104.7**	86.9
Amortisation of acquisition intangibles	**14.1**	10.4
Adjusted operating profit	**118.8**	97.3
Profit before tax (statutory)	**98.3**	82.6
Amortisation of acquisition intangibles	**14.1**	10.4
Adjusted profit before tax	**112.4**	93.0
Pence per share		
Earnings per share (statutory)	**24.0**	19.6
Amortisation of acquisition intangibles	**3.0**	2.2
Adjusted earnings per share	**27.0**	21.8

Principal risks and uncertainties

HomeServe has a risk management framework which provides a structured and consistent process 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 Business Review and the Financial Review. 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.

The Board believes that all identified risks carry equal importance and weighting as in the prior year with updates to the nature of those risks detailed below.

Risk **Description / Impact**	**Mitigation**	**Change since 2016 Annual Report**
Commercial relationships Underpinning the success in our chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies, municipals and financial institutions. The loss of one of these relationships could impact our future customer and policy growth plans and retention rates. While the majority of 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 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.	We have continued to sign and renew affinity partnerships with utilities across the businesses. In the UK, there were no agreements due for renewal in FY17. We renewed one utility partner agreement early, due to renew in FY18, on substantially similar terms. We signed an additional utility partner (Dee Valley Water) and extended our relationship with Aviva. In North America, we signed 100 new partners during the year and in France, while continuing to work with the two largest water utilities we also have a good pipeline of opportunities. In Spain, we continue to work closely with Endesa, though ceased activity with Agbar, a water utility. In Italy, following the cessation of the test agreement with Enel, we entered a joint venture with Edison Energia.
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, providing customers with real value and 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 North America, we participate in RFPs ("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 North American market.

Risk **Description / Impact**	**Mitigation**	**Change since 2016 Annual Report**
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. We regularly review our products ensuring they provide the coverage that our customers demand and need. We also regularly review the methods by which we interact with our customers ensuring their needs are met and providing them with updated tools to purchase, renew and review their policy holdings for example through our latest digital initiatives.	Policy retention remains high in all our countries. In the UK, the policy retention rate decreased by 2 percentage points to 80% compared to the prior year, principally due to the higher number of customers in early renewal cycles. In the UK, we also closely monitor the customer retention rate, which has been maintained at 82%. In North America, the policy retention rate has been maintained at 82%, the same as the prior year. In France, we have maintained a policy retention rate of 89%. In Spain, policy retention increased by 1 percentage point to 78%.
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. We record and review a number of telephone calls across all of our businesses.	During the year, our marketing channels performed as we expected with direct mail response rates continuing to perform well. We continue to develop our digital channels and work 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 some of our products and services.	We have regulatory specialists, compliance teams and Non-Executive Directors in 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. In our other businesses, we maintain a dialogue with local regulators. 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.	All of our businesses have dedicated, experienced compliance specialists including Non-Executive Directors to chair the compliance committees in each of our businesses, with regular reporting to the local company Board of Directors. We have maintained appropriate dialogue with all relevant regulatory bodies that govern or influence our businesses and have sought to engage, where possible, in regulatory and compliance discussions around the development of the markets in which we operate. In the UK, the primary regulator, the Financial Conduct Authority, has recognised the risk that we pose to their objectives has decreased and therefore they have reduced the intensity of their supervision.

Risk Description / Impact	Mitigation	Change since 2016 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. Reflecting the importance of customer service to our business, all senior managers have customer satisfaction performance as a significant component of their annual bonus opportunity.	In FY17, we continued to monitor customer satisfaction across all our operations at a number of different customer contact points, with improvements in all the businesses.
Availability of underwriters The policies that we market and administer 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 separate to those in the rest of Europe and North America. 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. In the UK Aviva continues to be our principal underwriter, and commenced underwriting new business in November 2015. Having secured a second underwriter in North America last year, during FY17 we agreed terms with second underwriters in France and Spain.
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.	A "People Committee", comprised of a number of the Non-Executive Directors and senior management of the Group, has been created with a mandate to promote the development and recruitment of key talent. We have continued to strengthen our management teams across all our operations – particularly in the areas of IT, Digital, Commercial and M&A. During the year we completed the rollout of our People Promises which are now live in each of our businesses and an integral part of our recruitment, selection and development procedures.

Risk **Description / Impact**	**Mitigation**	**Change since 2016 Annual Report**
Exposure to country and regional risk and Brexit 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. Following the UK's decision to leave the European Union there may be implications for how we operate with our overseas businesses.	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. Our businesses each operate in their own territories, buying goods and services from local businesses and supplying local consumers within those territories, almost exclusively in local currencies.	We have recommenced reviewing potential new territories and have appointed a dedicated team with significant experience of working in an international environment to lead this activity. We continue to monitor the economic, political and regulatory environments where we operate. The Group is well positioned to meet the challenges of the UK's exit from the European Union and our growth prospects remain strong.
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 we look 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, the development of which has progressed well and is expected to 'go-live' in the UK during FY18. We have agreed plans to upgrade our claims and deployment systems, enhancing the customer journey and improving interactions with our network. We have continued to invest in other new technologies that will allow us to improve the products and service we offer our customers. These have included an innovative leak detection device and initial funding of a platform-based home repairs and improvement model.
Information security (including cyber risk) In line with other businesses we are subject to the increased prevalence and sophistication of cyber-attacks which could result in unauthorised access to customer and other data that we hold or cause business disruption to our services. This could result in a loss of customers, legal liability, regulatory action or harm to our reputation.	We have a number of defensive and proactive practices across the Group to mitigate this risk. We have a detailed information security policy, which is communicated across the Group and training is provided as required. We continue to invest in IT security ensuring a secure configuration, access controls and data centre security.	Following a detailed review of our information policy, practices and procedures by a third party in FY16, we have now engaged a Group Chief Information Security Officer to oversee information security across the Group. We have a dedicated information security officer in each business and undertake regular reviews and penetration testing at all of our businesses. During the year, we continued to complete cyber audits as part of our annual assurance plan and will continue to do so in FY18.

Risk Description / Impact	Mitigation	Change since 2016 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. Following the UK's decision to leave the European Union the Group could be subject to higher exchange rate fluctuations	**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 economically hedge underlying debt obligations.	During the year, we have obtained a four year €50m amortising term loan repayable in 2020 and £60m of fixed rate medium-term funding repayable in 2024. In addition, we have continued to build relationships with a number of financial institutions that wish to provide debt finance to the Group. Following the increase in the Group's leverage we have continued to monitor the need to fix the interest rate on some element of our borrowings. However, given the relatively stable interest rate environment, combined with the fixed rate debt secured during the past two years, we have not entered into any interest rate swaps during FY17.
	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.	Cash and cash equivalents continue to be deposited with reputable and creditworthy banking institutions. 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 2017 was £261.4m, well within our committed facilities and loans, on which all conditions precedent have been met.
	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 adjusted operating profit benefited from the translation benefit on Euro and USA Dollar profits by £10.3m.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three year period to 31 March 2020. The Directors believe that a three year forward looking period is appropriate as it is aligned to the timeframe that management focus upon, the performance period in respect of the long-term incentive scheme for senior management and it is the period of assessment for recoverable values of cash generating units.

The Group has a formalised process of budgeting, reporting and review along with procedures to forecast its profitability, capital position, funding requirement and cash flows. These plans provide information to the Directors which are used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short-term and strategic basis. The plans for the period commencing on 1 April 2017 were reviewed by the Executive Committee in February and then approved by the Board in March 2017.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity as set out in the Principal Risks and Uncertainties. The Group has an embedded risk management framework and all major risks are scored based on their significance and likelihood and these are reviewed regularly by the Audit & Risk Committee.

Various stress tests have also been performed on scenarios such as the impact of losing an affinity partnership or a lowering of retention in a given country.

The Directors' assessment has been made with reference to geographical spread of the Group operations and its strong financial position resulting from a combination of commercial partnerships and high customer retention.

The business is geographically spread across the UK, Continental Europe and North America; in each established territory, the business has long-term contractual relationships with utility businesses providing access to in excess of 102m households under Affinity Partner brands. Retention rates are high across all established businesses, resulting in stable and recurring cash flows from a large, diverse customer base.

Considering the Group's current position, the principal risks and the Board's assessment of the Group's future, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years to 31 March 2020.

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 budget, forecast and cash flows for 2018 and beyond, and concluded that they are in line with their expectations with regards to the Group's strategy and future growth plans. In addition, the Directors have reviewed the Group's position in respect of material uncertainties and have concluded that there are no items that would affect going concern or that should be separately disclosed.

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.

David Bower
Chief Financial Officer
23 May 2017

Group Income Statement
Year ended 31 March 2017

	Notes	**2017 £m**	2016 £m
Continuing operations			
Revenue	3	**785.0**	633.2
Operating costs		**(680.5)**	(546.3)
Share of results of associates	12	**0.2**	-
Operating profit		**104.7**	86.9
Investment income		**0.3**	0.3
Finance costs		**(6.7)**	(4.6)
Profit before tax and amortisation of acquisition intangibles		**112.4**	93.0
Amortisation of acquisition intangibles		**(14.1)**	(10.4)
Profit before tax		**98.3**	82.6
Tax	4	**(23.9)**	(21.0)
Profit for the year		**74.4**	61.6
Attributable to:			
Equity holders of the parent		**74.4**	61.6
Non-controlling interests		-	-
		74.4	61.6
Dividends per share, paid and proposed	5	**15.3p**	12.7p
Earnings per share			
Basic	6	**24.0p**	19.6p
Diluted	6	**23.6p**	19.3p

Group Statement of Comprehensive Income
Year ended 31 March 2017

	2017 **£m**	2016 £m
Profit for the year	**74.4**	61.6
Items that will not be classified subsequently to profit and loss:		
Actuarial (loss)/gain on defined benefit pension scheme	**(3.4)**	0.5
Deferred tax credit/(charge) relating to components of other comprehensive income	**0.6**	(0.1)
	(2.8)	0.4
Items that may be reclassified subsequently to profit and loss:		
Exchange movements on translation of foreign operations	**20.8**	14.8
Gain on revaluation of available for sale investments	**-**	2.5
Deferred tax charge relating to revaluation of available for sale investments	**-**	(0.7)
	20.8	16.6
Total comprehensive income for the year	**92.4**	78.6
Attributable to:		
Equity holders of the parent	**92.4**	78.6
Non-controlling interests	**-**	-
	92.4	78.6

Group Balance Sheet
31 March 2017

	Notes	**2017 £m**	2016 £m
Non-current assets			
Goodwill		**301.9**	247.7
Other intangible assets	7	**288.6**	210.0
Property, plant and equipment		**37.0**	34.9
Interests in associates	12	**32.1**	-
Investments		**8.5**	7.8
Deferred tax assets		**7.6**	6.8
Retirement benefit assets		**0.7**	2.1
		676.4	509.3
Current assets			
Inventories		**2.7**	2.9
Trade and other receivables		**455.1**	367.7
Cash and cash equivalents	8	**46.2**	54.2
		504.0	424.8
Total assets		**1,180.4**	934.1
Current liabilities			
Trade and other payables		**(456.2)**	(360.7)
Current tax liabilities		**(9.2)**	(7.0)
Obligations under finance leases	8	**(0.6)**	(0.9)
Bank and other loans	8	**(35.9)**	(25.0)
		(501.9)	(393.6)
Net current assets		**2.1**	31.2
Non-current liabilities			
Bank and other loans	8	**(270.1)**	(196.5)
Other financial liabilities		**(14.4)**	(5.6)
Deferred tax liabilities		**(23.0)**	(20.5)
Obligations under finance leases	8	**(1.0)**	(1.3)
		(308.5)	(223.9)
Total liabilities		**(810.4)**	(617.5)
Net assets		**370.0**	316.6
Equity			
Share capital	9	**8.4**	8.3
Share premium account		**45.7**	41.1
Merger reserve		**71.0**	71.0
Own shares reserve		**-**	(0.1)
Share incentive reserve		**18.3**	16.0
Capital redemption reserve		**1.2**	1.2
Currency translation reserve		**26.3**	5.5
Available for sale reserve		**1.8**	1.8
Retained earnings		**196.5**	171.8
Attributable to equity holders of the parent		**369.2**	316.6
Non-controlling interests		**0.8**	-
Total Equity		**370.0**	316.6

Group Statement of Changes in Equity

Year ended 31 March 2017

	Share capital £m	Share premium account £m	Other reserves £m	Share incentive reserve £m	Currency translation reserve £m	Available for sale reserve £m	Retained earnings £m	**Attributable to equity holders £m**	Non controlling interest £m	**Total Equity £m**
At 1 April 2016	8.3	41.1	72.1	16.0	5.5	1.8	171.8	**316.6**	-	**316.6**
Profit for the year	-	-	-	-	-	-	74.4	**74.4**	-	**74.4**
Other comprehensive income for the year	-	-	-	-	20.8	-	(2.8)	**18.0**	-	**18.0**
Dividends paid	-	-	-	-	-	-	(40.3)	**(40.3)**	-	**(40.3)**
Issue of share capital	0.1	4.6	-	-	-	-	-	**4.7**	-	**4.7**
Issue of trust shares	-	-	0.1	-	-	-	(0.1)	**-**	-	**-**
Share based payments	-	-	-	6.6	-	-	-	**6.6**	-	**6.6**
Share options exercised	-	-	-	(4.3)	-	-	0.4	**(3.9)**	-	**(3.9)**
Changes in non-controlling interest	-	-	-	-	-	-	-	**-**	0.8	**0.8**
Obligation under put option	-	-	-	-	-	-	(9.3)	**(9.3)**	-	**(9.3)**
Tax on exercised share options	-	-	-	-	-	-	2.0	**2.0**	-	**2.0**
Deferred tax on share options	-	-	-	-	-	-	0.4	**0.4**	-	**0.4**
At 31 March 2017	**8.4**	**45.7**	**72.2**	**18.3**	**26.3**	**1.8**	**196.5**	**369.2**	**0.8**	**370.0**

Year ended 31 March 2016

	Share capital £m	Share premium account £m	Other reserves £m	Share incentive reserve £m	Currency translation reserve £m	Available for sale reserve £m	Retained earnings £m	Attributable to equity holders £m	Non controlling interest £m	Total equity £m
Balance at 1 April 2015	8.3	40.5	61.1	15.7	(9.3)	-	252.2	368.5	-	368.5
Profit for the year	-	-	-	-	-	-	61.6	61.6	-	61.6
Other comprehensive income for the year	-	-	-	-	14.8	1.8	0.4	17.0	-	17.0
Dividends paid	-	-	-	-	-	-	(137.0)	(137.0)	-	(137.0)
Issue of share capital	-	0.6	-	-	-	-	-	0.6	-	0.6
Issue of trust shares	-	-	11.0	-	-	-	(9.8)	1.2	-	1.2
Share-based payments	-	-	-	2.6	-	-	-	2.6	-	2.6
Share options exercised	-	-	-	(2.3)	-	-	2.3	-	-	-
Tax on exercised share options	-	-	-	-	-	-	2.3	2.3	-	2.3
Deferred tax on share options	-	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Balance at 31 March 2016	8.3	41.1	72.1	16.0	5.5	1.8	171.8	316.6	-	316.6

Other reserves comprise the Merger, Own shares and Capital redemption reserves that were shown separately in the Statement of Changes in Equity in last year's Annual Report. Full details of these reserves are included in Notes 27, 28 and 30 of the Annual Report and Accounts 2017.

Group Cash Flow Statement
Year ended 31 March 2017

	Notes	**2017 £m**	2016 £m
Operating profit		**104.7**	86.9
Adjustments for:			
Depreciation of property, plant and equipment		**6.9**	5.4
Amortisation of intangible assets		**42.6**	30.4
Share-based payments expense		**7.4**	5.1
Share of profit of associates		**(0.2)**	-
Loss on disposal of property, plant, equipment and software		**0.4**	-
Bargain purchase on acquisition		**(0.7)**	-
Profit on disposal of subsidiary		**(0.1)**	-
Operating cash flows before movements in working capital		**161.0**	127.8
Decrease/(increase) in inventories		**0.4**	(1.7)
Increase in receivables		**(75.5)**	(25.1)
Increase in payables		**54.0**	20.7
Net movement in working capital		**(21.1)**	(6.1)
Cash generated by operations		**139.9**	121.7
Income taxes paid		**(20.0)**	(17.3)
Interest paid		**(6.7)**	(3.3)
Net cash inflow from operating activities		**113.2**	101.1
Investing activities			
Interest received		**0.3**	0.3
Proceeds on disposal of property, plant and equipment		**-**	0.2
Disposal of subsidiary		**(1.7)**	-
Purchases of intangible assets		**(50.9)**	(56.8)
Purchases of property, plant and equipment		**(7.6)**	(7.1)
Acquisition of investment in associate	12	**(24.7)**	-
Acquisition of available for sale investments		**-**	(0.5)
Net cash outflow on acquisition of subsidiaries	11	**(74.2)**	(5.3)
Net cash used in investing activities		**(158.8)**	(69.2)
Financing activities			
Dividends paid	5	**(40.3)**	(137.0)
Repayment of finance leases		**(1.0)**	(0.5)
Issue of shares from the employee benefit trust		**0.1**	1.2
Proceeds on issue of share capital		**0.8**	0.6
New bank and other loans raised		**103.3**	75.0
Movement in bank and other loans		**(29.8)**	7.7
Net cash generated by /(used in) financing activities		**33.1**	(53.0)
Net decrease in cash and cash equivalents		**(12.5)**	(21.1)
Cash and cash equivalents at beginning of year		**54.2**	74.7
Effect of foreign exchange rate changes		**4.5**	0.6
Cash and cash equivalents at end of year		**46.2**	54.2

Notes to the condensed set of financial statements

1. Basis of preparation

While the financial information included in this preliminary announcement has been prepared 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 2017.

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 March 2017 or 31 March 2016, but is derived from those financial statements. Statutory financial statements for FY16 prepared under IFRSs have been delivered to the Registrar of Companies and those for FY17 will be delivered following the Company's Annual General Meeting. The auditor, Deloitte LLP, has reported on those financial statements; its 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. These financial statements were approved by the Board of Directors on 23 May 2017.

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 31 March 2016 audited financial statements, except as described below.

Adoption of new or revised standards and accounting policies

The following accounting standards have been adopted in the year:

Amendments to IFRS10, IFRS12 and IAS28	Investment Entities – Applying the Consolidation Exception
Amendments to IAS1	Disclosure Initiative

None of the accounting standards listed above have had any material impact on the amounts reported in this consolidated, condensed set of 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
IFRS16	Leases
Amendments to IFRS2	Classification and Measurement of Share-based payment Transactions
Amendments to IFRS4	Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts
Amendments to IAS12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS7	Disclosure Initiative
Amendments to IAS40	Transfers of Investment Property
Improvements to IFRS	2014-2016 Cycle
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration

2. Accounting policies (continued)

Standards in issue but not yet effective (continued)

The implementation of IFRS9 may impact both the measurement and disclosures of financial instruments. The implementation of IFRS15 may have an impact on revenue recognition and related disclosures. IFRS16 will impact both the measurement and disclosures of leases. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS9, IFRS15 and IFRS16 until a detailed review has been performed. We have established a review team and are assessing the impact in all of our businesses and expect this to be completed in the coming year. 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 future years.

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 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.

During the year the USA segment has been renamed "North America" reflecting the increased presence that the Group has in Canada, which is managed and considered together with our business in the United States of America. Other than the change in name of the USA segment, no other changes have been made to the operating segments.

2017	UK £m	North America £m	France £m	Spain £m	New Markets £m	Total £m
Revenue						
Total revenue	326.5	227.8	91.1	130.2	16.6	792.2
Inter-segment	(7.2)	-	-	-	-	(7.2)
External revenue	**319.3**	**227.8**	**91.1**	**130.2**	**16.6**	**785.0**
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles	63.2	21.2	27.1	13.3	(6.0)	118.8
Amortisation of acquisition intangibles	(1.2)	(6.5)	(6.0)	(0.3)	(0.1)	(14.1)
Operating profit/(loss)	62.0	14.7	21.1	13.0	(6.1)	104.7
Investment income						0.3
Finance costs						(6.7)
Profit before tax						98.3
Tax						(23.9)
Profit for the year						**74.4**

3. Segmental analysis (continued)

2016	UK £m	North America £m	France £m	Spain £m	New Markets £m	Total £m
Revenue						
Total revenue	291.8	152.6	77.4	97.5	20.1	639.4
Inter-segment	(5.8)	-	-	-	(0.4)	(6.2)
External revenue	286.0	152.6	77.4	97.5	19.7	633.2
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles	58.0	12.1	23.2	9.9	(5.9)	97.3
Amortisation of acquisition intangibles	(0.6)	(4.3)	(5.2)	(0.3)	-	(10.4)
Operating profit/(loss)	57.4	7.8	18.0	9.6	(5.9)	86.9
Investment income						0.3
Finance costs						(4.6)
Profit before tax						82.6
Tax						(21.0)
Profit for the year						61.6

	Assets		Liabilities		Capital Additions		Depreciation, Amortisation, Impairment	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
UK	**817.8**	719.4	**472.5**	365.5	**36.1**	34.1	**16.1**	12.0
North America	**279.8**	160.6	**317.2**	256.7	**11.7**	10.2	**13.1**	8.5
France	**208.8**	194.3	**153.4**	130.5	**3.9**	5.4	**7.8**	6.3
Spain	**137.0**	110.2	**108.2**	90.3	**17.5**	13.8	**12.3**	8.6
New Markets	**15.6**	17.8	**37.7**	42.7	**0.2**	1.7	**0.2**	0.4
Inter-segment	**(278.6)**	(268.2)	**(278.6)**	(268.2)	**-**	-	**-**	-
Total	**1,180.4**	934.1	**810.4**	617.5	**69.4**	65.2	**49.5**	35.8

All assets and liabilities including inter-segment loans and trading balances are allocated to reportable segments.

4. Tax

	2017	2016
	£m	£m
Current tax		
Current year	**23.6**	20.1
Adjustments in respect of prior years	**1.3**	(0.4)
Total current tax charge	**24.9**	19.7
Deferred tax	**(1.0)**	1.3
Total tax charge	**23.9**	21.0

4. Tax (continued)

UK corporation tax is calculated at 20% (FY16: 20%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions, these being 40% in the USA (FY16: 40%), 33% in France (FY16: 33%), 25% in Spain (FY16: 27%) and 28% in Italy (FY16: 28%), which explains the 'Overseas tax rate differences' below.

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

	2017	2016
	£m	£m
Profit before tax on continuing operations	**98.3**	82.6
Tax at the UK corporation tax rate of 20%	**19.7**	16.5
Tax effect of items that are not (taxable)/deductible in determining taxable profit	**(0.2)**	2.3
Adjustments in respect of prior years – current tax	**1.3**	(0.4)
Overseas tax rate differences	**2.7**	2.4
Movement in deferred tax liability	**0.4**	0.1
Effect of overseas losses	**-**	0.1
Tax expense for the year	**23.9**	21.0

Given the UK parented nature of the Group, the majority of financing that the overseas businesses require is provided from the UK, and as such the UK has provided a number of intra-group loans to its overseas operations in order to fund their growth plans. In light of the different tax rates applicable in each of the markets in which the Group operates, as noted above, these loans result in a reduction in the Group's effective tax rate, which is included in 'Overseas tax rate differences' in the table above.

A retirement benefit tax credit amounting to £0.6m (FY16: £0.1m charge) has been recognised directly in other comprehensive income. In addition to the amounts credited/(charged) to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2017	2016
	£m	£m
Current tax		
Excess tax deductions related to share-based payments on exercised options	**2.0**	2.3
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**0.4**	(0.2)
Total tax recognised directly in equity	**2.4**	2.1

5. Dividends

	2017	2016
	£m	£m
Amounts recognised as distributions to equity holders in the year:		
Special dividend of 30p per share paid in July 2015	**-**	99.4
Final dividend for the year ended 31 March 2016 of 8.9p (2015: 7.87p) per share	**27.6**	25.9
Interim dividend for the year ended 31 March 2017 of 4.1p (2016: 3.8p) per share	**12.7**	11.7
	40.3	137.0

The proposed final dividend for the year ended 31 March 2017 is 11.2p per share amounting to £34.8m (FY16: 8.9p per share amounting to £27.6m). 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.

6. Earnings per share

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS33 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. The Group uses adjusted operating profit, EBITDA, adjusted profit before tax and adjusted earnings per share as its primary performance measures. These are non-IFRS measures which exclude the impact of the amortisation of acquisition intangible assets (FY17: £14.1m, FY16: £10.4m). Acquisition intangible assets principally arise as a result of the past actions of the former owners of businesses in respect of marketing and business development activity. Therefore, the adjusted measures reflect the post acquisition revenue attributable to, and operating costs incurred by, the Group. Diluted earnings per share includes the impact of dilutive share options in issue throughout the period.

	2017	2016
	pence	pence
Basic	**24.0**	19.6
Diluted	**23.6**	19.3
Adjusted basic	**27.0**	21.8
Adjusted diluted	**26.5**	21.4

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

Number of shares	**2017**	2016
	m	m
Weighted average number of shares		
Basic	**309.9**	313.9
Dilutive impact of share options	**5.4**	6.1
Diluted	**315.3**	320.0

Earnings	**2017**	2016
	£m	£m
Profit for the year	**74.4**	61.6
Amortisation of acquisition intangibles	**14.1**	10.4
Tax impact arising on amortisation of acquisition intangibles	**(4.9)**	(3.6)
Adjusted profit for the year	**83.6**	68.4

7. 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 2015	25.5	102.0	**127.5**	30.2	35.6	90.6	**283.9**
Additions	-	1.0	**1.0**	1.3	15.3	38.9	**56.5**
Acquisition of a subsidiary	-	9.2	**9.2**	-	-	-	**9.2**
Disposals	-	-	-	(0.3)	-	(4.9)	**(5.2)**
Exchange movements	1.7	6.6	**8.3**	0.4	4.1	1.1	**13.9**
At 1 April 2016	27.2	118.8	**146.0**	31.6	55.0	125.7	**358.3**
Additions	-	-	-	0.3	16.7	44.4	**61.4**
Acquisition of subsidiaries	16.3	28.0	**44.3**	-	-	1.3	**45.6**
Disposals	-	-	-	-	-	(0.2)	**(0.2)**
Exchange movements	4.0	12.3	**16.3**	1.3	4.9	3.2	**25.7**
At 31 March 2017	**47.5**	**159.1**	**206.6**	**33.2**	**76.6**	**174.4**	**490.8**
Accumulated amortisation and impairment							
At 1 April 2015	15.1	41.5	**56.6**	15.2	9.4	36.2	**117.4**
Charge for the year	2.4	8.0	**10.4**	4.4	7.6	8.0	**30.4**
Disposals	-	-	-	(0.3)	-	(4.9)	**(5.2)**
Exchange movements	1.1	2.6	**3.7**	0.2	1.3	0.5	**5.7**
At 1 April 2016	18.6	52.1	**70.7**	19.5	18.3	39.8	**148.3**
Charge for the year	2.8	11.3	**14.1**	4.5	11.6	12.4	**42.6**
Disposals	-	-	-	-	-	(0.2)	**(0.2)**
Exchange movements	2.1	5.7	**7.8**	0.6	1.9	1.2	**11.5**
At 31 March 2017	**23.5**	**69.1**	**92.6**	**24.6**	**31.8**	**53.2**	**202.2**
Carrying amount							
At 31 March 2017	**24.0**	**90.0**	**114.0**	**8.6**	**44.8**	**121.2**	**288.6**
At 31 March 2016	8.6	66.7	75.3	12.1	36.7	85.9	210.0

8. Analysis of net debt

	2017 £m	2016 £m
Cash and cash equivalents	**(46.2)**	(54.2)
Bank and other loans due within 1 year	**35.9**	25.0
Bank and other loans due after 1 year	**270.1**	196.5
Obligations under finance leases	**1.6**	2.2
Net debt	**261.4**	169.5

9. Share capital

	2017 £m	2016 £m
Issued and fully paid 310,689,548 ordinary shares of 2 9/13p each (FY16:307,892,426)	**8.4**	8.3

The Company has one class of ordinary shares which carry no right to fixed income. Share capital represents consideration received or amounts, based on fair value, allocated to LTIP and One Plan participants on exercise. The nominal value was 2 9/13p per share on all issued and fully paid shares.

During the period from 1 April 2016 to 31 March 2017 the Company issued 2,797,122 shares with a nominal value of 2 9/13p creating share capital of £75,307 and share premium of £4,696,129.

During the period from 1 April 2015 to 20 July 2015 the Company issued 90,856 shares with a nominal value of 2.5p creating share capital of £2,271 and share premium of £166,370. Following payment of a special dividend in July 2015, the Company completed a share consolidation of existing ordinary shares on the basis of 13 new ordinary shares for every 14 existing ordinary shares.

During the period from 21 July 2015 to 31 March 2016 the Company issued 219,592 shares with a nominal value of 2 9/13p creating share capital of £5,912 and share premium of £436,918.

10. 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. Related party transactions during FY17 were similar in nature to those in FY16 and amounted to £0.5m (FY16: £0.4m). Full details of the Group's related party transactions are included in the Annual Report and Accounts 2017.

11. Business combinations and disposals

The Group has incurred a net cash outflow in respect of business combinations of £74.2m in the year (FY16: £5.3m).

There were three material acquisitions in the year ended 31 March 2017.

On 1 July 2016 Homeserve USA Corp, a Group company, acquired 100% of the issued share capital and obtained control of Utility Service Partners Inc (USP). USP is a leading provider of home assistance services. Like our existing business, USP operates an affinity partner model and is the exclusive home warranty partner of the National League of Cities (NLC), an organisation that advocates to around 19,000 towns and cities, covering 66m municipal households in the USA.

On 1 December 2016 HomeServe Membership Limited, a Group company, purchased npower's 'domestic care and maintenance' contracts business. The acquisition included 76 heating engineers.

On 27 January 2017 HomeServe International Limited, a Group company, acquired 70% of the issued share capital and obtained control of Habitissimo S.L., a specialist online lead generation business operating across Southern Europe and South America.

11. Business combinations and disposals (continued)

The recognised amounts of identifiable assets acquired and liabilities assumed are set out in the table below:

At fair value	USP £m	npower services £m	Habitissimo £m	TOTAL £m
Property, plant and equipment	0.3	-	0.1	0.4
Intangible assets	0.1	-	1.2	1.3
Deferred tax assets	11.4	-	0.2	11.6
Cash and cash equivalents	5.8	-	0.8	6.6
Trade and other receivables	1.8	0.7	0.1	2.6
Trade and other payables	(12.9)	(0.3)	(1.1)	(14.3)
Other loans	-	-	(0.4)	(0.4)
Intangible assets identified on acquisition	34.8	7.0	2.4	44.2
Deferred tax on acquisition intangibles	(13.6)	(1.4)	(0.6)	(15.6)
Total identifiable net assets	**27.7**	**6.0**	**2.7**	**36.4**
Less non-controlling interests	-	-	(0.8)	(0.8)
Net assets acquired	**27.7**	**6.0**	**1.9**	**35.6**
Bargain purchase	-	(0.7)	-	(0.7)
Goodwill	33.2	-	10.9	44.1
Total consideration	**60.9**	**5.3**	**12.8**	**79.0**
Satisfied by:				
Cash	60.3	5.3	12.8	78.4
Deferred consideration	0.6	-	-	0.6
	60.9	**5.3**	**12.8**	**79.0**
Net cash outflow arising on acquisition:				
Cash consideration	60.3	5.3	12.8	78.4
Less: cash and cash equivalent balances acquired	(5.8)	-	(0.8)	(6.6)
	54.5	**5.3**	**12.0**	**71.8**

The goodwill arising on the excess of consideration over the fair value of the assets and liabilities acquired represents the expectation of synergy savings and efficiencies. None of the goodwill is expected to be deducted for tax purposes. The gross contracted amounts due are equal to the fair value amounts stated above for trade and other receivables.

The provisional fair values for USP Inc disclosed as part of the Group's interim results in November 2016 have been updated, resulting in a reduction to goodwill of £0.5m.

The post-acquisition revenue, operating profit and acquisition-related costs (included in administrative expenses) from these acquisitions in the year ended 31 March 2017 was as follows:

	USP £m	npower services £m	Habitissimo £m	Total £m
Revenue	21.1	2.0	1.8	24.9
Operating profit / (loss)	(0.7)	1.4	(0.2)	0.5
Acquisition-related costs	0.4	0.2	0.3	0.9

If all of the acquisitions had been completed on the first day of the financial year, Group revenues for the period would have been £802.0m and Group profit before taxation would have been £100.1m.

11. Business combinations and disposals (continued)

In addition to the net cash outflow on the acquisitions above of £71.8m, deferred consideration was paid relating to prior year business combinations of £3.1m (FY16 £1.1m) and net cash was acquired as part of an immaterial acquisition in Spain of £0.7m.

Through a call option the Group has the means to acquire the remaining 30% of the shares in Habitissimo S.L. which can be exercised in either 2020 or 2021. In addition, the non-controlling shareholders have a put option requiring the Group to acquire the remaining 30% of their shareholding. There is no market value defined in the shareholder agreement but a floor of €6.4m, based on the current price of the remaining 30%, and a cap of €30m. The fair market value of the company will be mutually agreed by HomeServe and the founders at the point at which the options become exercisable.

The potential cash payment relating to the put option issued by the Group over the equity of Habitissimo S.L. has been accounted for as a financial liability. This has been recognised at the present value of the expected gross obligation of £9.3m with the corresponding entry being recognised in retained earnings. The option will be subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable.

Disposal of a subsidiary

On 9 March 2017 the Group disposed of 51% of its 100% interest in Assistenza Casa Srl, the fair value of the consideration was £6.8m, of which £4.4m was received during the year. The Group realised a net profit on disposal as a result of this transaction of £0.1m.The net assets of the Group's interest in the business at the date of disposal were as follows:

At fair value	**£m**
Non current assets	0.1
Cash and cash equivalents	6.1
Trade and other receivables	19.2
Current liabilities	(13.4)
Total identifiable net assets	**12.0**
Release of currency revaluation reserve	(0.4)
Gain on disposal	(0.1)
Total consideration	**11.5**
Satisfied by:	
Cash	4.4
Deferred consideration	2.4
Interest in associate	4.7
	11.5
Net cash outflow arising on disposal	
Consideration received in cash and cash equivalents	4.4
Less: cash and cash equivalent balances disposed	(6.1)
	(1.7)

12. Interests in associates

On 13 December 2016 the Group acquired a 40% stake in Sherrington Mews Limited, the holding company of the Checkatrade Group, for cash consideration of £24.0m. There is further contingent consideration of £4.0m that is payable subject to financial performance conditions being met by the business, the present value of which is £2.7m. Legal costs of £0.7m associated with the transaction were added to the cost of the investment.

As stated in Note 11, on 9 March 2017 the Group disposed of 51% of Assistenza Casa Srl, a wholly owned Group company. The remaining 49% has been accounted for as an associate using the equity method. The Group realised a gain of £0.1m as a result of this transaction.

The following amounts relate to the results of associates:

	Sherrington Mews Limited £m	**Assistenza Casa Srl £m**	**Total £m**
Current assets	9.4	21.4	**30.8**
Non-current assets	2.2	4.2	**6.4**
Current liabilities	(13.6)	(15.4)	**(29.0)**
Non-current liabilities	(0.7)	-	**(0.7)**
Equity attributable to owners of the company	**(2.7)**	**10.2**	**7.5**
Controlling interest	1.6	(5.5)	**(3.9)**
Proportion of the Group's ownership interest in the associates	**(1.1)**	**4.7**	**3.6**
Summary Income Statement			
Revenue	4.7	1.2	**5.9**
Profit after tax	-	0.4	**0.4**
Amounts recognisable	**-**	**0.2**	**0.2**

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

	Sherrington Mews Limited £m	**Assistenza Casa Srl £m**	**Total £m**
Proportion of the Group's ownership interest in associates	(1.1)	4.7	**3.6**
Intangible asset	3.4	-	**3.4**
Deferred tax	(0.6)	-	**(0.6)**
Goodwill	25.7	-	**25.7**
Carrying amount of the Group's interest in associates	**27.4**	**4.7**	**32.1**

Through a call option the Group has the means to acquire a further 35% of the shares in Sherrington Mews Limited at a valuation which is the higher of a) the pro-rata of the amount payable for the initial 40% investment and b) 10 times adjusted EBITDA for the year ending 31 March 2019 multiplied by 35%, subject to a cap of £35m. In accordance with IAS39 the valuation of this call option has been considered and it is not deemed to have any material value at 31 March 2017 as it would not currently allow the Group to acquire an additional stake at less than market value.

In addition, the current controlling shareholders of Sherrington Mews Limited have a put option requiring the Group to acquire a further 35% of their shareholdings at the same price as that determined above in respect of the call option, though subject to additional financial performance conditions also being met by the business. Again, the valuation of this put option has been considered in accordance with IAS39 and it is not deemed to have any material value at 31 March 2017.

13. Events after the balance sheet date

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

14. Other information

The Annual Report and Accounts for the year ended 31 March 2017 was approved by the Board on 23 May 2017 and will be made available on the Company's website and posted to those shareholders who have requested it in June 2017. Copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.

Forward Looking Statements

This report contains certain forward looking statements, which have been made in good faith, with respect to the financial condition, results of operations, and businesses of HomeServe plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions, the current regulatory environment and the current interpretations of IFRS applicable to past, current and future periods. Nothing in this announcement should be construed as a profit forecast.