



HomeServe at a glance

We provide home repair and improvement services to 7.8m customers, with established businesses in the UK, North America, France and Spain - all now operating under our Global brand, HomeServe.

Revenue +24%

£785.0m

(FY16: £633.2m)

Statutory operating profit +20%

£104.7m

(FY16: £86.9m)

Basic earnings per share +22%

24.0p

(FY16: 19.6p)

Ordinary dividend per share +20%

15.3p

(FY16: 12.7p)

Customers +11%

7.8m

(FY16: 7.0m)

Adjusted operating profit¹ +22%

£118.8m

(FY16: £97.3m)

Adjusted earnings per share +24%

27.0p

(FY16: 21.8p)

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Our vision:

"To be the world's most trusted provider of home repairs and improvements."



To view this report online, go to homeserveplc.com

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.

Financial highlights

Statutory operating profit

£104.7m (FY16: £86.9m)

	2017	2016
UK	62.0	57.4
North America	14.7	7.8
France	21.1	18.0
Spain	13.0	9.6
New Markets	(6.1)	(5.9)

Adjusted operating profit

£118.8m (FY16: £97.3m)

	2017	2016
UK	63.2	58.0
North America	21.2	12.1
France	27.1	23.2
Spain	13.3	9.9
New Markets	(6.0)	(5.9)

Affinity partner households

102m (FY16: 92m)

	2017	2016
UK	24	24
North America	50	32
France	15	15
Spain	12	15
New Markets	1	6

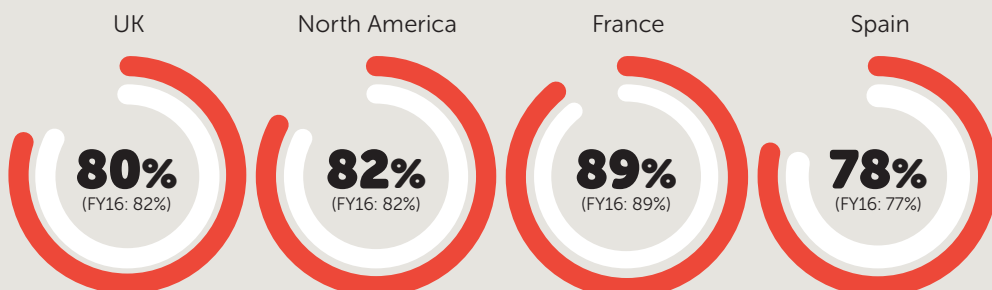
Customers

7.8m (FY16: 7.0m)

	2017	2016
UK	2.2	2.2
North America	3.0	2.3
France	1.0	1.0
Spain	1.3	1.2
New Markets	0.3	0.3

Retention

82% (FY16: 83%)





Chairman's statement

I am delighted that the Group had another very good year delivering customer and profit growth, with continued investment to deliver our strategy. We have a clear vision "to be the world's most trusted provider of home repairs and improvements" and we have agreed the strategic priorities (see page 12 for our strategic framework) to ensure we achieve it.

There are four areas of progress in the year that I would like to specifically address in this statement.

Firstly, the rate of progress in North America has been very positive. Through the strength of the existing business, enhanced with the acquisition of Utility Service Partners we have achieved the 3m customer milestone and 50m affinity partner households – great progress toward our 80m household target.

Secondly, the strength of affinity partnerships is the bedrock of our business and I am delighted with the launch of Aviva Response in the UK and the new joint venture with Edison Energia in Italy. Digital marketing is already live with both partners, a demonstration of our mutual commitment.

At the Capital Markets Day in June last year, we said we wanted to offer a compelling on demand service to homeowners. We have accelerated our plans with the investment in Checkatrade in the UK and the acquisition of Habitissimo in Spain.

Finally, opening new countries, via a joint venture, remains a key priority and we have made good progress in FY17, with discussions in progress with multiple prospects.

Dividend

Given the Group's performance this year and the Board's confidence in its future prospects, the Board is proposing an increase in the final dividend to 11.2p a share, bringing the total ordinary dividend for the year to 15.3p (FY16: 12.7p), an increase of 24%, which is 1.76x covered by the FY17 adjusted earnings per share compared to 1.72x in FY16.

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.

People

HomeServe's success is driven by the commitment of its people. On behalf of the Board, I would like to thank all our people for their contribution to another set of very good results.

JM Barry Gibson

Chairman
23 May 2017



"I am pleased to welcome USP, Checktrade and Habitissimo to the HomeServe family and look forward to making the most of our on demand opportunity."

JM Barry Gibson



Put customers at the heart of everything we do



Our global values



Put customers at the heart of everything we do



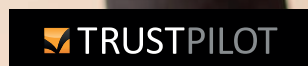
Develop and encourage great people who are passionate about taking responsibility and making things happen



Combine relentless innovation with integrity and professionalism



Strive to be the best in the world at what we do



“We aim to make it easier for customers to get home repairs done easily and quickly – their emergency is our emergency.”

Martin Bennett, UK CEO



Chief Executive's review

HomeServe has had another 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% Group customer growth, with customer numbers now at 7.8m. Statutory operating profit was up 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 FY17,

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 with customer numbers increasing 4% to 1.0m and 7% to 1.3m respectively. The Group retention rate was strong at 82% (FY16: 83%).

We invested £6.0m in the New Markets segment, as planned (FY16: £5.9m). Our Italian business established a joint venture with Edison Energia and we progressed our expansion into new countries and development of an online on demand home repair and improvement offering – our "Home Experts" platform.

Our investment in Checkatrade and acquisition of Habitissimo are a major step forward and position us at the fore of the online revolution we are seeing in home services. The Home Experts online platform will connect a wider consumer demographic to a broader range of expert tradespeople.

A portrait of Richard Harpin, Chief Executive, smiling. He is wearing a dark blue checkered suit jacket, a light blue shirt, and a red tie. A small white flower is pinned to his lapel. The background is a blurred office setting with warm lighting.

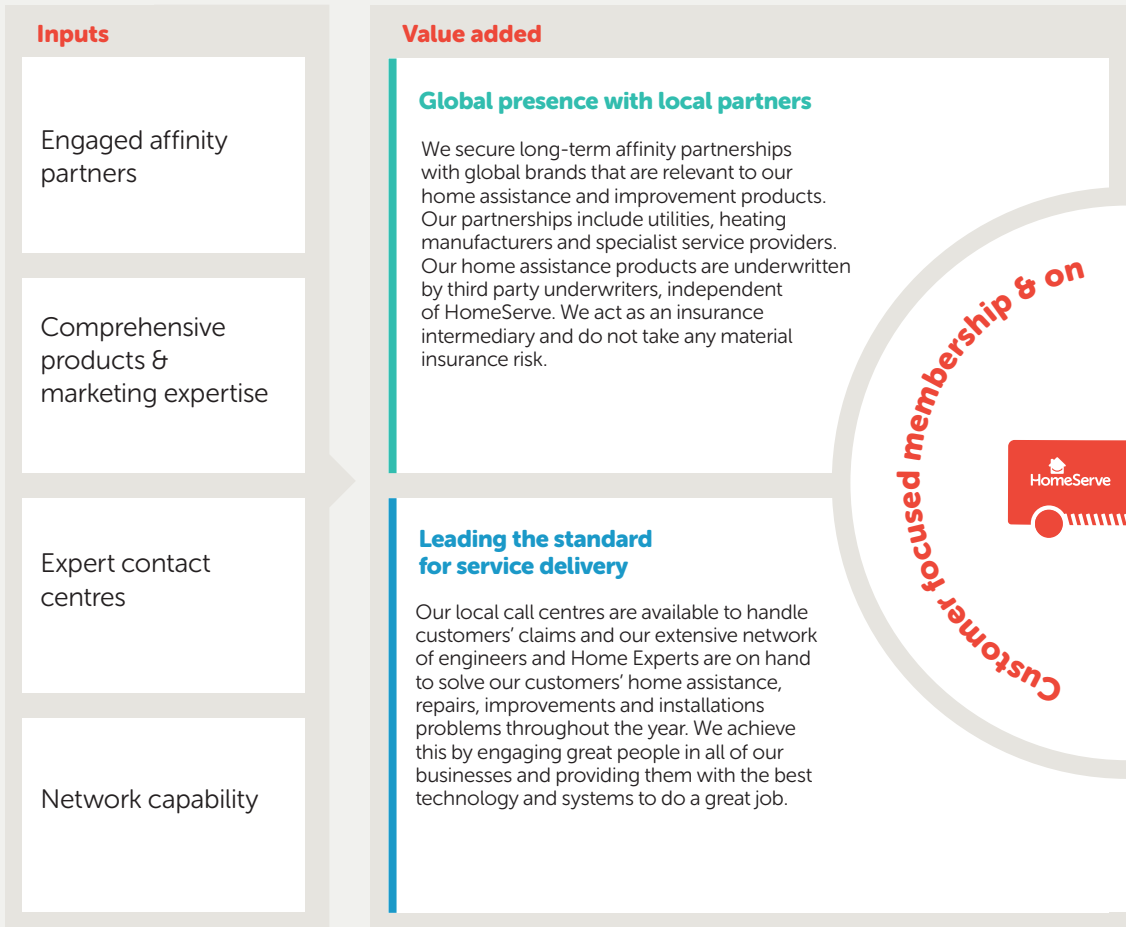
“With these opportunities, and the positive outlook for the rest of our business, HomeServe has an exciting future this coming year and beyond.”

Richard Harpin
Chief Executive

Our business model



Our vision is to be the world's most trusted provider of home repairs and improvements



Technology designed around our customers

Our successful home assistance Membership model appeals to risk averse, insurance-minded customers who want to protect their home in the event of an unexpected plumbing, heating or electrical emergency. We are developing our on demand home repair and improvement model to provide a solution for consumers who prefer not to insure home emergencies and prefer to transact online.

Trusted products - innovative solutions

Our range of comprehensive water, heating and electrical-related home assistance and repair products provide peace of mind to our customers. Our developing Home Experts on demand services offer home improvements and installations. Ongoing innovation ensures we are at the forefront of the smart home movement with smart thermostat and our water leak detector. We use our expertise in data analytics to optimise our direct marketing across a number of channels, including direct mail, call centres, and digital channels.

Financial model - cash generative, predictable revenue

Customers pay an annual premium for their home assistance products which funds the product underwriting, partner commission payments, and other direct and indirect costs of providing the service. Typically, on completing a customer claim the underwriter funds the job cost.

We invest in business development and marketing to deliver future customer growth. As the Home Experts platform is developed, the customer will pay a price for each job through a digital platform. Home Experts will pay a recurring fee for using the platform.

Value shared

Partners:

- Provides solution to customer's emergency
- Increases customer satisfaction & reduces churn
- Revenue stream

Customers:

- Peace of mind in event of home repair
- Excellent customer service
- Innovative Smart Home solutions

Employees:

- Expanding global business
- Opportunity, training and development
- Employee engagement score is 81% across the Group

Investors:

- An attractive cash generative business model
- Significant growth potential internationally
- Growth is supported by a strong balance sheet

demand home repairs & improvements



to deliver a great experience and efficiencies

Our strategic framework

Strategic priority

Extend 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.

Progress in FY17

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.

Investing to deliver great customer service

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.

Customers are moving to more online interactions and we are developing our technology to address this.

During FY17, HomeServe completed a job every 14 seconds, demonstrating our commitment to our customers when they need us most. 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.

We continued to invest in our core customer system to ensure our call centres can have good conversations with our customers. The investment in our claims and deployment systems ensures our engineers can get to our customers at their time of need.

Expanding New Markets Driving relentless innovation

We offer a range of insured home assistance products covering plumbing, heating and electrical services and continually innovate to align our product range to changing customer preferences. Demand for digital engagement at every stage of the customer journey continues, while more customers seek "smart home" products to enhance their experience.

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 test relationships with Aviva and RSA with promising results. We are developing a heating installation business.

Entering new geographies

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. 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.

Developing a digital on demand service

In line with our ambition to offer a complete home repair and improvement service to a broader customer demographic we are developing our on-demand offering.

We have started to develop an online platform offering on demand services, which we call Home Experts. As part of this development, we purchased a 40% stake in Checkatrade (UK), and acquired a 70% interest in Habitissimo (Spain). Combined, these businesses bring over 45,000 approved local tradesmen to our network.

“We have a clear vision and we have agreed the strategic priorities to ensure we achieve it.”

JM Barry Gibson

Future developments

As the Group enters FY18 we are well-placed for growth, with a strong pipeline of further partner prospects across North America, France and Spain.

Key Performance Indicator

Affinity partner households

102m (FY16: 92m)

We will continue to focus on delivering great customer service to all of our customers – a result of the hard work of our engaged people.

Group retention rate

82% (FY16: 83%)

We will roll out the core customer system and replace the claims handling and job deployment systems in the UK and improve the claims management systems in Spain and North America. We will continue to introduce self-serve functionality to meet customers' expectations.

We will continue to invest in the testing and roll out of LeakBot and our heating installation services.

Investment in New Markets

£6.0m (FY16: £5.9m)

We will continue to progress our international development plans and developing our on demand offering – Home Experts.

Chief Executive's review (continued)

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 amortisation of acquisition intangibles as reconciled to the statutory equivalent on the next page.

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%

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.

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

United Kingdom

Affinity partner households

24m

(FY16: 24m)

Customers **+1%**

2.2m

(FY16: 2.2m)

Income per customer ¹ **+2%**

£96

(FY16: £94)

Total policies **+2%**

5.6m

(FY16: 5.5m)

Policy retention rate **-2ppts**



Emillion	2017	2016	Change
Revenue			
Net policy income ²	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

¹ 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.

² Net policy income is defined as policy revenue net of sales taxes and underwriting.

- Solid performance with 2.2m customers
- Expanded partnership with Aviva, launching 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

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%).

Chief Executive's review (continued)

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% (FY16: 8.3 and 93%) respectively.

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 service 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

Affinity partner households **+54%**

50m

(FY16: 32m)

Customers **+28%**

3.0m

(FY16: 2.3m)

Income per customer **+7%**

\$97

(FY16: \$91)

Total policies **+28%**

4.5m

(FY16: 3.5m)

Policy retention rate



\$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

Emillion	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

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.

- Rapid progress adding 18m 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.

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.

Chief Executive's review (continued)

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 remains 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



"I've been in my home for 13 years. The plans were worth the cost for peace of mind."

Robert McKenzie
Charleston SC

HomeServe's
3 Millionth customer
in the USA

May 2017

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

Affinity partner households

15m

(FY16: 15m)

Customers **+4%**

1.0m

(FY16: 1.0m)

Income per customer

€101

(FY16: €101)

Total policies **+1%**

2.3m

(FY16: 2.3m)

Policy retention rate

FY17	89%
FY16	89%

€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%	—

Emillion	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%	—

- 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%.

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 channel, 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.

Chief Executive's review (continued)

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

Affinity partner households **-20%**

12m

(FY16: 15m)

Customers **+7%**

1.3m

(FY16: 1.2m)

Income per customer **+4%**

€43

(FY16: €41)

Total policies **+6%**

1.5m

(FY16: 1.4m)

Policy retention rate **+1ppt**



€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%	—
Emillion			
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%	—

- 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.

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.

Chief Executive's review (continued)

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 March 2017, the net book value of 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.



Chief Executive's review (continued)

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 Checktrade 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 Checktrade, 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.

Checktrade 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 Checktrade, 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 0.25m 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

Group statutory results

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

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

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.

Group income statement

Emillion	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

A professional portrait of David Bower, Chief Financial Officer. He is a middle-aged man with dark hair, smiling warmly at the camera. He is wearing a dark blue suit jacket, a white dress shirt, and a red tie with a small, repeating pattern. A small white flower is pinned to his lapel. The background is softly blurred, showing warm indoor lighting and wooden paneling.

"This is a strong set of results, with growth in operating profit and earnings. We were delighted to increase our dividend by 20% this year."

David Bower
Chief Financial Officer

Financial review (continued)

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%).

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%.

Group cash flow

Emillion	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)
Acquisition 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)

Financial review (continued)

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 Checktrade 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 1.75x - 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 Checktrade 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.

Financial review (continued)

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.

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.

Foreign exchange impact

		Effect on (£m)				
		Average exchange rate			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



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 opposite 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 Chief Executive's 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
<p>Commercial relationships</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Across the Group we are not dependent on any one single partnership, which mitigates, in part, the impact of losing any single relationship.</p>	<p>We have continued to sign and renew affinity partnerships with utilities across the businesses.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>Competition</p> <p>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.</p>	<p>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.</p> <p>We believe we have a compelling proposition, providing customers with real value and helping reduce the impact of increased competition.</p>	<p>There has been no significant change in the competitive landscape in any of the countries in which we operate.</p> <p>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.</p>

Principal risks and uncertainties (continued)

Risk Description / Impact	Mitigation	Change since 2016 Annual Report
<p>Customer loyalty / retention</p> <p>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.</p>	<p>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.</p> <p>We have a wide range of tools available to manage retention rates, including specific retention propositions.</p> <p>There are dedicated retention teams, trained and experienced in talking to those customers who are considering not renewing their policy.</p> <p>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.</p>	<p>Policy retention remains high in all our countries.</p> <p>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%.</p> <p>In North America, the policy retention rate has been maintained at 82%, the same as the prior year.</p> <p>In France, we have maintained a policy retention rate of 89%.</p> <p>In Spain, policy retention increased by 1 percentage point to 78%.</p>
<p>Marketing effectiveness</p> <p>A significant reduction in the response rates on our marketing could have a significant impact on customer and policy numbers.</p>	<p>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.</p>	<p>During the year, our marketing channels performed as we expected with direct mail response rates continuing to perform well.</p> <p>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.</p>

Risk Description / Impact	Mitigation	Change since 2016 Annual Report
<p>Exposure to legislation or regulatory requirements</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>It is possible such legislative changes could reduce, or even remove, the need for some of our products and services.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>All of our businesses have dedicated experienced compliance specialists including independent Non-Executive Directors to chair the compliance committees in each of our businesses, with regular reporting to the local company Board of Directors.</p> <p>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.</p> <p>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.</p>

Principal risks and uncertainties (continued)

Risk Description / Impact	Mitigation	Change since 2016 Annual Report
<p>Quality of customer service</p> <p>Our reputation is heavily dependent on the quality of our customer service.</p> <p>Any failure to meet our service standards or negative media coverage of poor service could have a detrimental impact on customer and policy numbers.</p>	<p>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.</p> <p>The results of these are reviewed on a regular basis and action plans produced to address the key issues.</p> <p>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.</p> <p>Reflecting the importance of customer service to our business, all senior managers have customer satisfaction as a significant component of their annual bonus opportunity.</p>	<p>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.</p>
<p>Availability of underwriters</p> <p>The policies that we market and administer are each individually underwritten by third party underwriters, independent of HomeServe.</p> <p>We act as an insurance intermediary and do not take on any material insurance risk.</p> <p>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.</p>	<p>We use a number of underwriters, with the main provider in the UK separate to those in the rest of Europe and North America.</p> <p>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.</p> <p>The principal underwriters are subject to medium-term agreements, with the rates subject to regular review.</p> <p>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.</p>	<p>We continue to review our underwriting relationships on a regular basis to ensure they provide the best returns for customers and shareholders.</p> <p>In the UK, Aviva continues to be our principal underwriter, and commenced underwriting new business in November 2015.</p> <p>Having secured a second underwriter in North America last year, during FY17 we agreed terms with second underwriters in France and Spain.</p>

Risk Description / Impact	Mitigation	Change since 2016 Annual Report
<p>Dependence on recruitment and retention of skilled personnel</p> <p>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.</p>	<p>Our employment policies, remuneration and benefits packages, and long-term incentives are regularly reviewed and designed to be competitive with other companies.</p> <p>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.</p> <p>Processes are in place to identify high performing individuals and to ensure that they have fulfilling careers, and we are managing succession planning effectively.</p>	<p>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.</p> <p>We have continued to strengthen our management teams across all our operations – particularly in the areas of IT, Digital, Commercial and M&A.</p> <p>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.</p>
<p>Exposure to country and regional risk and Brexit risk</p> <p>In line with other businesses we are subject to economic, political and other risks associated with operating in overseas territories.</p> <p>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.</p> <p>Following the UK's decision to leave the European Union there may be implications for how we operate with our overseas businesses.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We continue to monitor the economic, political and regulatory environments where we operate.</p> <p>The Group is well positioned to meet the challenges of the UK's exit from the European Union and our growth prospects remain strong.</p>

Principal risks and uncertainties (continued)

Risk Description / Impact	Mitigation	Change since 2016 Annual Report
<p>Our IT systems become a constraint to growth and drive inefficiency instead of efficiency improvements</p> <p>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.</p>	<p>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.</p> <p>All system developments and enhancements undergo a rigorous financial review and the proposed benefits are monitored and subject to post implementation reviews.</p> <p>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.</p>	<p>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.</p> <p>We have agreed plans to upgrade our claims and deployment systems, enhancing the customer journey and improving interactions with our network.</p> <p>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.</p>
<p>Information security (including cyber risk)</p> <p>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.</p>	<p>We have a number of defensive and proactive practices across the Group to mitigate this risk.</p> <p>We have a detailed information security policy, which is communicated across the Group and training provided as required.</p> <p>We continue to invest in IT security ensuring a secure configuration, access controls and data centre security.</p>	<p>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.</p>

Risk Description / Impact	Mitigation	Change since 2016 Annual Report
<p>Financial strategy and treasury risk</p> <p>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.</p> <p>Following the UK's decision to leave the European Union the Group could be subject to higher exchange rate fluctuations</p>	<p>Interest rate risk</p> <p>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.</p> <p>Credit risk</p> <p>The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions.</p> <p>The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.</p> <p>Liquidity risk</p> <p>We manage liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.</p> <p>Foreign exchange risk</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>Cash and cash equivalents continue to be deposited with reputable and creditworthy banking institutions.</p> <p>There has been no significant change in the level of mid-term policy cancellations.</p> <p>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.</p> <p>During the year, our adjusted operating profit benefited from the translation benefit on Euro and USA Dollar profits by £10.3m.</p>

Financial review (continued)

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 cashflows 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



Develop and encourage great people

Our global values



Put customers at the heart of everything we do



Develop and encourage great people who are passionate about taking responsibility and making things happen



Combine relentless innovation with integrity and professionalism



Strive to be the best in the world at what we do





**"Our people promises make sure
that we always put our people first."**

JM Barry Gibson

Corporate responsibility

We are committed to developing and implementing a successful corporate responsibility programme that benefits key stakeholders. We believe that a successful business must also be a responsible business.

We aim to:

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

Our corporate responsibility objectives support our vision and values, with a focus on four areas:

1. Customers

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

2. Employees

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

3. Community

- Use our core skills to give something back to the community
- Support more vulnerable members of the community by helping them in their homes.

- Develop partnerships with charitable and community organisations closely aligned to our business activities and therefore maximise our contribution
- Support and encourage employee involvement in charitable giving and volunteering, using relevant employee skills to support our local communities.

4. Environment

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

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

Customers

We promote a customer-focused culture and are proud of our excellent reputation for customer service and the many outstanding customer service awards we have won around the world. Our Customer Promises outline our commitment to our customers; we make things easy for customers and treat them fairly, every step of the way. All our people are committed to our customer promises - from management teams to those on the front line.

Our Customer Promises

Before a Customer joins

We'll make it clear what they're buying and what it will do for them

When a Customer joins

We'll tell them how much they're paying, what that buys them and how to claim

When a Customer becomes a member

We'll make life easy for them

When a Customer makes a claim

We'll solve their problem quickly and easily – their emergency is our emergency

If a Customer isn't happy

We'll listen, say sorry and put things right wherever we can, as soon as we can



Employees

Our strategy to deliver consistently good customer service is embedded in our recruitment, selection, development and reward arrangements across the Group. We aim to attract, motivate and retain the best talent we can and this underpins our consistently high customer service.

All of our businesses have adopted People Promises and whilst these differ in each territory, they are based on a common set of values. They also complement our customer promises and align our employees' interests to the delivery of excellent customer service.

Our people are considered for employment, training, career development and promotion on the basis of their abilities and aptitudes, regardless of physical ability, age, gender, sexual orientation, religion or ethnic origin. Our gender split in FY17 across the Group was 55:45 (Male:Female) with a team of over 5,000, as shown in the table below.

Employees at 31 March 2017		
	Male	Female
Executive Board members	30	11
Senior Managers	315	255
Other employees	2,534	2,097
Total	2,879	2,363

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

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. We will take all practicable steps to ensure that if an employee becomes disabled during the time they are employed, their employment can continue. We continue to review both performance and potential as a key part of our annual performance management, career development and succession planning processes. We have co-ordinated talent and leadership programmes across the business, from front-line developing leaders to senior executives.

We are developing and implementing a succession planning strategy to ensure we have the talent available to match Group growth. We are also working with an external partner to identify individuals outside the organisation to join HomeServe and ensure that we promote an international mindset and experience.

We ensure all our people benefit from effective communications and engagement, with regular business updates, senior management briefing sessions and “surgeries”, question and answer opportunities and constructive relationships with employee representatives across the Group. We also encourage our management teams to hold regular informal update meetings and social events to keep our employees informed and engaged. In FY17 our overall employee engagement level rose to 81% from 78% in FY16.

Community

Each business is encouraged to develop a local strategy to support and give back to the communities in which we live and work.

In the UK, there are four different programmes that:

- Incentivise our people for volunteering for groups that matter to them. In FY17, we made over £11,000 in donations to community groups, including Scout groups, sports teams, homeless centres and hospices. Our people have given over 3,000 hours of their own time to these groups
- Encourage our people to choose a charity that matters to them, and raise money for that charity that is then matched. Around £25,000 has been raised for a wide range of local and national charities, which we have matched

- Work with the charity, Education & Employers, on their ‘Inspire the Future’ campaign to place over 40 of our People (including engineers and marketing managers) as volunteers in local schools and colleges speaking to students about their own job and career path
- Work on major refurbishment projects where we can use our skills to help others. Projects have included a team of our engineers volunteering their time for BBC DIY SOS installing a whole new heating system and also a team of 40 People who helped one of our elderly customers who was having difficulty maintaining his home.

For the thirteenth year, our UK contact centres were selected by the Comic Relief charity to receive donations from the public and over 450 of our people volunteered on the evening, taking over 2,000 calls. We continue to support the Midland Langar Seva Society, which feeds homeless people in Birmingham 365 days a year. Support has included onsite food and clothing collections and our people volunteering every Thursday night in Birmingham. Since the start of the partnership, over 14,000 meals have been served at the open kitchens.

In the US, just over \$70,000 has been contributed to local community charitable organisations and another \$77,000 to customers in need. Initiatives included:

- The HomeServe Helping Hands programme where charitable assistance is provided to employees whose personal circumstances present significant challenges

- The Charitable Pitch Campaign which provides HomeServe employees with the chance to “pitch” their ideas for charities: it gives invaluable insight into the personal lives of our employees and gives a tremendous pipeline of worthy social causes. In FY17, we contributed \$45,000 to key charities; Red Rover Foundation, American Cancer Society, Humane Society, Best Buddies (Disabled Children) and CT Advocates of Southwest Connecticut
- HomeServe Cares and Goodwill Jobs where we assist customers with repairs that they could otherwise not afford. During the year, \$38,000 of work has been performed
- Supporting our partners in their local communities. This charitable work totalled just over \$17,000 in FY17.

In France we have continued working with Habitat & Humanisme, and activities included providing meals for under privileged people and supporting residents with our contractor network. In FY17 we also deployed a number of claims free of charge.

Over 470 employees in Spain have been directly involved in community activity. Over 230 employees have raised money for cancer charities including races across Spain and a charity football tournament organised by the NGO “Cooperación Internacional”. Using the skills of 127 employees and contractors, we repaired and painted seven social centres.

Environment, Health & Safety

Health, safety, wellbeing and environmental guardianship remain central to everything we do. All our businesses comply with ten guiding principles for occupational health and safety and for environmental management. We focus on safe working environments, developing motivated and supported employees, and we strive for zero work-related injuries and illnesses.

In FY17, we engaged a specialist supplier to complete a Group wide audit and a plan has been put in place to implement the actions arising from that activity. As part of this, we intend to enhance our reporting and controls in line with recommended HSE best practice and to encourage cross business learning.



Leadership

Johnathan Ford, Group Chief Operating Officer, is the Director responsible for environmental, health and safety matters. HR Directors lead Health & Safety matters in each business, except in the UK where responsibility has transferred to the Chief Risk Officer.

Continuous improvement

Intra-company safety benchmarking is strong and accident frequency rates are used to compare injury rate, safety culture and levels of engagement; and in preparation for the new ISO45001 specification gives a leading indicator of safety leadership. Across the Group we have continued to see a positive trend in the reduction of accidents or incidents in FY17.

The UK has promoted the use and benefits of the employee assistance programme which covers stress management. The business has received a Gold award from the Royal Society for The Prevention of Accidents. The Health & Safety framework has been judged as continuously improving and this is the 7th Gold award in a row for the business which is a great achievement.

France has continued to see a significant reduction in the number of work related accidents, and there have been considerable improvements to the working environment following the move to a new modern office building. A support hotline has been implemented for all employees in France with a view to assisting with stress management.

The US has seen a reduction in the number of injuries and has made significant improvements to the injury management process which focuses on early medical intervention and early access to occupational medical facilities where required.

During FY17 the environmental conditions of all our locations in Spain were reviewed with subsequent investment in lighting, air conditioning and reducing noise pollution. A key focus through a range of health campaigns has been placed on ensuring employees are able to check their health and get access to expert advice where required.

Carbon emissions continue to be measured across all Group companies. The UK business is not part of the UK Government's monitoring scheme as carbon emissions are below the scheme's threshold.

Legal

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

Our global values



Put customers at the heart of everything we do



Develop and encourage great people who are passionate about taking responsibility and making things happen



Combine relentless innovation with integrity and professionalism



Strive to be the best in the world at what we do





**Relentless innovation
combined with integrity
and professionalism**



**“Our focus on innovation ensures
we stay on top of changing customer
needs and anticipate their demands”**

Craig Foster, MD of HomeServe Labs

Chairman's overview

The Board continues to believe that good corporate governance underpins good business performance. As a Board we are accountable to our shareholders for ensuring that governance processes are in place and are effective and we are fully committed to meeting the required standards of corporate governance.

The reports that follow are intended to give shareholders an understanding of our corporate governance arrangements and how they operated in FY17.

Board focus

Over the last year we have delivered strong profit growth while continuing to implement our customer focused growth strategy. We have continued to seek out new opportunities to grow our business, investing in Checkatrade and acquiring Habitissimo, two innovative online businesses, and completing the acquisition of Utility Service Partners in the US.

As a Board we regularly discuss and review:

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

Board changes

Having served as Chief Financial Officer since September 2012, Johnathan Ford was appointed to the new role of Group Chief Operating Officer on 20 June 2016. Johnathan now provides focus and support to all of our businesses in order to ensure high levels of operational effectiveness across the Group as it grows. He is leading the development and implementation of plans to deliver the Group's operating objectives, sharing best practice and maximising the returns from investments in new systems and technology.

Following a selection process to identify a successor to Johnathan, David Bower was appointed as Chief Financial Officer on 6 February 2017. David joined HomeServe in 2005 and has undertaken a number of senior divisional and group finance roles including six years as Group Finance Director.

We have today announced the appointment of three new Directors to the Board 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. Prior to joining HomeServe he was at Affinion Group where he undertook a number of roles culminating in three years as President and Chief Executive Officer of Affinion Group's North American Division.

Katrina has spent her career in retail financial services, credit cards, customer service and marketing. Most recently she was General Manager at American Express Global Business Travel, EMEA, having previously been General Manager, Global Corporate Payments, UK.

Katrina is currently a non-executive Director of Cembra Money Bank, ABTA (Association of British Travel Agents) and Shop Direct Finance Company where she chairs the Risk Management Committee.

Edward joined Hastings Insurance Group in 2008 as Chief Executive Officer and was part of the MBO team of the business in 2009. He served as the Non-Executive Chairman of Hastings Insurance Services Limited until October 2015 and a Non-Executive Director of Hastings Group Holdings plc until March 2017.

Prior to joining Hastings he spent three years at HomeServe as Chief Executive of HomeServe Warranties.

I am delighted to welcome David, Tom, Katrina and Edward to the Board. HomeServe is becoming a bigger and broader-based business and these appointments expand and strengthen the executive and non-executive presence around the Board table. Tom's appointment reflects the increasing significance of North America to the Group. Katrina and Edward both bring a wealth of experience in financial services and their extensive commercial experience will be of great benefit as we continue to develop and expand the business.

Board effectiveness

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

JM Barry Gibson

Chairman
23 May 2017

Directors

JM Barry Gibson (65)^{1,3,4}

Appointed to the Board in April 2004 and appointed as Chairman in April 2010 following a year as Senior Non-Executive Director. Previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and Non-Executive Director of Somerfield plc, National Express plc, William Hill plc, SSP Group Ltd, bwin.party digital entertainment plc and Non-Executive Chairman of Harding Brothers Holdings Ltd.

David Bower (45)

Appointed as Chief Financial Officer in February 2017. He joined HomeServe in 2005 and has undertaken a number of senior divisional and group finance roles including spending six years as Group Finance Director. Before HomeServe, he spent 12 years at Arthur Andersen, later Deloitte LLP, where he qualified as a Chartered Accountant.

Chris Havemann (49)^{1,2}

Appointed to the Board in December 2015. He has followed a largely entrepreneurial career. He took Research Now onto AIM in 2005 and oversaw its takeover by a US business becoming CEO of the combined group, a global leader in online research data collection. He was subsequently CEO of online marketplace, Rated People. He is also Chairman of RM222 Ltd, parent company of Reality Mine Ltd and a governor of London Business School.

Guillaume Huser (50)⁵

Appointed as Chief Executive Officer, HomeServe France in April 2015. Previously at Affinion Group where he undertook a number of roles culminating in four years as President of Affinion Group's International Division. Before joining Affinion in December 2002, he spent 13 years at American Express firstly in finance, sales and business development roles and later in the Corporate Services Division where he was VP Commercial Card, Western Europe.

Anna Maughan (47)

Appointed Company Secretary in July 2008 following 12 years as Assistant Company Secretary. Also a Trustee of, and Secretary to, the industry wide Water Companies Pension Scheme.

Richard Harpin (52)

Founder and Chief Executive Officer of HomeServe, which was set up in 1993 as a joint venture with South Staffordshire Group. Appointed to the Board in May 2001. Also founder and Non-Executive Director of Growth Partner LLP, investing in and helping small consumer businesses to step change their growth. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

Johnathan Ford (47)

Appointed as Chief Operating Officer in June 2016 having served as Chief Financial Officer for four years. Previously the Group Finance Director of NWF Group plc. Prior to joining NWF in March 2009, he spent four years at HomeServe, firstly as Group Commercial Director and later as Finance Director of the Emergency Services Division. Before joining HomeServe he was Head of Corporate Finance at Kidde plc. Previously a Non-Executive Director of Lakehouse plc where he chaired the Audit Committee.

Ben Mingay (52)^{1,2,3,4}

Appointed to the Board in January 2012. Managing Partner of Smith Square Partners, an independent corporate finance advisory firm. He has more than 25 years' experience as a corporate finance adviser. Prior to co-founding Smith Square Partners, he was a Managing Director of Hawkpoint Partners Ltd and Credit Suisse First Boston (Europe). Previously a Non-Executive Director of AIM-listed Alternative Networks plc.

Tom Rusin (48)⁵

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

Martin Bennett (48)

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

Stella David (54)^{1,3,4}

Appointed to the Board in November 2010. Previously Chief Executive Officer of William Grant & Sons following more than 15 years with Bacardi Ltd where she undertook a number of roles culminating in five years as Global Chief Marketing Officer. Currently a Non-Executive Director of C&J Clark Ltd, Bacardi Ltd and Norwegian Cruise Line Holdings, she also spent seven years as a Non-Executive Director at Nationwide Building Society.

Mark Morris (57)^{1,2,3,4}

Appointed to the Board in February 2009 and as Senior Independent Director in April 2015. Previously in audit, business advisory and corporate finance with Price Waterhouse before joining Sytner Group plc as Finance Director, later becoming Managing Director. Currently Chairman of Motorpoint Group plc and previously a Non-Executive Director of LSL Property Services plc.

H Stephen Phillips (50)⁵

Appointed as Chief Executive Officer of HomeServe Spain in March 2010 having joined HomeServe in 2005 as Country Manager in Spain. He is a licensed insurance broker and is a Non-Executive Director of Assured Enterprises Inc. Prior to joining HomeServe, he spent 12 years in senior business development, sales, and marketing roles in Diversified Business Communications S.A. and E.J. Krause de México, working across the US and Latin America.



Key:

¹ Non-Executive.

² Audit & Risk Committee (Chairman: Mark Morris).

³ Nomination Committee (Chairman: Barry Gibson).

⁴ Remuneration Committee (Chairman: Stella David).

⁵ Member of Executive Committee only.

Corporate Governance report

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code 2014 ('the Code'). The Company has applied the principles set out in the Code and has complied with the provisions set out in the Code throughout the year. An explanation of how the Code has been applied is set out here, in the Audit & Risk Committee report and in the Remuneration report.

The Board

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

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

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

The full schedule is available on our website.

Board composition

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

The Directors who held office during the year were:

John Michael Barry Gibson

Richard David Harpin

Martin John Bennett

David Jonathan Bower (appointed 6 February 2017)

Johnathan Richard Ford

Stella Julie David

Christopher Havemann

Benjamin Edward Mingay

Mark Christopher Morris

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

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

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

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

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March 2017 and 23 May 2017 are set out in the Remuneration report. None of the Directors serving at the year end had a beneficial interest in the share capital of any subsidiary company.

Succession planning

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

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

Corporate Governance report (continued)

Diversity

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

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

Board meetings

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

Regular formal and informal presentations are given and meetings held in order to inform Directors of issues of importance affecting the Group. Occasionally, meetings of the Board are held at the Company's operating sites other than Walsall, in order to afford the Board, particularly the Non-Executive Directors, the opportunity to meet with local management. During FY17, the annual strategy meeting was held in France which provided the Board with an invaluable insight into that business and enabled the Directors to meet the entire senior management team.

Attendance at meetings

All Directors are expected to attend all Board and relevant committee meetings. Details of attendance by Directors at meetings during the year are set out in the table below.

	Board	Audit & Risk Committee	Remuneration Committee
Number of meetings held	8	3	3
Meetings attended			
R Harpin	7		
M Bennett	8		
D Bower ¹	2		
J Ford	8		
J M B Gibson	8		3
S David	8		3
C Havemann	8	3	
B Mingay	8	3	3
M Morris	8	3	3

¹ David Bower was appointed on 6 February 2017.

Directors who were unable to attend specific meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee. Any Director who misses a meeting will, as a matter of course, receive the minutes of that meeting for reference.

Nomination Committee meetings are held on an ad hoc basis as required. The activities of this Committee are described later in this report.

Board development

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

During the year, the Non-Executive Directors have met with various members of the Group's management teams and external advisers.

Board evaluation

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

An external Board evaluation process was completed during FY15 by Lintstock Limited. Directors completed evaluation questionnaires and these were followed up by individual interviews with Lintstock who then compiled a formal written report summarising the Directors' views and containing recommendations to improve the effectiveness of the Board. This report was followed up in both FY16 and FY17 by an evaluation questionnaire, also facilitated by Lintstock Limited. The FY17 output was discussed by the Board in February 2017.

The overall performance of the Board was rated very highly and was broadly seen to have improved since the FY16 review. In particular the Non-Executives' support and challenge of management was rated highly as was the relationship between the Board and the Chief Executive and the atmosphere at meetings. It was agreed that the Board should continue to try to visit different HomeServe operations and to take the opportunity to meet and interact with the wider management teams.

Corporate Governance report (continued)

Committees

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

Nomination Committee

Members

JM Barry Gibson (Chairman)

Stella David

Ben Mingay

Mark Morris

Responsibilities

The primary responsibilities of the Committee are to:

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

Key issues considered during the year

A specially formed Nomination Committee was used during the year to run the process to appoint a new Chief Financial Officer. This Committee was headed by Mark Morris who, given his role as Chairman of the Audit & Risk Committee, was considered to be the most appropriate person to lead the process. He was closely supported by Johnathan Ford. This Committee met informally on a number of occasions to consider the candidates for the role and Directors not on the Committee were given the opportunity to meet with the shortlisted candidates. Following this, a recommendation to appoint David Bower was made to the Board.

The Committee draws on the advice of such professional advisers as it considers necessary and did so during the year in respect of the appointment made.

Succession planning arrangements were considered by the Board as a whole rather than by the Nomination Committee.

Executive Committee

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

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

Other members of the Executive Committee are Martin Bennett, Johnathan Ford, David Bower, Tom Rusin, Chief Executive Officer of HomeServe USA, Stephen Phillips, Chief Executive Officer of HomeServe Spain and Guillaume Huser, Chief Executive Officer of HomeServe France.

The Committee has adopted formal terms of reference.

Risk Committee

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

Directors' indemnities and insurance

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

Advice for Directors

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

Relationships with shareholders

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

Corporate Governance report (continued)

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

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

Viability statement and going concern

The viability statement and going concern are contained within the Strategic report.

Internal controls

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

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

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

- The Group's strategy is set by the Board and three year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.
- The Group's management operates a formal process for identifying, managing and reporting on operational and financial risks faced by each of the Group's businesses. Risks are reviewed in detail at local risk committees and, on an overall basis, by the Group Risk Committee and the Audit & Risk Committee.
- The Group Risk Committee meets three times a year and reviews a register summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks. Regular updates are provided to the Audit & Risk Committee and the Board.
- The Audit & Risk Committee meets three times a year and reviews the risk registers in order to advise the Board on current risk exposures and future risk strategy. More detail is provided in the report of the Audit & Risk Committee.

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

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

By Order of the Board

JM Barry Gibson

Chairman

23 May 2017

Audit & Risk Committee report

Members

Mark Morris (Chairman)

Chris Havemann

Ben Mingay

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

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

Responsibilities

The primary responsibilities of the Committee are to:

- monitor, on behalf of the Board, compliance with and the effectiveness of, the Company's accounting and internal control systems
- agree audit strategy
- monitor the scope and results of the Company's annual external audit
- review the independence and objectivity of its auditors
- review the preliminary and interim results and financial statements before they are presented to the Board
- approve and monitor the internal audit plan
- review the appropriateness of the internal audit function.



Mark Morris
Chairman of the Audit & Risk Committee

Audit & Risk Committee report (continued)

- receive reports from the Company's internal and external auditors
- make recommendations to the Board on accounting policies
- make recommendations to the Board for a resolution to be put to the shareholders for their approval in general meeting for the appointment of the external auditor, the approval of its remuneration and its terms of engagement
- receive reports from the Group Risk Committee
- advise the Board on the Group's overall risk appetite, tolerance and strategy
- advise the Board on current risk exposures and future risk strategy
- review and approve the means by which the Group and its regulated subsidiary undertakings seek to comply with their respective regulatory obligations
- review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Summary of meetings in the year

The Committee usually meets three times in the year and did so in FY17. During the year the agenda has included the following items:

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

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

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

Significant issues related to the financial statements

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

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

The significant issues considered in the year were:

- revenue recognition, specifically the timing of when to recognise revenue so that sufficient revenue is deferred to cover future obligations
- the carrying value of intangible assets (specifically acquisition intangible assets) and goodwill arising on the purchase of businesses and books of policies and customers
- accounting in respect of new customers acquired through the Endesa, Suez and Enel 'Sales Through Service' channels
- accounting for the acquisition of USP, including the value of the acquisition intangible and deferred tax assets to recognise.

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

External auditor

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

Audit & Risk Committee report (continued)

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

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

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

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

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

The policy has been updated in respect of FY18 and beyond to comply with EU audit regulation reforms.

The fees payable to the auditor for non-audit related work (excluding audit-related assurance services) totalled £366,000 and the fees payable in respect of audit and audit-related assurance services totalled £704,000. Further detail on the fees paid is provided in Note 6.

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

Risk management and internal control

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

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

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

Internal audit

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

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

During the year, an external review of the effectiveness of the internal audit function was completed by PwC. The review concluded that the function was operating effectively but a number of improvement recommendations were made which will be implemented over the coming year.

On behalf of the Audit & Risk Committee

Mark Morris

Chairman of the Audit & Risk Committee

23 May 2017

Remuneration report

Dear Shareholder

I am pleased to present the Remuneration report for the year ended 31 March 2017. It is three years since we initially sought shareholder approval for our remuneration policy so we will be seeking re-approval at the forthcoming AGM.

Performance and reward

It has been a very good year for the Group. We have delivered strong profit growth and all of our established businesses have performed well. In particular, we have seen a rapid period of expansion in North America where there have been record partner signings and significant growth in customer numbers.

The stretching financial and non financial targets for the Group have been met with improved performance in respect of customer satisfaction. In the UK, the cash target was not met and the target in respect of core renewable customers was only partially met. The other UK targets were met in full.

In respect of longer-term performance, the LTIP awards granted in 2013 vested in full during the year with HomeServe's TSR at the end of the performance period being 114.1% compared to the FTSE 250 Index TSR of 30.1%. Based on TSR performance to 31 March 2017 of 91.9% compared to the FTSE 250 Index TSR of 25.7%, it is expected that the awards granted in 2014 will also vest in full.

Following Johnathan Ford's appointment as COO, his salary was increased by 6.6% to £400,000. This increase reflected the change in his responsibilities and the importance of the role.

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

The Committee's activities during the year are described in more detail later in this report.



Stella David
Chairman of the Remuneration Committee

Remuneration report (continued)

Remuneration policy FY18

We will be re-submitting the remuneration policy to shareholders for approval at the AGM. The policy has been updated for a number of operational changes in respect of how it is applied but is largely unchanged from 2014. The key operational changes since 2014 have been:

- The addition of a two year post vesting holding period to awards granted under the LTIP which provides a 5 year perspective to the incentive programme
- An increase in the shareholding requirement for Directors from 100% of salary or fees to 200%
- A rebalancing of the bonus objectives to increase the focus on financial measures
- An amendment to Richard Harpin's contract to remove the entitlement to bonus in any payment in lieu of notice.

Recovery and withholding policies are in place and we are comfortable that our approach is robust and workable should these provisions ever need to be operated.

Salaries will increase by 1.5% with effect from 1 July 2017 in line with the average increase for the UK workforce and the maximum bonus opportunity remains unchanged at 100% of salary. Bonus remains strongly linked to customer measures in line with the business strategy, subject to affordability underpins. Details of the performance targets used and performance against them will be disclosed in next year's report.

The FY18 Performance Share award for Executive Directors will be at 150% of salary.

Share awards are granted under the HomeServe 2008 Long-Term Incentive Plan (LTIP), shareholder approval for which will expire in July 2018. The Remuneration Committee will review the long-term incentive provision during the course of the year and consult with major shareholders prior to the introduction of a replacement plan at the 2018 AGM.

The Remuneration Committee is satisfied that the remuneration policy continues to work effectively and supports our strategy as an entrepreneurial, customer focused business.

Stella David

Chairman of the Remuneration Committee

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

The Directors' remuneration policy was approved by shareholders at the 2014 AGM and as required under the regulations, will be re-submitted to shareholders for approval at the 2017 AGM. There are no material changes to the policy from that previously approved by shareholders. Details of minor operational changes to the policy are set out in the Chairman's letter.

Remuneration policy

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

- to align rewards with the Group's financial and operational performance
- to ensure that remuneration, in particular, variable pay, supports the Group's strategy as a customer focused operation
- to promote high levels of executive share ownership to encourage a long-term focus and alignment of interest between executives and shareholders
- to attract, retain and motivate high calibre executives.

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

The Committee is satisfied that neither the structure of the remuneration packages, with the high weighting on variable pay, nor the performance measures targeted under the annual bonus and long-term incentive arrangements, encourages inappropriate risk taking.

The remuneration arrangements are designed so as to provide a strong alignment of interest between the Executives and shareholders and to support the growth and performance aspirations of the Company. The Committee is satisfied that the current arrangements meet these objectives. Furthermore there is a clawback provision in respect of annual bonuses and long-term incentive awards which helps to guard further against excessive risk-taking.

A risk review of the remuneration policy has been completed.

Remuneration report (continued)

Summary of components of Executive Directors' remuneration

The table below summarises the Committee's policy for the remuneration of Executive Directors.

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Basic salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies.	Usually reviewed annually, with any changes normally taking effect from 1 July each year.	<p>Individual pay is determined by the Committee taking into account the role, responsibilities, performance and experience of the individual and market data on comparable roles.</p> <p>The Committee has not set a cap on the maximum salary level that may be offered. However, any salary increases will normally be no higher than the typical level of increase awarded to other UK employees.</p> <p>Increases above this level may be offered in certain circumstances such as where an Executive Director has been promoted, has had a change in responsibility, to reflect increased experience in the role, or where there has been a significant change in the size and/or scope of the business.</p> <p>When reviewing salary increases, the Committee also takes into account the impact of any increase to base salaries on the total remuneration package.</p> <p>Details of the current salaries of the Executive Directors are set out in the Annual Report on Remuneration.</p>
Performance related bonus	The annual bonus is designed to drive and reward the short-term operating performance of the Company and encourage the delivery of consistently good customer outcomes.	Annual (determined after the year end).	<p>Annual bonuses are determined by reference to performance against a mix of financial, non financial and personal objectives. Before any bonus is payable a minimum level of both customer and financial performance must be achieved.</p> <p>Bonuses are based on Group performance and, if relevant, the specific territory for which an Executive Director is responsible. Individual performance accounts for no more than 20% of the overall bonus opportunity.</p> <p>The maximum potential quantum is 100% of salary.</p> <p>A minimum level of both customer and financial performance must be achieved before any bonus becomes payable.</p> <p>Bonuses are payable in cash but may be voluntarily deferred by the executive into shares under the matching element of the LTIP.</p>

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Long-term incentives	To drive long-term delivery of the Group's objectives, to align Directors' interests with those of the Company's shareholders and to encourage exceptional performance.	Three years	<p>Awards of performance and matching shares are granted under the Long Term Incentive Plan (which was approved by shareholders in 2008).</p> <p>The maximum limit is 200% of salary for performance share awards (normally, awards of 150% of salary are made to the Executive Directors) and a maximum 2:1 match on voluntary investment of bonus into shares.</p> <p>The maximum amount of bonus that may be invested is set at 75% of the maximum bonus potential (i.e. 75% of salary). If the bonus earned is less than 25% of salary, then the executive may invest the equivalent of 25% of salary, from their own money, in shares to receive a matching award. In determining the number of matching awards to be granted, the investment is deemed to be made gross of tax.</p> <p>Dividend equivalents may be awarded on shares vesting under the Plan.</p> <p>Both performance and matching awards are currently subject to the same performance conditions which are based on challenging earnings per share and relative Total Shareholder Return targets. Performance is measured over a performance period of at least three years and, for awards granted in FY16 onwards, a two year post vesting holding period applies. Different measures may be applied for future award cycles as appropriate to reflect the business strategy.</p>
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	<p>Executive Directors may receive a pension allowance of up to 20% of salary, to be paid, subject to the scheme limits, into the HomeServe Money Plan (a money purchase pension scheme) and/or taken as a cash allowance in lieu.</p> <p>Richard Harpin currently continues to participate in the Water Companies Pension Scheme (a defined benefit scheme which is closed to new members).</p> <p>Retirement benefits under the scheme are restricted by a notional earnings cap (£136,710 for FY17). An unapproved pension contribution equal to 20% of the amount by which basic salary exceeds the notional cap is provided.</p>

Remuneration report (continued)

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Other benefits	Provides a competitive package of benefits to assist with recruitment and retention of staff.	N/A	<p>Other benefits include a fully expensed car (or cash alternative), fuel allowance, private health cover (for the individual, partner and dependant children), death in service benefits (up to 8 x salary) and permanent health insurance.</p> <p>Other benefits may be provided as appropriate and Directors can access HomeServe products and services on the same terms as offered to employees.</p> <p>Any reasonable business related expenses (including tax thereon) may be reimbursed.</p> <p>There is no maximum limit on the value of the benefits provided but the Committee monitors the total cost of the benefit provision.</p>
All Employee Share Plans	To encourage employee share ownership.	N/A	<p>The Executive Directors may participate in any HMRC tax-advantaged all employee share plans offered by the Company on the same terms as other employees, subject to limits on the level of individual participation as set by HMRC.</p>
Chairman and Non-Executive Directors' fees	To attract and retain Non-Executive Directors of the right calibre.	N/A	<p>Non-Executive Director fees are determined by the Board. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions.</p> <p>The fee levels are reviewed periodically and are set to reflect the responsibilities and time commitment of the role and the experience of the individual. Fee levels are set by reference to rates in companies of comparable size and complexity. The fees for the Non-Executive directors comprise a basic Board fee, with additional fees paid for chairing a Committee or for the Senior Independent Directorship. The Chairman receives an all encompassing fee for his role.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. The fees are paid monthly in cash.</p> <p>Any reasonable business related expenses (including tax thereon) may be reimbursed.</p> <p>The Chairman and Non-Executive Directors may be eligible to access HomeServe products and services on the same terms as offered to employees.</p>

Rationale behind performance metrics and targets

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

Annual Bonus

The annual bonus is designed to drive and reward strong short-term operating performance. No annual bonus is paid unless a high level of performance is achieved. The Committee reviews the annual bonus plan measures annually in order to ensure that they are aligned with the Group's strategy and so that bonus arrangements are consistent amongst the senior executive team. Performance targets are set at the start of the financial year and are linked to the Group's strategic and operational objectives. The customer focused culture across our business is reflected in the use of non financial metrics in the annual bonus scheme. These are balanced by the use of financial targets and personal objectives used to reflect other strategic priorities.

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

LTIP

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

The choice of measures may change for future award cycles, but is currently based on the following:

Metric	Link to strategy
Earnings per share (EPS)	This provides an assessment of the profitability of the Group over the longer-term and is strongly aligned to the execution of the business strategy. Challenging targets are set for each award cycle based on internal and external forecasts.
Total Shareholder Return (TSR)	This measures the total return to shareholders provided through share price appreciation and dividends. TSR is measured relative to the performance of the FTSE 250 Index. TSR provides a clear alignment between the value created for shareholders and the reward earned by executives.

Remuneration report (continued)

The Committee would consult with shareholders in advance of a change in the choice or weighting of the performance measures to be applied to future award cycles.

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

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

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

Clawback

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

Pensions

Richard Harpin participates on a non-contributory basis in a funded, HMRC approved occupational defined benefit scheme (with benefits limited to a notional capped salary) which is closed to new members. An unapproved pension contribution is paid in respect of basic salary above the cap.

The main features of the scheme are:

- pension at normal retirement age of one-half of final pensionable salary and a tax free lump sum of one and a half times final pensionable salary on completion of 40 years' service at an accrual rate of 80ths plus 3/80ths cash
- life assurance of five times basic salary
- pension payable in the event of ill health; and spouse's pension on death
- normal retirement at age 60.

Shareholding guidelines

It is the Board's policy that Directors build up and retain a minimum shareholding in the Company. Each Director is encouraged to hold shares of at least equal value to two times their annual basic salary or fee.

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

How employees' pay is taken into account

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

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

Employee share ownership is encouraged and facilitated through extending participation in the LTIP to other senior leaders within the business and all eligible employees are able to participate in the HomeServe One Plan, a share incentive plan.

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

How shareholders' views are taken into account

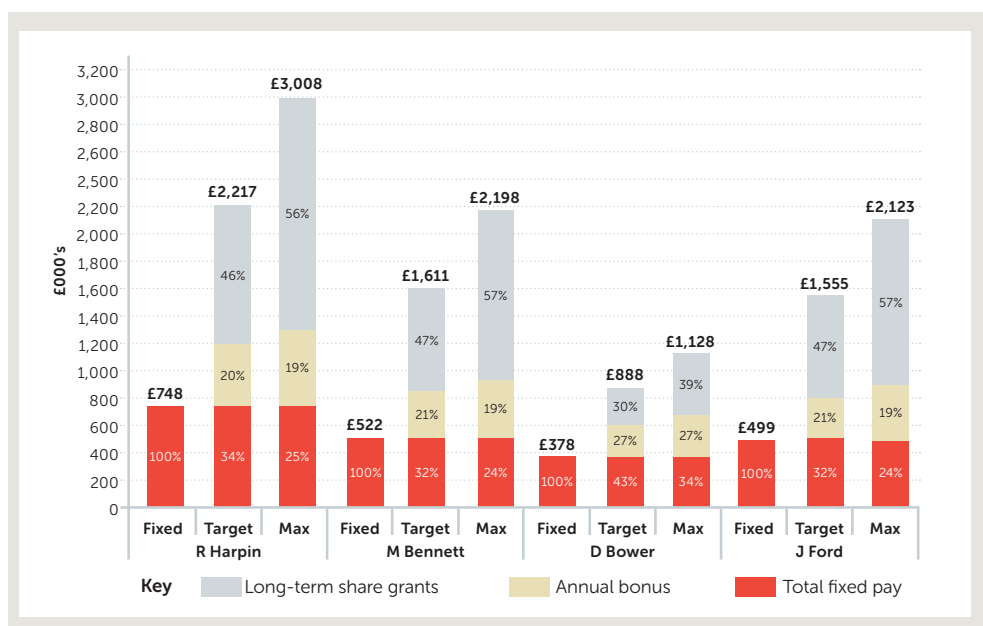
The Committee considers shareholder feedback received regarding the Remuneration report annually and guidance from shareholder representative bodies more generally. These views are key inputs when shaping remuneration policy. The Committee consults with shareholders when considering changes to remuneration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

Remuneration report (continued)

Overall balance of measures for variable pay for FY17

Remuneration scenarios for Executive Directors

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



Assumptions

- Fixed fixed pay only (salary plus benefits plus pension).
- On target target annual bonus of 80% of salary plus target LTIP awards of 90% of salary plus matching awards of 90% of salary.
- Maximum maximum annual bonus of 100% of salary plus maximum LTIP awards of 200% of salary plus matching awards of 150% of salary.

Salary levels (on which other elements of the packages are calculated) are based on those applying from July 2017.

The value of taxable benefits is based on the actual values paid in FY17 apart for David Bower where expected benefits are shown.

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

David Bower will not receive a matching award in FY18 having only recently been appointed to the Board.

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

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

Dates of current contracts are summarised in the table below:

Name	Date of contract
R Harpin	18 January 2002
M Bennett	1 January 2013
D Bower	3 February 2017
J Ford	1 October 2012

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

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

The service contracts also enable the Company to elect to make a payment in lieu of notice equivalent in value to twelve months' base salary, benefits and pension. Mr Harpin's contract was amended during the year to remove the entitlement to bonus as part of any payment in lieu of notice.

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

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

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

Remuneration report (continued)

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

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

Recruitment Policy

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

The structure of the variable pay element will be in accordance with HomeServe's policy as detailed above. The maximum permitted variable pay opportunity is 450% of salary (100% of salary bonus + 200% of salary LTIP + 150% of salary matching award). However, the normal award limits are a bonus of 100% of salary, a performance share award of 150% of salary and up to a 150% of salary matching award. In the case of the matching awards, a new recruit may be invited to invest up to 25% of salary from their own funds in the first year in order to receive a matching award (in determining the number of matching awards to be granted, the investment is deemed to be made gross of tax). LTIP awards may be made shortly following an appointment (assuming the Company is not in a closed period).

The performance and matching awards would be granted on a consistent basis to the other Executive Directors. In the case of the annual bonus, different performance measures may be set for the first year, taking into account the responsibilities of the individual and the point in the financial year at which they joined. If it is necessary to buy-out incentive pay (which would be forfeited on leaving the previous employer) in order to secure the appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. The LTIP permits the grant of restricted share awards to Executive Directors in the case of recruitment to facilitate this, although awards may also be granted outside of this scheme if necessary, and as permitted under s.9.4.2.2 of the Listing Rules.

The service contract for a new appointment would be in accordance with the policy for the current Executive Directors.

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

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

Non-Executive Directors' letters of appointment

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

Fees are determined by the Executive Directors within the limits set by the Articles of Association, and are based on information on fees paid in similar companies and the skills and the expected time commitment of the individual concerned.

Details of their current three year appointments are as follows:

Name	Date of contract
J M B Gibson	1 April 2016
S David	23 November 2016
C Havemann	1 December 2015
B Mingay	1 January 2015
M Morris	27 February 2015

Outside Appointments

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

Remuneration report (continued)

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2017 Annual General Meeting.

Remuneration Committee Members

Stella David (Chairman)
JM Barry Gibson
Mark Morris
Ben Mingay

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

Responsibilities

The primary responsibilities of the Committee are to:

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

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

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

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

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

Advisers

During the year New Bridge Street ('NBS'), a firm of independent remuneration consultants, served as advisers to the Committee. NBS also provided technical implementation and accounting advice in relation to the administration of the Company's share schemes. Other than in relation to advice on remuneration, NBS has no other connections with the Company. NBS is a trading name of Aon Hewitt Ltd, the ultimate parent company of which is Aon plc. Aon UK Ltd (another Aon company) provides insurance broking services to HomeServe and Aon Risk Services Ltd provides health and safety assurance services. The Remuneration Committee is comfortable that this does not present a conflict of interest as Aon UK and NBS operate entirely independently of one another. The fees paid to NBS during the year for services to the Committee were £31,000.

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

Remuneration report (continued)

Remuneration for the year under review (Audited)

	Year	Salary and fees £000	Taxable benefits ³ £000	Pensions ⁴ £000	Bonus £000	LTIP ⁵ £000	Other ⁶ £000	Total FY17 £000	Total FY16 £000
Executives									
R Harpin	FY17	555	28	155	555	2,929	34	4,256	
	FY16	550	26	113	539	2,127	—		3,355
M Bennett	FY17	412	21	82	313	2,313	34	3,175	
	FY16	406	20	81	350	1,240	—		2,097
D Bower ¹	FY17	46	4	8	46	—	31	135	
	FY16	—	—	—	—	—	—		—
J Ford	FY17	394	17	76	394	1,166	—	2,047	
	FY16	363	17	73	368	—	10		831
Non-Executives									
J M B Gibson	FY17	250	—	—	—	—	—	250	
	FY16	230	—	—	—	—	—		230
S David	FY17	65	—	—	—	—	—	65	
	FY16	63	—	—	—	—	—		63
C Havemann ²	FY17	55	—	—	—	—	—	55	
	FY16	18	—	—	—	—	—		18
B Mingay	FY17	55	—	—	—	—	—	55	
	FY16	53	—	—	—	—	—		53
M Morris	FY17	73	—	—	—	—	—	73	
	FY16	71	—	—	—	—	—		71
Total FY17		1,905	70	321	1,308	6,408	99	10,111	
Total FY16		1,754	63	267	1,257	3,367	10		6,718

¹ David Bower was appointed on 6 February 2017.

² Chris Havemann was appointed on 1 December 2015.

³ Benefits comprise company car, fuel allowance and medical insurance.

⁴ Details of pension benefits and contributions can be found later on in the report.

⁵ LTIPs vested in full in FY16 and FY17.

⁶ 'Other' represents the value of any sharesave options exercised.

Details of variable pay earned in the year (Audited)

Annual Bonus

For FY17, the annual bonus was based on the following stretching targets:

Financial and non financial bonus targets for Richard Harpin (CEO), Johnathan Ford (COO) and David Bower (CFO)

		Weighting	% Payable at Threshold	Threshold	Target/Stretch	Actual	% Payable
Financial measures	Group adjusted profit before tax	25%	25%	£96.9m	£102.0m	£112.4m	100%
	Group net debt ¹	5%	–	–	£273.4m	£261.4m	100%
Non financial measures	Customer growth	25%	0%	7.024m	7.167m	7.530m	100%
	Customer satisfaction (measured as a weighted average level of customer satisfaction across UK, US, France, Spain and Italy) ¹	25%	–	–	8.2	8.7	100%

Financial and non financial bonus targets for Martin Bennett (UK CEO)

		Weighting	% Payable at threshold	Threshold	Target/Stretch	Actual	% Payable
Financial measures	Group adjusted profit before tax	10%	25%	£96.9m	£102.0m	£112.4m	100%
	UK adjusted profit before tax	15%	25%	£60.0m	£63.2m	£63.2m	100%
	UK net cash ¹	5%	–	–	£20.4	£10.2m	0%
Non financial measures	UK customer growth	25%	0%	2.197m	2.237m	2.212m	40%
	UK customer satisfaction ¹	25%	–	–	8.2	9.3	100%

¹ No bonus was payable for below target performance.

Remuneration report (continued)

Personal bonus targets

	Objectives	Weighting	Outcome	% Payable
R Harpin	Mr Harpin's objectives related to strategic development, innovation and people development.	20%	Key achievements included: <ul style="list-style-type: none"> Investing in Checktrade and acquiring Habitissimo Agreed a joint venture with Edison Energia in Italy Developing a leadership plan and vision 	100%
M Bennett	Mr Bennett's objectives related to business development, innovation, cost efficiencies and delivery of key IT programmes.	20%	Key achievements included: <ul style="list-style-type: none"> Integrating the Home Energy Services business Launching Leakbot, a smart home water leak detector Establishing a cost conscious culture in the UK business 	70%
D Bower	Mr Bower's objectives related to his previous role as Group Finance Director and were focused on M&A activity, cash and working capital efficiency and investor relations.	20%	Key achievements included: <ul style="list-style-type: none"> Supporting and overseeing the integration of Utility Service Partners in the US Identifying and implementing cash and working capital improvements Overseeing and challenging the delivery of efficiency plans 	100%
J Ford	Mr Ford's objectives related to M&A activity, operational efficiencies, digital activity and investor relations.	20%	Key achievements included: <ul style="list-style-type: none"> Stepping up M&A activity (Checktrade, Habitissimo, the npower 'domestic care and maintenance' contracts business and the Italian joint venture) Rolling out a model to reduce network repair costs Leading global digital development Holding a successful Capital Markets Day 	100%

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

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

Name	Bonus £	% of salary
R Harpin	555,156	100.0
M Bennett	313,399	76.1
D Bower ¹	46,250	100.0
J Ford	393,750	100.0

¹ David Bower was appointed on 6 February 2017.

Long-term Incentive Plan

Details of the performance conditions for the 2013 and 2014 LTIP awards are set out below.

2013 awards (vested in FY17)

The 2013 LTIP awards were granted on 24 June 2013. The performance condition for these awards was as follows:

Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
TSR (underpinned by underlying financial performance)	3 years to 24 June 2016	TSR equal to the FTSE 250 index (25% vests)	TSR exceeds the index by an average of 15% p.a. (100% vests)	HomeServe TSR of 114.1% compared to Index TSR of 30.1%	100% vesting

2014 awards (due to vest in FY18)

The 2014 LTIP awards were granted on 23 June 2014. The performance condition for these awards was as follows:

Condition	Performance period	Threshold target	Stretch target	Actual performance	Vesting
TSR (underpinned by underlying financial performance)	3 years to 23 June 2017	TSR equal to the FTSE 250 index (25% vests)	TSR exceeds the index by an average of 15% p.a. (100% vests)	Performance period not yet ended	—

Based on performance to 31 March 2017, which was 91.9% compared to the FTSE 250 Index TSR of 25.7%, the 2014 awards are likely to vest in full. The value of the awards on vesting will be included in remuneration for FY18.

Remuneration report (continued)

Summary of outstanding awards (Audited)

LTIP

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

	31 March 2017	Awarded during year	Lapsed during year	Vested during year	31 March 2016	Date granted	Type of award
R Harpin	—	—	—	289,528	289,528	24.6.13	Performance
	—	—	—	282,464	282,464	24.6.13	Matching
	247,301	—	—	—	247,301	23.6.14	Performance
	247,298	—	—	—	247,298	23.6.14	Matching
	251,774	—	—	—	251,774	25.6.15	Performance
	188,135	—	—	—	188,135	25.6.15	Matching
	211,338	211,338	—	—	—	1.7.16	Performance
	155,521	155,521	—	—	—	1.7.16	Matching
M Bennett	—	—	—	202,630	202,630	24.6.13	Performance
	—	—	—	192,038	192,038	24.6.13	Matching
	184,615	—	—	—	184,615	23.6.14	Performance
	175,958	—	—	—	175,958	23.6.14	Matching
	186,770	—	—	—	186,770	25.6.15	Performance
	136,825	—	—	—	136,825	25.6.15	Matching
	156,774	156,774	—	—	—	1.7.16	Performance
	115,366	115,366	—	—	—	1.7.16	Matching
D Bower ¹	14,192	—	—	—	14,192	23.6.14	Performance
	14,192	—	—	—	14,192	23.6.14	Restricted
	37,766	—	—	—	37,766	25.6.15	Performance
	31,779	—	—	—	31,779	1.7.16	Performance
	18,975	—	—	—	18,975	1.7.16	Restricted
J Ford	—	—	—	152,310	152,310	24.6.13	Performance
	—	—	—	75,457	75,457	24.6.13	Matching
	130,096	—	—	—	130,096	23.6.14	Performance
	130,094	—	—	—	130,094	23.6.14	Matching
	171,664	—	—	—	171,664	25.6.15	Performance
	111,171	—	—	—	111,171	25.6.15	Matching
	144,094	144,094	—	—	—	1.7.16	Performance
	106,034	106,034	—	—	—	1.7.16	Matching

¹ David Bower was appointed on 6 February 2017.

The performance conditions are as follows:

- 2013 and 2014 awards – 100% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting)
- 2015 awards – 25% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting) and 75% compound annual EPS growth (15% for maximum vesting)
- 2016 awards up to 150% of salary – 25% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting) and 75% compound annual EPS growth (15% for maximum vesting)
- 2016 awards above 150% of salary – compound annual EPS growth of 15% to 20% (20% for maximum vesting).

David Bower has two restricted share awards which pre-date his appointment as CFO. These awards are not subject to performance conditions.

Further details on awards granted in the year

On 1 July 2016, the following performance and matching share awards were granted to the Executive Directors under the LTIP:

Performance share awards

	Date of grant	Number of shares	Share price used to determine awards	Award size (% salary)	Face value £	% that vests at threshold
R Harpin	1.7.16	211,338	£5.27	200%	1,113,751	25%
M Bennett	1.7.16	156,774	£5.27	200%	826,199	25%
J Ford	1.7.16	144,094	£5.27	200%	759,375	25%

Matching share awards

	Date of grant	Number of Investment Shares purchased	Award Size	Number of shares subject to Matching Award	Share price used to determine awards	Face value £	% that vests at threshold
R Harpin	1.7.16	41,213	2:1 match	155,521	£5.26	818,040	25%
M Bennett	1.7.16	30,572	2:1 match	115,366	£5.26	606,825	25%
J Ford	1.7.16	28,099	2:1 match	106,034	£5.26	557,739	25%

Remuneration report (continued)

The performance awards up to 150% of salary and the matching awards are subject to two performance conditions. 25% of the awards are subject to a relative total shareholder return performance condition that requires HomeServe's TSR to match that of the FTSE 250 Index over a three year performance period for threshold vesting, increasing on a straight-line basis to Index + 15% pa. for full vesting. The other 75% of the awards are subject to an earnings per share condition that requires compound annual EPS growth of 6% to 15% per annum. 6% growth would result in threshold vesting, increasing on a straight-line basis to full vesting if growth of 15% per annum is achieved.

The performance awards over the remaining 50% of salary are subject to an earnings per share condition that requires compound annual growth of 15% to 20% pa. for between 0% and 100% of this part of the awards to vest.

As set out in last year's report, the Committee considered that granting awards at this level was appropriate given the stretching performance conditions attached. Major shareholders were consulted prior to the awards being made and were supportive of the proposals.

Vesting is also subject to underlying financial performance.

Further details on awards vested in the year

Performance and matching awards granted on 24 June 2013 vested in full during the year. Awards were structured as nil cost options.

	Date of grant	Type of Award	Date of exercise	No of Shares	Share price at exercise	Face value at exercise £
R Harpin	24.6.13	Performance	6.7.16	289,528	£5.12	1,482,383
	24.6.13	Matching	6.7.16	282,464	£5.12	1,446,216
M Bennett	24.6.13	Performance	21.2.17	202,630	£5.86	1,187,412
	24.6.13	Matching	21.2.17	192,038	£5.86	1,125,343
J Ford	24.6.13	Performance	6.7.16	152,310	£5.12	779,827
	24.6.13	Matching	6.7.16	75,457	£5.12	386,340

Save as you earn (Sharesave) scheme

	31 March 2017	Granted during year	Lapsed during year	Exercised during year	31 March 2016	Option price	Date granted	Date exercisable from
R Harpin	—	—	—	8,152	8,152	£1.84	19.12.11	1.3.17
M Bennett	—	—	—	8,152	8,152	£1.84	19.12.11	1.3.17
D Bower ¹	—	—	—	8,152	8,152	£1.84	19.12.11	1.3.17

¹ David Bower was appointed on 6 February 2017.

SAYE options are exercisable for a six month period from the date shown. Mr Harpin and Mr Bennett exercised their options on 1 March 2017. The share price on that day was £5.95.

Mr Bower exercised his option on 8 March 2017. The share price on that day was £5.635.

One Plan Matching Shares (Share Incentive Plan)

	31 March 2017	Acquired during year	31 March 2016	Aggregate face value of shares awarded during the year ²
R Harpin	88	88	—	£523.89
M Bennett	88	88	—	£523.89
D Bower ¹	88	26	62	£149.82
J Ford	63	63	—	£374.12

¹ David Bower was appointed on 6 February 2017.

² Based on the acquisition price of the associated Partnership Shares. The highest share price was £6.28 and the lowest share price was £5.64.

Participants receive one Matching Share for every two Partnership Shares they purchase. Shares are purchased on a monthly basis. Matching Shares are normally kept in trust for a minimum period of three years.

Remuneration report (continued)

Shareholding Guidelines (Audited)

It is the Board's policy that Executive Directors build up and retain a minimum shareholding in the Company. Each Director is encouraged to hold shares of at least equal value to 200% of their annual basic salary or fee.

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

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

	23 May 2017	31 March 2017	31 March 2016	Outstanding LTIP awards	Total 31 March 2017	Value of shares counting towards guideline holding (as a % of salary) ¹	Guideline met?
R Harpin ²	39,160,715	39,160,649	38,519,655	1,301,367	40,462,016	39,732%	Yes
M Bennett	533,816	533,750	353,094	956,308	1,490,058	730%	Yes
D Bower ³	66,074	66,008	57,778	116,904	182,912	124%	No
J Ford	171,218	171,152	82,525	793,153	964,305	255%	Yes
J M B Gibson	150,070	150,070	126,070	—	150,070	339%	Yes
S David	68,945	68,945	26,128	—	68,945	599%	Yes
C Havemann ⁴	20,000	20,000	—	—	20,000	205%	Yes
B Mingay	57,142	57,142	37,142	—	57,142	587%	Yes
M Morris	71,716	71,716	30,468	—	71,716	559%	Yes

¹ Calculated using the share price on 31 March 2017 of £5.65 divided by the Executive's salary or Non-Executive's fee on that date.

² Includes an indirect interest of 28,500.

³ David Bower was appointed on 6 February 2017.

⁴ Chris Havemann was appointed on 1 December 2015.

Directors' pensions (Audited)

Members of the Water Companies Pension Scheme

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

	2017 £000	2016 £000
Accrued pension per annum at end of period ¹	58	55
Accrued lump sum at end of period ¹	174	165
Director's contributions in the period	—	—
Single figure of pension remuneration attributable to the Scheme ²	71	30
Unapproved pension contributions paid as cash	84	83

¹ The accrued pension and lump sum figures are the leaving service benefits to which the Director would have been entitled had they left the Section at the relevant date.

² This is calculated as 20 times the increase in the accrued pension over the period after allowing for CPI inflation plus the increase in accrued lump sum (also after allowing for CPI inflation), less the contributions made by the Director over the period.

Other Directors

Martin Bennett, David Bower and Johnathan Ford received the following pension allowances:

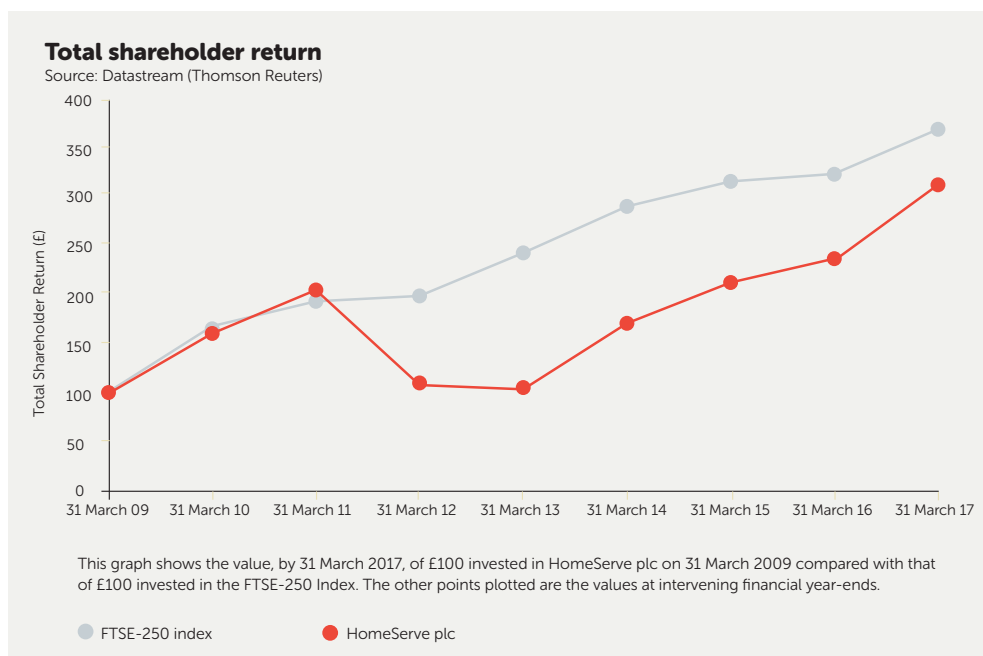
	2017 £000	2016 £000
M Bennett	82	81
D Bower ¹	8	—
J Ford	76	73

¹ David Bower was appointed on 6 February 2017.

Remuneration report (continued)

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-250 Index (also measured by TSR) for the eight years ended 31 March 2017. This comparator has been chosen as it is a broad equity index of which the Company is a constituent and it is also the one used in assessing relative TSR performance under the LTIP.



Chief Executive's remuneration

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

	2010	2011	2012	2013	2014	2015	2016	2017
Total remuneration (£000s)	1,030	953	559	953	1,212	1,200	3,355	4,256
Annual bonus	100%	87%	0%	75%	100%	96%	98%	100%
LTIP awards vesting	21% ¹	51% ²	60%	0%	0%	0%	100%	100%

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

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

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any pension, matching awards and performance awards receivable in the year) between FY16 and FY17 compared to the average for all employees of HomeServe plc.

	% Change from FY16 to FY17		
	Salary	Benefits	Annual Bonus
Chief Executive Officer	0.9%	6.0%	2.9%
Average of other HomeServe plc employees	10.2%	19.7%	25.3%

Relative importance of spend on pay

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

	FY16 £m	FY17 £m	change
Staff costs (£m)	190.5	237.5	25%
Dividends (£m)	37.6	40.3	7%
Tax (£m)	21.0	23.9	14%
Retained profits (£m)	61.6	74.4	21%

£7.8m of the staff costs figures relate to pay for the Executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share based awards are accounted for.

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

Remuneration report (continued)

Loss of Office Payments (Audited)

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

Application of the remuneration policy for FY18

Basic salary

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

Salaries are normally reviewed in July each year (unless responsibilities change). Johnathan Ford's salary was increased by 6.6% to £400,000 following his appointment as COO to reflect his changes in responsibility. This year salaries will increase by 1.5% which is in line with the average increase for the UK workforce.

The salaries for the Executive Directors effective from 1 July 2017 will therefore be as follows:

Name of Director	Salary as at 1 July 2016	Salary as at 1 July 2017	Increase
R Harpin	£556,875	£565,228	1.5%
M Bennett	£413,100	£419,297	1.5%
D Bower ¹	£300,000	£300,000	n/a
J Ford	£400,000	£406,000	1.5%

¹ David Bower was appointed on 6 February 2017.

Fees for the Chairman and Non-Executive Directors

As detailed in the remuneration policy, the Company aims to set remuneration for Non-Executive Directors at a level which is sufficient to attract and retain Non-Executive Directors of the right calibre. The fees paid to the Chairman and the Non-Executive Directors are reviewed periodically. The fees for the Non-Executive Directors were last reviewed during FY15. The Chairman's fee was reviewed in FY16.

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

Chairman's fees	£250,000
Senior Independent Director additional fee	£7,500
Non-Executive Directors' base fee	£55,000
Chair of Remuneration or Audit & Risk Committee	£10,000

Annual bonus performance targets

The annual bonus plan for FY18 will operate on a similar basis to FY17 and is consistent with the policy detailed earlier in this report.

The bonus measures will be as follows:

Financial measures (30% of bonus)	Non financial measures (50% of bonus)	Personal objectives (20% of bonus)
<ul style="list-style-type: none"> Profit before tax (25%) Net debt (5%) 	<ul style="list-style-type: none"> Customer growth (25%) Customer satisfaction (25%) 	<ul style="list-style-type: none"> Up to five stretching personal objectives

The financial and non financial measures for Richard Harpin, David Bower and Johnathan Ford will be based on Group performance. The financial measures for Martin Bennett will be based on Group and UK performance and the non financial measures will be based on UK performance. The Committee considers the forward looking performance targets to be commercially sensitive but more detailed disclosure will be provided in next year's remuneration report.

The Committee has discretion to scale back any bonus payments if it is deemed appropriate.

Long-term incentives

Performance criteria

The long-term incentive plan is a mix of a Performance Share award (up to 200% of salary) and a Matching Share award (2:1 match on up to 75% of salary bonus invested in shares).

In line with the policy, the FY18 Performance Share award for Executive Directors will be at 150% of salary.

For Performance Share awards and Matching Share awards, the performance targets for FY18 grants will be:

FY18 weighting	3 year performance target	Change from FY17
75% based on EPS	6% to 15% per annum EPS growth (for 25% to 100% vesting).	No change
25% based on relative TSR	25% vesting for TSR equal to that of the FTSE 250 Index increasing on a straight-line basis to full vesting for out-performance of the Index by 15% per year or more.	No change

When setting the EPS target range for the FY18 grants, the Committee took into account internal projections and external forecasts. Having considered these projections and forecasts, the Committee believes that the EPS targets are appropriately stretching.

Remuneration report (continued)

Holding period for vested shares

The net of tax value of any shares vesting under the LTIP must be held for a further two years, providing a longer-term perspective to the incentive programme.

Shareholding guidelines

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

Shareholder voting at the 2016 Annual General Meeting

At last year's Annual General Meeting held on 15 July 2016, the following votes from shareholders were received:

	Remuneration report	
	Total number of votes	% of votes cast
For	257,543,646	99%
Against	2,640,062	1%
Total votes cast (for and against excluding withheld votes)	260,183,708	100%
Votes withheld	2,279	
Total votes (including withheld votes)	260,185,987	

The current remuneration policy was approved by shareholders at the 2014 AGM. 90.45% of the votes cast were in favour of the policy.

General

The market price of the Company's shares at 31 March 2017 was £5.65 (2016: £4.306). During the year the price ranged from £4.13 to £6.30.

The shares required for share options and awards under any of the long-term incentive schemes described above may be fulfilled by the purchase of shares in the market by the Company's Employee Benefit Trust (EBT). Awards may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme (which are fully compliant with investor guidelines). As beneficiaries under the EBT, the Directors are deemed to be interested in the shares held by the EBT which at 31 March 2017 amounted to 31,026 ordinary shares.

By Order of the Board

Stella David

Chairman of the Remuneration Committee

23 May 2017

Directors' report

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 March 2017. The Corporate Governance report forms part of this report. An indication of likely future developments is included in the strategic report. Information about the use of financial instruments by the Group is given in note 42 to the financial statements.

Dividends

The Directors are recommending the payment on 3 August 2017 of a final dividend of 11.2p per ordinary share to shareholders on the register at the close of business on 7 July 2017 which, together with the net interim dividend of 4.1p per ordinary share paid on 6 January 2017, results in a total net dividend for the year of 15.3p per share (FY16: 12.7p).

Greenhouse Gas Emissions Reporting

	Global tonnes of CO ₂ e FY17	Global tonnes of CO ₂ e FY16
Combustion of fuel and operation of facilities	8,835	7,783
Electricity, heat, steam and cooling purchased for own use	3,656	3,468
Total	12,491	11,251
Tonnes of CO ₂ e per thousand customers	1.60	1.59

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

Directors' report (continued)

Capital Structure

Details of the issued share capital, together with details of shares issued during the year, are set out in note 24. There is one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at a general meeting of the Company.

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

Details of employee share schemes are set out in note 35. No votes are cast in respect of the shares held in the Employee Benefit Trust and dividends are waived.

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

The AGM held in 2016 authorised the Directors to allot shares in the capital of the Company within certain limited circumstances and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2017 AGM.

Authority to purchase shares

The Company was authorised at the 2016 AGM to purchase its own shares, within certain limits and as permitted by the Articles of Association. A renewal of this authority will be proposed at the 2017 AGM. No shares were purchased during the year and no shares are held in Treasury.

Significant agreements – change of control

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

Annual General Meeting

The 2017 Annual General Meeting of the Company is to be held on 21 July 2017.

Disclosure of Information to Auditor

Each of the Directors confirms that:

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

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

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

Fixed Assets

Capital expenditure on tangible fixed assets amounted to £8.0m (FY16: £8.7m) during the year.

Substantial Shareholdings

As far as the Directors are aware, no person or company had a beneficial interest in 3% or more of the voting share capital at 31 March and 23 May 2017, except for the following:

Name	As at 31 March 2017		As at 23 May 2017	
	ordinary shares	%	ordinary shares	%
Invesco Limited	61,868,233	19.9	61,868,233	19.9
Richard Harpin ¹	39,160,649	12.6	39,160,715	12.6
FIL Limited	30,436,067	9.8	30,436,067	9.8
Woodford Investment Management LLP	16,560,085	5.3	16,560,085	5.3

¹ Includes an indirect interest of 28,500 shares.

Taxation status

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

By Order of the Board

Anna Maughan

Company Secretary
23 May 2017

Directors' responsibilities

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

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

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

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

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

Directors' responsibilities statement

We confirm to the best of our knowledge:

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

By Order of the Board

Richard Harpin

Chief Executive Officer

23 May 2017

David Bower

Chief Financial Officer

23 May 2017



“Over the past 23 years, we’ve learnt to stay focused on our core purpose – to solve the problem of rogue tradesmen, extortionate prices and no-shows”

Richard Harpin, CEO



Strive to be the best in the world at what we do

Our global values



Put customers at the heart of everything we do



Develop and encourage great people who are passionate about taking responsibility and making things happen



Combine relentless innovation with integrity and professionalism



Strive to be the best in the world at what we do

Independent Auditor's report to the members of HomeServe plc

Opinion on financial statements of HomeServe plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Group income statement;
- the Group and Company statements of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group and Company cash flow statements; and
- the related notes 1 to 56.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks

The key risks that we identified in the current year were:

- carrying value of goodwill and other intangible assets;
- cancellation provision and revenue deferrals; and
- the acquisition of Utility Service Partners Inc ("USP").

Materiality

The materiality that we applied in the current year was £7.2m which was determined on the basis of 7.5% of profit before tax.

Scoping

As in the prior year, we focused our Group audit scope primarily on the audit work at the following components:

- UK;
- North America;
- France; and
- Spain.

All of these were subject to a full audit, whilst the New Markets segment was subject to specific audit procedures.

Significant changes in our approach

In comparison to the prior year, we highlight the following changes:

- we identified a new key risk in relation to the Group's acquisition of USP for consideration of £60.9m on 1 July 2016; and
- we no longer consider regulatory risk to be a key risk as a result of a reduced level of regulatory scrutiny from local regulatory bodies across the Group in recent years.

Other than the change in key risks as described above, there were no other significant changes in our approach.

Independent Auditor's report to the members of HomeServe plc (continued)

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the Group contained within the strategic report, on page 50.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 42-49 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 51 that they have 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;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 50 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

Carrying value of goodwill and other intangible assets

Risk description

The carrying value of goodwill and other intangible assets is £590.5m (2016: £457.7m).

The Group's assessment of the carrying value of goodwill is a judgemental process which requires estimates concerning the future cash flows of each cash-generating-unit and associated discount rates, growth rates, selling prices and direct costs based on management's view of future business prospects.

The key judgements in relation to other intangible assets relate to the expected future cash flows assigned to each intangible asset and the value of costs to capitalise in relation to the new CRM system which will be fully implemented within the UK business in FY18. The cumulative value of costs capitalised to date in relation to the CRM system is £60.8m.

There is a risk that the management information used to make these judgements is either incomplete or inaccurate, and costs that do not meet the criteria for capitalisation are included within other intangible assets.

Further detail on the key judgements involved is set out within the Audit and Risk Committee report on page 77, significant accounting policies in note 2 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 to the financial statements.

How the scope of our audit responded to the risk

We assessed the design and implementation of controls that the Group has in place to assess the carrying value of goodwill and other intangible assets, specifically the management review process to assess the accuracy and completeness of key assumptions within the impairment assessment.

Independent Auditor's report to the members of HomeServe plc (continued)

We challenged management's assessment of whether there are any impairment indicators by considering the performance of each cash-generating-unit as well as any notable business developments during the year.

We challenged management's key assumptions relating to the estimated future cash flows, growth rates, selling prices, direct costs and the discount rates applied to each cash-generating-unit. Our procedures included reviewing forecast cash flows with reference to historical trading performance, assessing the Group's ability to accurately forecast business performance, consideration of future prospects of the business and benchmarking assumptions such as the discount rate to external macro-economic and market data using our internal valuations specialists.

We have reviewed the consistency of the key assumptions used in the carrying value of goodwill assessment to the budget used by the Group to assess longer term-viability and going concern.

For other intangible assets we have assessed the key assumptions used within the expected future cash flow assessment including the expected retention rates, and tested a sample of costs capitalised during the year in relation to the CRM system to assess whether they met the recognition criteria for capitalisation.

Key observations

We concluded that the key assumptions used within management's goodwill impairment assessment were reasonable.

The key assumptions used within the carrying value of goodwill assessment were consistent with the Group's longer term-viability and going concern assessment.

We are satisfied that the costs capitalised in relation to the CRM system meet the recognition criteria for inclusion as an intangible asset.

Cancellation provision and revenue deferrals

Risk description

The recognition of revenue requires significant judgement by management to determine key assumptions, particularly regarding the level of revenue to defer in order to satisfy the Group's obligations for future claims handling and policy cancellations.

The total amount of revenue deferred at 31 March 2017 in respect of the Group's future claim handling obligations is £76.7m (2016: £54.4m) and the amount of revenue provided in respect of future cancellations is £18.0m (2016: £16.0m).

The key assumptions used by management for claims handling are the monthly exposures to policy claims, frequency of claims per policy type and the average cost per claim. For policy cancellations the key assumptions are retention rates and average revenue per policy.

Further detail on the Group's revenue recognition policy is set out within the Audit and Risk Committee report on page 77, significant accounting policies in note 2 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 to the financial statements.

How the scope of our audit responded to the risk

We first understood management's process and key controls around the cancellation provision and revenue deferrals by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the implementation of controls that the Group has in place to manage the risk of inappropriate assumptions being used within the cancellation provision and revenue deferrals.

We assessed the Group's policy for deferring revenue, including considering whether the policy is in accordance with current accounting standards.

We challenged and tested the methodology used for calculating the claims handling revenue deferral by comparing the inputs and assumptions used by reference to policy agreements, industry data provided by the underwriter and costs incurred in satisfying claims in the current financial year.

For the policy cancellations provision we have challenged the key assumptions by reference to the Group's previous and recent retention experience and the level of revenue earned per policy agreement originated in the current financial year.

Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias.

Additionally we have assessed if the calculations are consistent across the membership businesses worldwide and in line with Group policy.

Key observations

We were satisfied that appropriate revenue deferral policies have been adopted and complied with across the Group.

We identified no issues with the key controls that we identified within the UK business.

We found the models used by management to determine the cancellation provision and revenue deferrals to be working as intended and the underlying assumptions were reasonable.

Acquisition of USP

Risk description

The most significant business combination during the year was the acquisition of USP on 1 July 2016 for total consideration of £60.9m. The acquisition of USP resulted in goodwill of £33.2m, intangible assets of £34.8m and deferred tax assets of £11.4m.

Independent Auditor's report to the members of HomeServe plc (continued)

Management are required to calculate the fair value of the acquired assets and liabilities, including identification of any intangible assets. We focussed our assessment on the recognition and valuation of acquired intangible assets, namely the acquired customer back book and acquired partner relationships. Key assumptions in valuing the intangible assets included the expected future cash flows and the discount rate applied to these cash flows. Changes to these assumptions can have a material impact on the intangible assets recognised, as well as the resulting level of goodwill identified.

There is also a risk that deferred tax assets in relation to acquired net operating losses are not recognised appropriately, which is dependent on the Group being able to access and utilise these losses over a number of years.

Further detail on the Group's approach to accounting for business combinations is set out within the significant accounting policies in note 2, the associated key judgements involved in the valuation of acquisition intangibles are set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 and a full breakdown of the identifiable assets and liabilities acquired is included within note 35.

How the scope of our audit responded to the risk

We assessed the design and implementation of controls that the Group has in place to manage the risk of inappropriate assumptions being used within the fair value assessment.

We reviewed the Group's methodology for accounting for the business combination and assessed whether it has been performed in accordance with IFRS 3, as well as the approach adopted to the identification of the fair value of assets and liabilities.

Internal valuation specialists were engaged to support our assessment of the Group's approach to the fair value assessment, including the identification of acquisition intangibles. As part of this, an assessment of the appropriateness of key assumptions used to derive the expected future cash flows and discount rate was performed.

Internal tax specialists were engaged to assess the appropriateness of the recognition of the deferred tax asset in relation to acquired net operating losses by considering the expected future profitability of the North America business as well as the Group's ability to access and utilise acquired losses.

Key observations

We concluded that management's acquisition accounting for USP was performed in accordance with IFRS 3 and the key assumptions used within management's fair value assessment were reasonable.

We are satisfied that the recognition of a deferred tax asset in relation to acquired net operating losses is appropriate.

Our application of materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality

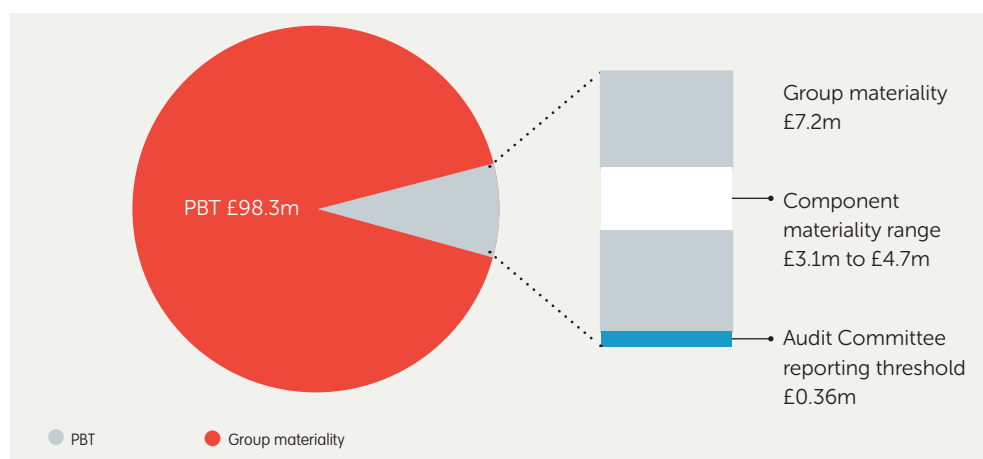
£7.2m (2016: £6.1m).

Basis for determining materiality

7.5% (2016: 7.5%) of profit before tax.

Rationale for the benchmark applied

We determined materiality using profit before tax as we considered this to be the most appropriate measure to assess the performance of the Group.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £360,000 (2016: £122,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's report to the members of HomeServe plc (continued)

An overview of the scope of our audit

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

- UK;
- North America;
- France; and
- Spain.

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

The acquisition of USP is included within the North America component and was therefore subject to a full audit.

The UK, North America, France and Spain components account for 97.9% (2016: 96.9%) of the Group's revenue and 100% (2016: 100%) of the Group's profit before tax from profit-making components (there was a loss for the year in the New Markets segment which is not subject to a full audit). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the four components was executed at levels of materiality ranging from £3.1m to £4.7m (2016: £3.0m to £4.6m).

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

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits the UK, North America, France and Spain at least once a year. This included participation in their audit close meetings and reviewing documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Independent Auditor's report to the members of HomeServe plc (continued)

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

Matthew Perkins (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
23 May 2017

Group income statement

Year ended 31 March 2017

	Notes	2017 £m	2016 £m
Continuing operations			
Revenue	4	785.0	633.2
Operating costs	6	(680.5)	(546.3)
Share of results of associates	18	0.2	—
Operating profit		104.7	86.9
Investment income	8	0.3	0.3
Finance costs	9	(6.7)	(4.6)
Profit before tax, and amortisation of acquisition intangibles		112.4	93.0
Amortisation of acquisition intangibles	6	(14.1)	(10.4)
Profit before tax		98.3	82.6
Tax	10	(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	11	15.3p	12.7p
Earnings per share			
Basic	12	24.0p	19.6p
Diluted	12	23.6p	19.3p

Group statement of comprehensive income

Year ended 31 March 2017

	Notes	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	40	(3.4)	0.5
Deferred tax credit/(charge) relating to components of other comprehensive income	22	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	31	20.8	14.8
Gain on revaluation of available for sale investments	17	—	2.5
Deferred tax charge relating to revaluation of available for sale investments	22	—	(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	13	301.9	247.7
Other intangible assets	14	288.6	210.0
Property, plant and equipment	15	37.0	34.9
Interests in associates	18	32.1	—
Investments	17	8.5	7.8
Deferred tax assets	22	7.6	6.8
Retirement benefit assets	40	0.7	2.1
		676.4	509.3
Current assets			
Inventories	19	2.7	2.9
Trade and other receivables	20	455.1	367.7
Cash and cash equivalents	20	46.2	54.2
		504.0	424.8
Total assets		1,180.4	934.1
Current liabilities			
Trade and other payables	23	(456.2)	(360.7)
Current tax liabilities		(9.2)	(7.0)
Obligations under finance leases	38	(0.6)	(0.9)
Bank and other loans	21	(35.9)	(25.0)
		(501.9)	(393.6)
Net current assets		2.1	31.2
Non-current liabilities			
Bank and other loans	21	(270.1)	(196.5)
Other financial liabilities	24	(14.4)	(5.6)
Deferred tax liabilities	22	(23.0)	(20.5)
Obligations under finance leases	38	(1.0)	(1.3)
		(308.5)	(223.9)
Total liabilities		(810.4)	(617.5)
Net assets		370.0	316.6
Equity			
Share capital	25	8.4	8.3
Share premium account	26	45.7	41.1
Merger reserve	27	71.0	71.0
Own shares reserve	28	—	(0.1)
Share incentive reserve	29	18.3	16.0
Capital redemption reserve	30	1.2	1.2
Currency translation reserve	31	26.3	5.5
Available for sale reserve	32	1.8	1.8
Retained earnings		196.5	171.8
Attributable to equity holders of the parent		369.2	316.6
Non-controlling interests	33	0.8	—
Total equity		370.0	316.6

The financial statements were approved by the Board of Directors and authorised for issue on 23 May 2017. They were signed on its behalf by:

David Bower

Chief Financial Officer

23 May 2017

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
Balance 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
Balance 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 of 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.

Group cash flow statement

Year ended 31 March 2017

	Notes	2017 £m	2016 £m
Net cash inflow from operating activities	36	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	34	(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	18	(24.7)	—
Acquisition of available for sale investments	17	—	(0.5)
Net cash outflow on acquisition of subsidiaries	35	(74.2)	(5.3)
Net cash used in investing activities		(158.8)	(69.2)
Financing activities			
Dividends paid	11	(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	25	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 financial statements

Year ended 31 March 2017

1. General information

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

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

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value at the end of each reporting period as explained in note 42.

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 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

Notes to financial statements (continued)

Year ended 31 March 2017

2. Significant accounting policies (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.

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.

The principal accounting policies adopted are set out below:

Basis of consolidation

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

Non-controlling interests in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest. Non-controlling interests consist of those interests at the date of the original business combination and the minority's share of the changes in equity since the date of the combination.

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

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

Interests in associates

The results and assets and liabilities of associates are incorporated into these financial statements using the equity method of accounting.

Under the equity method, an interest in an associate is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit and loss and other comprehensive income of the associate.

Business combinations

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

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

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

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

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

Notes to financial statements (continued)

Year ended 31 March 2017

2. Significant accounting policies (continued)

Goodwill

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

Revenue in respect of boiler installations and uninsured jobs is recognised when our performance obligations are complete.

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

Marketing expenses

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

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

Leasing

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

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

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

Notes to financial statements (continued)

Year ended 31 March 2017

2. Significant accounting policies (continued)

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies except for those that are designated as long term equity investments, are re-translated at the rates prevailing on the balance sheet date, with changes taken to the income statement. Foreign exchange translation movements on monetary assets that are designated as long term equity investments are transferred to the Group's translation reserve. Non-monetary items that are measured at historical cost in a foreign currency are not re-translated.

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

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

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

Borrowing costs

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

Operating profit

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

Retirement benefit costs

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

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

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

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

Taxation

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Notes to financial statements (continued)

Year ended 31 March 2017

2. Significant accounting policies (continued)

Intangible assets

Acquisition intangible assets

Acquired access rights relate to the contractual agreements entered into with the former owners of businesses acquired as part of business combinations. These agreements set out the contractual terms of the Affinity Partnership and provide the contractual framework within which the Group markets, sells and renews policies with the individual customers of the Affinity Partner. Acquired access rights are recorded at fair value by using the estimated and discounted incremental future cash flows resulting from the relationship. Acquired access rights are amortised on a straight-line basis over their estimated useful lives, which are in the range of 3 - 20 years.

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

Other intangible assets

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

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

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

Computer software and the related licences are stated at cost and amortised on a straight-line basis over their useful lives of 3 - 10 years.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct material cost only. Cost is measured on a first-in, first-out (FIFO) basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The classification depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Available for sale investments

At each balance sheet date the Group conducts a fair value assessment of its investments, the difference between the fair value and carrying value is charged or credited to the Statement of Comprehensive Income accordingly and held in the available for sale reserve.

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Notes to financial statements (continued)

Year ended 31 March 2017

2. Significant accounting policies (continued)

Financial instruments (continued)

Borrowings

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

Trade payables

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

Equity instruments

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

'Put' options over the equity of subsidiary companies

The potential cash payments related to put options issued by the Group over the equity of subsidiary companies are accounted for as financial liabilities. The amounts that may become payable under the option on exercise are initially recognised at the present value of the expected gross obligation with the corresponding entry being recognised in retained earnings.

Such options are 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. The charge arising is recorded as a financing cost. In the event that options expire unexercised, the liability is derecognised with a corresponding adjustment to retained earnings.

Other 'put' and 'call' options

Other put and call options are recognised at fair value with any associated benefit being recognised directly in the profit and loss account.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Group also provides employees with the ability to purchase the Group's ordinary shares at a discount to the current market value through Save As You Earn schemes. In addition, the Group provides employees with the ability to purchase shares through its One Plan scheme. For every two shares purchased, employees will receive one free matching share at the end of the vesting period.

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

Own shares reserve

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Revenue recognition

Claims handling obligations

A key accounting judgement in respect of revenue recognition is the proportion of revenue to defer to cover the Group's future obligations in respect of handling future claims arising on those policies that are on risk at the year end.

The key sources of estimation uncertainty in determining an appropriate proportion of revenue to defer are the assumptions made with regards to claims frequency and the estimated cost of handling a claim. The Group uses historical experience of claim volumes and forecast activity levels to estimate these assumptions. The total amount of revenue deferred at 31 March 2017 in respect of the Group's future claim handling obligations is £76.7m (FY16: £54.4m). If either of these assumptions were individually higher or lower than the Group's historical experience by 10% the impact to the profit in the year would be £7.7m.

Policy Cancellations

A further judgement is in respect of those policies that may be cancelled by the customer part way through the contractual term, which will affect the economic benefits that flow to the Group. To the extent that policies are expected to cancel 'mid-term' and hence all the economic benefits of those policies is not expected to flow to the Group, an estimate of the related revenue is not recognised.

The key source of estimation uncertainty in calculating the provision for policy cancellations are the expected mid-term cancellation percentage and the period of cover remaining on the policy at the point of cancellation. The Group uses historical experience to determine the appropriate assumptions to be used in this calculation. The total amount of revenue not recognised at 31 March 2017 in respect of potential future cancellations is £18.0m (FY16: £16.0m) and is recognised as a reduction in the value of trade receivables. The most material estimation uncertainty within this judgement is the mid-term cancellation percentage. If this assumption was individually higher or lower than the Group's historical experience by 10% the impact to profit in the year would be £1.8m.

Notes to financial statements (continued)

Year ended 31 March 2017

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of acquisition intangible assets

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

The key sources of estimation uncertainty with respect to customer databases are the future retention rate and the income per customer generated from those customers. The carrying value of acquired customer databases at 31 March 2017 is £90.0m (FY16: £66.7m). If the retention rate or income per customer was individually higher or lower by 10% the impact to profit in the year would be £9.0m.

In respect of intangible assets for acquired access rights, the key sources of estimation uncertainty relate to the assumptions regarding the number of policy sales and associated penetration of the customer list along with the cost of acquisition, retention rate and costs associated with servicing those customers. The total value of acquired access rights at 31 March 2017 is £24.0m (FY16: £8.6m), therefore if the assumptions used in this valuation were individually higher or lower by 10% the impact to the profit in the year would be £2.4m.

Impairment of goodwill and acquisition intangible assets

The annual impairment assessment in respect of goodwill and acquisition intangibles requires estimates of the value in use (or fair value less costs to sell) of cash-generating units to which goodwill and acquisition intangibles have been allocated. CGUs are aligned to the regions in which we operate. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The carrying value of goodwill is £301.9m (FY16: £247.7m). The carrying value of acquisition intangibles is £114.0m (FY16: £75.3m). Following the annual impairment review, no impairment charge has been recorded against goodwill or acquisition intangibles.

As set out in note 13, changes in respect of commercial outcomes around sales volumes, prices, margins and discount rates can impact the recoverable value. Management do not believe that any reasonably possible changes to the key assumptions would produce an impairment in the forthcoming year.

In addition to the amounts above, there is goodwill of £25.7m included in the interests in associates in relation to our recent investment in Sherrington Mews Limited, the holding company of the Checktrade Group. Each individual associate will be assessed as a single asset if there are any indications of impairment.

4. Revenue

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

	2017	2016
	£m	£m
Sale of home assistance and emergency policies	587.3	480.0
Provision of repair services	197.7	153.2
	785.0	633.2
Investment income (note 8)	0.3	0.3
	785.3	633.5

5. Business and geographical segments

Segment revenues and results

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

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

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

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

Notes to financial statements (continued)

Year ended 31 March 2017

5. Business and geographical segments (continued)

Segment revenues and results (continued)

2016	UK	North	France	Spain	New	Total
	£m	£m	£m	£m	Markets	
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

Segment information

	Assets		Liabilities		Capital additions		Depreciation amortisation and 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.

Revenue from major products and services

	2017	2016
	£m	£m
Sale of home assistance and emergency policies	587.3	480.0
Provision of repair services	197.7	153.2
Consolidated revenue (excluding investment revenue)	785.0	633.2

Geographical information

The Group operates in three principal geographical areas – UK, Continental Europe and North America.

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

	Revenue from external customers		Non-current assets	
	2017 £m	2016 £m	2017 £m	2016 £m
UK	319.3	287.9	341.0	281.8
North America	227.8	152.6	113.6	36.6
Continental Europe	237.9	192.7	213.5	182.0
	785.0	633.2	668.1	500.4

Information relating to Continental Europe in the table above includes our businesses in France, Spain and Italy (up to the date of disposal).

Information about major customers

There are no customers in the current year from which the Group earns more than 10% of its revenues (FY16: nil).

6. Profit for the year

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

	2017 £m	2016 £m
Included in operating costs:		
Staff costs	237.5	190.5
Cost of inventories recognised as an expense	17.2	11.4
Depreciation of property, plant and equipment	6.9	5.4
Amortisation of acquisition intangible assets	14.1	10.4
Amortisation of other intangibles	28.5	20.0
Loss on disposal of property, plant and equipment and software	0.4	—
Profit on disposal of a subsidiary	(0.1)	—
Bargain purchase on acquisition	(0.7)	—
Impairment loss recognised on trade receivables	0.5	0.6

The analysis of auditor's remuneration is as follows:

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	69	65
The audit of the Company's subsidiaries pursuant to legislation	587	432
Total audit fees	656	497
Audit-related assurance services	48	40
Tax compliance services	243	110
Tax advisory services	123	243
Total non-audit fees	414	393

Notes to financial statements (continued)

Year ended 31 March 2017

6. Profit for the year (continued)

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. A description of the work of the Audit Committee is set out in the Corporate Governance report and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditor. Audit-related assurance services include fees in respect of the half year review of £48,000 (FY16: £40,000).

7. Staff costs

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

	2017 number	2016 number
UK (including head office)	2,940	2,489
Continental Europe	1,258	1,203
North America	810	733
	5,008	4,425

	2017 £m	2016 £m
Their aggregate remuneration comprised:		
Wages and salaries	204.9	163.1
Social security costs	28.6	23.8
Other pension costs (note 40)	4.0	3.6
	237.5	190.5

8. Investment income

	2017 £m	2016 £m
Interest on bank deposits	0.3	0.3

9. Finance costs

	2017 £m	2016 £m
Interest on bank and other loans	7.0	4.4
Unwinding of discount on deferred and contingent consideration	0.5	0.2
Exchange movements	(0.8)	—
	6.7	4.6

10. 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 (note 22)	(1.0)	1.3
Total tax charge	23.9	21.0

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 US (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% (FY16: 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 parent 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

Notes to financial statements (continued)

Year ended 31 March 2017

11. 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.

12. Earnings per share

	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:

	2017	2016
	m	m
Number of shares		
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

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.

13. Goodwill

	£m
Cost	
At 1 April 2015	236.6
Recognised on acquisition of subsidiary	4.6
Exchange movements	6.5
At 1 April 2016	247.7
Recognised on acquisition of subsidiaries	44.1
Exchange movements	10.1
At 31 March 2017	301.9
Carrying amount	
At 31 March 2017	301.9
At 31 March 2016	247.7

In addition to the amounts above, there is goodwill of £25.7m included in the interests in associates in relation to our recent investment in Sherrington Mews Limited, the holding company of the Checkatrade Group. Each individual associate will be assessed as a single asset if there are any indications of impairment.

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

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

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

- UK 8.7% (FY16: 7.5%)
- North America 12.2% (FY16: 10.6%)
- France 10.4% (FY16: 7.8%)
- Spain 10.0% (FY16: 8.0%)

Pre-tax cost of capital rates reflect the latest cost of debt and equity for a sample of comparable companies in accordance with the market participant premise detailed in IAS 36.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value, which also reflects the different risk profile of each CGU. The Group believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying amount of goodwill exceeding the recoverable amount.

Notes to financial statements (continued)

Year ended 31 March 2017

13. Goodwill (continued)

This view is based upon inherently judgemental assumptions, however, it takes account of the headroom in the value in use calculation versus the current carrying value.

The carrying amount of goodwill has been allocated as follows:

	2017 £m	2016 £m
UK	159.3	159.3
North America	40.8	4.7
France	77.3	71.2
Spain	24.5	12.5
	301.9	247.7

The Group's CGUs do not contain any intangible assets with indefinite useful economic lives. The long-term growth rate is 2% (FY16: 2%).

14. 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

Software includes £60.8m (FY16: £43.5m) in respect of the new Customer Relationship Management (CRM) system which will be rolled out in the UK business during FY18. The asset will be amortised over 10 years on a straight-line basis from the point at which the asset is complete.

15. Property, plant and equipment

	Land & buildings £m	Furniture fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 April 2015	30.7	7.5	14.9	3.6	56.7
Additions	1.5	1.5	4.2	1.5	8.7
Disposals	(0.9)	(0.9)	(3.1)	(0.5)	(5.4)
Acquisition of a subsidiary	—	0.1	0.1	—	0.2
Exchange movements	0.2	0.1	0.2	0.2	0.7
At 1 April 2016	31.5	8.3	16.3	4.8	60.9
Additions	1.4	1.1	5.2	0.3	8.0
Disposals	(0.6)	—	(0.3)	(0.1)	(1.0)
Acquisition of subsidiaries	—	0.3	0.1	—	0.4
Disposal of a subsidiary	—	(0.1)	(0.2)	—	(0.3)
Exchange movements	0.6	0.2	0.9	0.7	2.4
At 31 March 2017	32.9	9.8	22.0	5.7	70.4
Accumulated depreciation and impairment					
At 1 April 2015	10.0	4.6	9.3	1.5	25.4
Charge for the year	1.6	1.0	2.1	0.7	5.4
Disposals	(0.9)	(0.9)	(3.1)	(0.3)	(5.2)
Exchange movements	0.2	—	0.1	0.1	0.4
At 1 April 2016	10.9	4.7	8.4	2.0	26.0
Charge for the year	1.5	1.4	3.1	0.9	6.9
Disposals	(0.6)	—	—	—	(0.6)
Disposal of a subsidiary	—	—	(0.2)	—	(0.2)
Exchange movements	0.3	0.2	0.5	0.3	1.3
At 31 March 2017	12.1	6.3	11.8	3.2	33.4
Carrying amount					
At 31 March 2017	20.8	3.5	10.2	2.5	37.0
At 31 March 2016	20.6	3.6	7.9	2.8	34.9

The carrying amount of the Group's property, plant and equipment includes an amount of £2.3m (FY16: £2.5m) in respect of assets held under finance leases.

At the balance sheet date, there are no contractual commitments for the purchase of property, plant and equipment (FY16: £nil).

16. Group companies

All companies listed overleaf are owned by the Group and all interests are in the ordinary share capital. All subsidiaries, where control is exercised, have been consolidated. Associates have been accounted for using the equity accounting method. All companies operate principally in their country of incorporation.

Notes to financial statements (continued)

Year ended 31 March 2017

16. Group companies (continued)

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
Directly held entity of HomeServe plc:				
HomeServe Enterprises Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Indirectly held entities of HomeServe plc:				
Holding Companies				
HomeServe Assistance Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe International Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Home Service GB Limited (No. 3546370) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe France Holdings SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69365 LYON Cedex 7
HomeServe USA Holdings Corp	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe Beteiligungs GmbH	Trading	Germany	100	Rheinstr. 30-32, 65185, Wiesbaden
Sherrington Mews Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
UK & Ireland				
HomeServe Membership Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Servowarm Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe At Home Limited (No. 4186398) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Vetted Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade National Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade.com Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkaprofessional.com Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkagroup Holdings Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade Limited ²	Trading	England	40	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
247999 Limited (No. 7183505) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Home Energy Services Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Manufacturer Warranties Limited (No. 4079068) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Heating Services Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Trustees Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe France Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe USA Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Europe Limited	Non-Trading	Ireland	100	25-28 Adelaide Road, Dublin 2
HomeServe America Limited	Non-Trading	Ireland	100	25-28 Adelaide Road, Dublin 2
HomeServe Gas Limited (No. 2248585) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe (GB) Limited (No. 5536994) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Fastfix Plumbing and Heating Limited (No. 3120932) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Care Solutions Limited (No. 3228902) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Warranties Limited (No. 3156861) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Multimaster Limited (No. 3670180) ⁶	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
AskDad Limited	Trading	England	15	24 St John Street, London, EC1M 4AY
HomeServe Labs Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Continental Europe				
HomeServe France SAS (formerly Domeo SAS)	Trading	France	100	9, rue Anna Marly, CS 80510, 69365 LYON Cedex 7
HomeServe Assistencia Spain SAU (formerly Reparalia Direct S.L.) ⁷	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
HomeServe Spain SLU (formerly Reparalia SA) ⁷	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
Seguragua SAU ⁵⁷	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
Habitissimo S.L. ³⁷	Trading	Spain	70	– Edificios 5 y 6, 28224 Pozuelo de Alarcon c/Blaise Pascal Edifici W, 1º Piso Parc Bit CP 07121, Palma de Mallorca, Balears
Bit Advanced Marketing S.L. ³⁷	Trading	Spain	70	Passeig Mallorca 17C, 07011 Palma de Mallorca
Assistenza Casa Srl ⁴	Trading	Italy	49	Via Giovanni Battista Cassinis, 7, 20139 Milano
North America				
HomeServe USA Corp	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp	Trading	USA	100	1232 Premier Drive, Chattanooga, TN 37421
HomeServe USA Repair Management (Florida)	Trading	USA	100	1232 Premier Drive, Chattanooga, TN 37421
Leanguard Inc	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
Leanguard Repair Services Inc	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (Iowa)	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (California)	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (Virginia)	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (Wisconsin)	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Energy Services LLC	Trading	USA	100	500 Bi-County Blvd, Farmingdale, NY 11735
HomeServe USA Energy Services (New England) LLC	Trading	USA	100	5 Constitution Way, Woburn, MA 01801
LI PH Enterprises LLC	Trading	USA	49	1307 Manatuck Blvd, Bay Shore, NY 11706
NYC PH Enterprises LLC	Trading	USA	49	4295 Arthur Kill Rd, Staten Island, NY 10309
USP Holding 1 LLC ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
USP Holdings 2 LLC ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Utility Service Partners Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Utility Service Partners Private Label, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
USP Water Heater Rentals LLC ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Utility Service Partners Private Label of Virginia, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of America, Inc - Delaware. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of America, Inc - California. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of Canada Holdings, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of Pennsylvania, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of Kentucky, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of Ohio, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of West Virginia, Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of Canada Inc. ¹	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Australia				
Home Service Direct Pty Limited	Non-Trading	Australia	100	50 Queen Street, Melbourne, VIC 3000

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

² On 13 December 2016 the Group invested in 40% of Sherrington Mews Limited, the holding company of the 'Checktrade' Group. It has been accounted for as an associate using the equity method.

³ On 27 January 2017 the Group acquired 70% of Habitissimo S.L. Non controlling interests of £0.8m were recognised as a result of this investment.

⁴ On 9 March 2017 the Group disposed of 51% of Assistenza Casa Srl.

⁵ During the year, the Group increased its investment in Seguragua SAU from 49% to 100%.

⁶ The Group has taken advantage of the S479A exception from audit of the dormant subsidiaries registered in England. The registered numbers of the dormant subsidiaries are provided above.

⁷ These companies have a 31 December year end due to the statutory reporting requirements in Spain.

Notes to financial statements (continued)

Year ended 31 March 2017

17. Other investments

Available for sale investments carried at fair value	£m
At 1 April 2015	4.4
Gain on revaluation	2.5
Increase in investment	0.5
Exchange movements	0.4
At 1 April 2016	7.8
Exchange movements	0.7
At 31 March 2017	8.5

On 4 July 2014, HomeServe entered into an equity partnership investment agreement with a manufacturer of smart thermostat connected home technology. On 12 August 2015, HomeServe invested a further £0.5m into the equity partnership investment agreement. The fair value of this investment has been assessed at 31 March 2017 by reviewing the future outlook for the business along with other comparative transactions during the period.

18. Interests in associates

On 13 December 2016 the Group acquired a 40% stake in Sherrington Mews Limited, the holding company of the Checktrade 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.

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	Assistenza Casa Srl	Total
	£m	£m	£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 the 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	£m	£m	£m
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 the 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 the associates	27.4	4.7	32.1

A list of the investments in associates, including the name, address, country of incorporation, and proportion of ownership is given in note 16.

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.

19. Inventories

	2017 £m	2016 £m
Consumables	2.7	2.9

Notes to financial statements (continued)

Year ended 31 March 2017

20. Other financial assets

Trade and other receivables

	2017	2016
	£m	£m
Amounts receivable for the provision of services	292.3	250.7
Other receivables	143.0	99.4
Prepayments and accrued income	19.8	17.6
	455.1	367.7

Trade receivables

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

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £12.1m (FY16: £7.1m) which are past due at the reporting date but for which the Group has not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 21 days (FY16: 30 days). Trade debtors to be received from customers relating to instalments of policy premiums that are not yet due have been excluded from the average age calculation.

Ageing of past due but not impaired receivables:

	2017	2016
	£m	£m
1 - 30 days	8.6	5.1
31 - 60 days	3.0	1.8
61 - 90 days	0.2	0.2
91 days +	0.3	—
Balance at 31 March past due but not impaired	12.1	7.1
Current/not yet due	280.2	243.6
Balance at 31 March	292.3	250.7

Movement in the allowance for doubtful debts:

	2017	2016
	£m	£m
At 1 April	2.5	1.8
Impairment losses recognised	0.7	2.4
Reclassification to cancellation provision	(1.6)	—
Amounts recovered during the year	(0.2)	(1.8)
Acquisition of a subsidiary	0.5	—
Exchange movements	—	0.1
Balance at 31 March	1.9	2.5

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

Ageing of impaired trade receivables:

	2017 £m	2016 £m
1 - 30 days	—	—
31 - 60 days	—	—
61 - 90 days	0.2	—
91 days +	1.3	2.2
Current/not yet due	0.4	0.3
	1.9	2.5

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

Other receivables

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £46.2m (FY16: £54.2m) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

21. Bank and other loans

	2017 £m	2016 £m
Sterling denominated	25.0	25.0
Euro denominated	10.9	—
Due within one year	35.9	25.0
US dollar denominated	59.0	56.5
Euro denominated	32.1	—
Sterling denominated	179.0	140.0
Due after one year	270.1	196.5
Total bank and other loans	306.0	221.5

The US Dollar and Euro denominated borrowings are used to provide debt funding to North America and Continental Europe respectively. Foreign currency borrowings are drawn in the UK and passed to the overseas subsidiaries of the Group by way of intercompany loans, denominated in the same currencies. These external borrowings and the equivalent intercompany receivable loans are treated as monetary liabilities and assets respectively and, as such, the Group's foreign currency exposure risk is minimised.

Notes to financial statements (continued)

Year ended 31 March 2017

21. Bank and other loans (continued)

	2017	2016
	%	%
The weighted average interest rates paid were as follows:		
Bank and other loans	2.1	2.0

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

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

- The Group has a £300m revolving credit facility with five banks. This facility was taken out on 31 July 2014 and has a term of five years. The financial covenants associated with the credit facilities are 'net debt to EBITDA of less than 3.0 times' (FY16: 3.0 times) and 'interest cover greater than 4.0 times EBITDA' (FY16: 4.0 times). Interest is charged at floating rates at margins of between 1.05% and 1.25% (FY16: 0.9% and 1.25%) above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk. At 31 March 2017, the Group had available £174.0m (FY16: £155.6m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met
- The Group has £110m of US Private Placements (FY16: £50m). An additional £60m US Private Placement was taken out on 6 March 2017 and has a term of seven years. The financial covenants associated with this facility are the same as the £300m revolving credit facility and interest is charged at a fixed rate of 2.59%. The existing £50m US Private Placement was taken out on 7 October 2015 and has a term of seven years. The financial covenants associated with this facility are the same as the £300m revolving credit facility and interest is charged at a fixed rate of 3.44%
- The Group secured additional funding via a €50m amortising term loan which was taken out on 13 September 2016 and has a term of 4 years. The financial covenants associated with this facility are the same as the £300m revolving credit facility and interest is charged at floating rates at margins of 0.9% above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk
- The Group renewed a £25m short term loan on 1 February 2017 which has a term of six months. The financial covenants associated with this facility are the same as the £300m revolving credit facility and interest is charged at floating rates at margins of 0.63% above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk
- The Group has a \$5m facility in the USA, of which \$2.3m / £1.9m (FY16: \$3.1m / £2.1m) was drawn at the 31 March. The weighted average interest rate was 2.0% (FY16: 1.5%).

The Group has complied with all covenant requirements in the current and prior year. Information about liquidity risk is presented in note 42.

22. Deferred tax

The following are the major deferred tax assets/(liabilities) recognised by the Group and the movements during the current and prior year:

Asset/(liability)	Timing differences	Elected goodwill deductions	Retirement benefit obligations	Share schemes	Acquired intangible assets	Unutilised losses	Available for sale reserve	Acquired property	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2015	7.1	(0.2)	—	4.0	(19.0)	0.1	—	(0.5)	(8.5)
(Charge)/credit to Income	(3.0)	—	(0.3)	—	2.0	—	—	—	(1.3)
Charge to equity	—	—	—	(0.2)	—	—	—	—	(0.2)
Charge to Comprehensive Income	—	—	(0.1)	—	—	—	(0.7)	—	(0.8)
Acquisition of a subsidiary	—	—	—	—	(1.8)	—	—	—	(1.8)
Exchange movements	0.3	—	—	0.1	(1.5)	—	—	—	(1.1)
At 1 April 2016	4.4	(0.2)	(0.4)	3.9	(20.3)	0.1	(0.7)	(0.5)	(13.7)
(Charge)/credit to Income	(2.6)	0.1	(0.4)	0.2	3.2	—	—	0.5	1.0
Credit to equity	—	—	—	0.4	—	—	—	—	0.4
Credit to Comprehensive Income	—	—	0.6	—	—	—	—	—	0.6
Acquisition of subsidiaries	—	—	—	—	(15.6)	12.7	—	—	(2.9)
Exchange movements	0.8	—	—	0.2	(2.3)	0.5	—	—	(0.8)
At 31 March 2017	2.6	(0.1)	(0.2)	4.7	(35.0)	13.3	(0.7)	—	(15.4)

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

	UK	France	Spain	North America	New Markets	2017	2016
	£m	£m	£m	£m	£m	£m	£m
Deferred tax assets	—	—	3.3	4.3	—	7.6	6.8
Deferred tax liabilities	(5.5)	(17.1)	—	—	(0.4)	(23.0)	(20.5)
Net deferred tax (liability)/asset	(5.5)	(17.1)	3.3	4.3	(0.4)	(15.4)	(13.7)

At the balance sheet date, the Group recognised a deferred tax asset of £13.3m (FY16: £0.1m) on unused tax losses of £30.4m (FY16: £0.3m) available for offset against future profits, based on estimates of budgeted profits in the forthcoming years. The increase in unused tax losses in the year primarily relates to the Group's acquisition of Utility Service Partners Inc. Deferred tax has not been recognised on £1.1m (FY16: £18.3m) of unused losses due to the uncertainty over the timing of future recovery. The reduction this year is due to the disposal of Assistenza Casa Srl.

There are no expiry dates in respect of the unrecognised tax losses (FY16: Enil).

Notes to financial statements (continued)

Year ended 31 March 2017

23. Current liabilities

Trade and other payables

	2017 £m	2016 £m
Trade creditors and accruals	118.9	121.6
Contingent consideration	—	0.2
Deferred consideration	2.6	1.0
Deferred income	76.7	54.4
Taxes and social security, excluding current tax	12.0	9.9
Other creditors	246.0	173.6
	456.2	360.7

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 70 days (FY16: 69 days).

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

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

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

24. Non-current liabilities

Other financial liabilities

	2017 £m	2016 £m
Contingent and deferred consideration		
At 1 April	5.6	2.1
Acquisition of subsidiaries	0.3	4.3
Acquisition of associates	2.7	—
Obligation under put option	9.3	—
Other movement in year	(3.5)	(0.8)
At 31 March	14.4	5.6

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

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 subsidiary companies has been accounted for as a financial liability. This has been recognised at a fair value of £9.3m with the corresponding charge 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.

25. 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.

26. Share premium account

	£m
Balance at 1 April 2015	40.5
Premium arising on issue of equity shares	0.6
Balance at 1 April 2016	41.1
Premium arising on issue of equity shares	4.6
Balance at 31 March 2017	45.7

The share premium account represents consideration received or amounts, based on fair value, allocated to LTIP and One Plan participants on exercise, for authorised and issued shares in excess of the nominal value of 2 9/13p (FY16: 2.5p up to 20 July 2015 and 2 9/13p per share thereafter).

27. Merger reserve

	£m
Balance at 1 April 2015, 1 April 2016 and 31 March 2017	71.0

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

Notes to financial statements (continued)

Year ended 31 March 2017

28. Own shares reserve

	Number m	£m
Balance at 1 April 2015	3.2	11.1
Issued from the employee benefit trust	(3.2)	(11.0)
Balance at 1 April 2016	—	0.1
Issued from the employee benefit trust	—	(0.1)
Balance at 31 March 2017	—	—

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

29. Share incentive reserve

	£m
Balance at 1 April 2015	15.7
Share-based payment charges in the year	2.6
Share options exercised in the year	(2.3)
Balance at 1 April 2016	16.0
Share-based payment charges in the year	6.6
Share options exercised in the year	(4.3)
Balance at 31 March 2017	18.3

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

30. Capital redemption reserve

	£m
Balance at 1 April 2015, 1 April 2016 and 31 March 2017	1.2

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

31. Currency translation reserve

	£m
Balance at 1 April 2015	(9.3)
Movement in the year taken to comprehensive income	14.8
Balance at 1 April 2016	5.5
Movement in the year taken to comprehensive income	21.2
Credit to the profit and loss on disposal of subsidiary	(0.4)
Balance at 31 March 2017	26.3

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

32. Available for sale reserve

	£m
Balance at 1 April 2015	—
Movement in the year taken to comprehensive income	1.8
Balance at 1 April 2016	1.8
Balance at 31 March 2017	1.8

The available for sale reserve represents the gain on revaluation of the Group's available for sale investments as disclosed in note 17.

33. Non-controlling interests

Summarised financial information in respect of the non-controlling interest arising on the acquisition of Habitissimo S.L. is set out below. Habitissimo S.L. is based in Mallorca and operates across Southern Europe and South America. The proportion of ownership interests held by non-controlling interests is 30%. The summarised financial information below represents amounts before intra-group eliminations.

	£m
Current assets	1.1
Non-current assets	3.2
Current liabilities	(1.3)
Non-current liabilities	(0.3)
Equity attributable to owners of the Company	2.7
Non-controlling interests	0.8

34. Disposal of 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:

	£m
At fair value	
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)

Notes to financial statements (continued)

Year ended 31 March 2017

35. Business combinations

The Group has incurred a net cash outflow in respect of business combinations of £74.2m in the year (2016: £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 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.

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.

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.

Notes to financial statements (continued)

Year ended 31 March 2017

36. Notes to the cash flow statement

	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 and 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
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

37. Operating lease arrangements

The Group as lessee

	2017 £m	2016 £m
Minimum lease payments under operating leases recognised in income for the year	11.2	8.1

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £m	2016 £m
Within one year	12.4	8.5
In the second to fifth years inclusive	21.4	16.8
After five years	3.0	0.8
	36.8	26.1

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

38. Obligations under finance leases

	2017	2016
	£m	£m
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	0.6	0.9
Amounts due for settlement after 12 months: in the second to fifth years inclusive	1.0	1.3
Present value of lease obligations	1.6	2.2
Minimum lease payments:		
Within one year	0.6	0.9
In the second to fifth years inclusive	1.0	1.3
Present value of lease obligations	1.6	2.2

Certain motor vehicles are held under finance leases. The average lease term is 5 years (FY16: 5 years). For the year ended 31 March 2017, the average effective borrowing rate was 2.5% (FY16: 2.5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

39. Share-based payments

During the year ended 31 March 2017, the Group had three (FY16: four) share-based payment schemes, which are described below:

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

The LTIP provides for the grant of performance, matching and restricted awards. The vesting period is normally three years. Restricted awards are not subject to performance conditions. Vesting of performance and matching awards granted in 2013 and 2014 is dependent upon comparative Total Shareholder Return performance. For performance and matching awards granted in 2015 and 2016, 75% of each award is subject to an Earnings Per Share performance condition and the remaining 25% is subject to comparative Total Shareholder Return performance. In 2016, members of the Executive Committee received an additional performance award which was subject to a more stretching Earnings Per Share performance condition.

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

The SAYE was open to all UK employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discretionary discount. The options can be exercised during a six month period following the completion of either a three or five year savings period. There were no awards made in the year.

iii) One Plan

One Plan is a share incentive scheme which is available to all employees. For every two partnership shares purchased, participants will receive (or have the right to receive) one free matching share. Matching shares are held in trust for a period of up to three years.

Notes to financial statements (continued)

Year ended 31 March 2017

39. Share-based payments (continued)

	LTIP	SAYE	One Plan	
2017				
Number				
Outstanding at 1 April 2016	6,345,953	2,100,447	—	
Granted	2,181,315	—	35,098	
Forfeited	(33,448)	(190,832)	(1,147)	
Exercised	(2,302,887)	(428,401)	(140)	
Outstanding at 31 March 2017	6,190,933	1,481,214	33,811	
Exercisable at 31 March 2017	25,026	45,676	—	
Weighted average exercise price (£)				
Outstanding at 1 April 2016	—	2.70	—	
Granted	—	—	—	
Forfeited	—	3.00	—	
Exercised	—	1.93	—	
Outstanding at 31 March 2017	—	2.88	—	
Exercisable at 31 March 2017	—	1.90	—	
Range of exercise price of options outstanding at 31 March 2017				
£0.01 to £0.99	—	—	—	
£1.00 to £1.99	—	129,995	—	
£2.00 to £2.99	—	680,918	—	
£3.00 to £3.99	—	670,301	—	
Weighted average remaining contractual life	2	2	3	
Weighted average fair value of options awarded in 2017	£4.81	—	£5.96	
	LTIP	SAYE	ESOP	DBP
2016				
Number				
Outstanding at 1 April 2015	6,985,223	1,818,777	292,705	256,995
Granted	2,053,907	827,601	—	—
Forfeited	(252,564)	(235,483)	—	—
Exercised	(2,440,613)	(310,448)	(292,705)	(256,995)
Outstanding at 31 March 2016	6,345,953	2,100,447	—	—
Exercisable at 31 March 2016	9,189	39,068	—	—
Weighted average exercise price (£)				
Outstanding at 1 April 2015	—	2.25	1.92	—
Granted	—	3.35	—	—
Forfeited	—	2.48	—	—
Exercised	—	1.97	1.92	—
Outstanding at 31 March 2016	—	2.70	—	—
Exercisable at 31 March 2016	—	2.01	—	—
Range of exercise price of options outstanding at 31 March 2016				
£0.01 to £0.99	—	—	—	—
£1.00 to £1.99	—	557,741	—	—
£2.00 to £2.99	—	752,827	—	—
£3.00 to £3.99	—	789,879	—	—
Weighted average remaining contractual life	2	3	—	—
Weighted average fair value of options awarded in 2016	£3.98	£1.35	—	—

The weighted average share price at the date of exercise for share options exercised during the year was £5.28 (FY16: £4.24).

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

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	23% – 52%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	0.1% – 1.3%

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

The Group recognised total expenses of £7.4m (FY16: £5.1m) related to equity-settled share-based payment transactions.

40. Retirement benefit schemes

Defined contribution schemes

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

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

The total cost charged to income of £3.8m (FY16: £3.4m) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. At 31 March 2017, contributions of £323,000 (FY16: £311,000) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

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

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

Notes to financial statements (continued)

Year ended 31 March 2017

40. Retirement benefit schemes (continued)

Defined benefit scheme (continued)

	2017	Valuation at 2016
Key assumptions used:		
Discount rate at 31 March	2.6%	3.5%
Consumer price inflation	2.4%	2.2%
Retail price inflation	3.4%	3.2%
Expected rate of salary increases	2.4%	2.2%
Future pension increases	2.4%	2.2%
Life expectancy of female aged 60 at balance sheet date	29.8yrs	29.7yrs
Life expectancy of male aged 60 at balance sheet date	27.9yrs	27.8yrs

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

As an indication, all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the obligations of the Section of approximately £0.8m
- an increase in the inflation assumption rate of 0.1% would lead to an increase in the value placed on the obligations of the Section of approximately £0.7m
- an increase of life expectancy of one year would lead to an increase in the value placed on the obligations of the Section of approximately £0.9m.

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

	2017	2016
	£m	£m
Current service cost	0.2	0.2
Interest income	(0.1)	—
Recognised in operating costs	0.1	0.2

The actual return on scheme assets was a gain of £4.4m (FY16: loss of £1.5m).

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

	2017	2016
	£m	£m
Present value of defined benefit obligations	(35.2)	(26.6)
Fair value of scheme assets	35.9	28.7
Surplus in scheme recognised in the balance sheet in non-current assets	0.7	2.1

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

	2017 £m	2016 £m
At 1 April	26.6	28.0
Employer's part of the current service cost	0.2	0.2
Interest cost	0.9	0.9
Actuarial losses/(gains)	7.8	(2.0)
Benefits paid	(0.3)	(0.5)
At 31 March	35.2	26.6

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

	2017 £m	2016 £m
At 1 April	28.7	28.1
Interest on Section assets	1.0	0.9
Actual return less interest on Section assets	4.4	(1.5)
Contributions from the employer	2.1	1.7
Benefits paid	(0.3)	(0.5)
At 31 March	35.9	28.7

The amount recognised outside the income statement in the statement of comprehensive income for FY17 is a loss of £3.4m (FY16: gain of £0.5m). The cumulative amount recognised outside profit and loss at 31 March 2017 is a loss of £7.3m (FY16: loss £3.9m).

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

	Fair value of assets	
	2017 £m	2016 £m
Equity instruments	14.0	11.8
Diversified growth funds	3.3	3.2
Liability driven investment funds	14.4	10.1
Other	4.2	3.6
	35.9	28.7

The estimated amounts of contributions expected to be paid to the scheme during the forthcoming financial year is £2.1m (FY17: actual £2.1m) plus any Pension Protection Fund levy payable.

Notes to financial statements (continued)

Year ended 31 March 2017

41. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements (note 52).

Trading transactions

Group companies purchased services of £0.3m (FY16: £0.1m) from Harpin Limited, £0.1m (FY16: £nil) from Pilot Services Limited and £0.1m (FY16: £0.3m) from Harpin Parkin Limited, none of which are members of the Group. These companies are related parties because they are controlled by Richard Harpin, Chief Executive Officer of the Group and Director of the parent company of the Group. Amounts outstanding to all of these companies on 31 March 2017 amounted to £0.1m (FY16: £0.3m).

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

Remuneration of key management personnel

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

	2017	2016
	£m	£m
Short-term employee benefits	5.9	4.9
Post-employment benefits	0.3	0.3
Share-based payments expense	5.6	3.9
	11.8	9.1

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

42. Financial instruments

Principal financial instruments

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

- cash and cash equivalents
- bank overdrafts, revolving credit facilities, bank loans and Private Placements
- trade receivables
- other receivables
- trade payables
- contingent and deferred consideration
- other creditors
- investments.

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

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

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

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

	2017	2016
	£m	£m
Investments (note 17)	8.5	7.8
Call option over associate	—	—
Contingent and deferred consideration at fair value through profit and loss:		
Current liabilities	(2.6)	(1.2)
Non-current liabilities	(5.1)	(5.6)

The movement in investments versus the prior year relates to the foreign exchange movement as a result of the weakening of Sterling versus the Euro.

The 'call option over associate' included above relates to the option the Group has to acquire a further 35% of the shares in Sherrington Mews Limited, as referred to in note 18. In accordance with IAS39 the valuation of this call option has been considered and it is not deemed to have any material fair value at 31 March 2017 as it would not currently allow the Group to acquire an additional stake at less than market value.

Notes to financial statements (continued)

Year ended 31 March 2017

42. Financial instruments (continued)

Principal financial instruments (continued)

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

	£m
Balance at 1 April 2015	3.0
Unwinding of discount through the income statement	0.2
Payments	(1.1)
Additions	4.5
Exchange movements	0.2
Balance at 1 April 2016	6.8
Unwinding of discount through the income statement	0.5
Payments	(3.1)
Additions	3.2
Exchange movements	0.3
Balance at 31 March 2017	7.7

Capital risk management

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

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

	2017 £m	2016 £m
Attributable to equity holders of the parent	369.2	316.6
Bank and other loans	270.1	196.5

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

Financial risk management objectives

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

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

Classification of financial instruments

In addition to the other financial assets and liabilities set out above in 'Principal financial instruments', the Group also has financial assets and liabilities disclosed in notes 20, 23 and 24. The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's long-term debt requirements with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

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

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

	2017	2016
Increase in cost of borrowing	10%	10%
Reduction in profit before tax (£m)	0.1	0.1

Credit risk

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

The majority of the Group's trade receivables consist of a large number of individual members and hence for these balances the Group does not have any significant credit risk exposure to a single counterparty. As a result, the Group's exposure to bad debts is not considered to be significant. Note 3 to the accounts contains further detail regarding the potential risk if cancellations were to be 10% higher than expected.

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

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

Notes to financial statements (continued)

Year ended 31 March 2017

Liquidity risk

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

With the exception of deferred and contingent consideration, the revolving credit facilities, half of the amortising four year term loan, a loan in the USA and the US Private Placements, all of the Group's financial liabilities are due for payment within two years, based on contractual payment terms.

The maturity profile of the Group's financial liabilities based on contractual maturities is provided in the table below. Interest is payable on all bank and other loans. Deferred and contingent consideration payments are stated on the basis of expected cash outflows before discounting.

The actual payment profile of 'Other creditors' is principally dependent upon the collection of the corresponding 'Other receivables' from policyholders. These amounts principally relate to underwriting, which are collected from policyholders and remitted to underwriters following cash collection. Therefore, the actual cash flows may differ from those presented, but will not result in the acceleration of the settlement of the liability.

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Total £m
2017					
Under 2 months	1.3	84.9	68.8	—	155.0
Between 2 and 6 months	36.9	21.1	77.4	0.3	135.7
Between 6 and 12 months	3.8	11.8	98.2	2.3	116.1
Between 1 and 2 years	16.8	1.1	1.6	2.4	21.9
Between 2 and 3 years	140.9	—	—	4.1	145.0
Between 3 and 4 years	14.2	—	—	12.1	26.3
Between 4 and 5 years	3.5	—	—	—	3.5
After 5 years	116.7	—	—	—	116.7
Total	334.1	118.9	246.0	21.2	720.2

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Total £m
2016					
Under 2 months	1.3	85.9	62.3	0.2	149.7
Between 2 and 6 months	25.9	23.4	59.1	0.1	108.5
Between 6 and 12 months	2.7	11.2	50.9	0.9	65.7
Between 1 and 2 years	4.4	1.1	1.3	2.7	9.5
Between 2 and 3 years	4.4	—	—	3.2	7.6
Between 3 and 4 years	147.1	—	—	0.1	147.2
Between 4 and 5 years	1.9	—	—	—	1.9
After 5 years	54.1	—	—	—	54.1
Total	241.8	121.6	173.6	7.2	544.2

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

Company statement of comprehensive income

Year ended 31 March 2017

	Notes	2017 £m	2016 £m
Profit for the year		33.4	111.1
Items that will not be classified subsequently to the profit and loss:			
Actuarial (loss)/gain on defined benefit pension scheme	40	(3.4)	0.5
Deferred tax credit/(charge) relating to components of other comprehensive income	51	0.6	(0.1)
Total comprehensive income for the year		30.6	111.5

Company balance sheet

31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Other intangible assets	46	4.8	3.3
Property, plant and equipment	47	0.3	0.2
Investment in subsidiaries	48	194.6	194.6
Deferred tax assets	51	0.8	1.1
Retirement benefit assets	40	0.7	2.1
		201.2	201.3
Current assets			
Trade and other receivables	49	371.3	232.7
Cash and cash equivalents	49	—	62.1
		371.3	294.8
Total assets		572.5	496.1
Current liabilities			
Trade and other payables	50	(12.5)	(22.9)
Current tax liabilities		(5.4)	(6.1)
Bank and other loans	54	(40.1)	(25.0)
		(58.0)	(54.0)
Net current assets		313.3	240.8
Non-current liabilities			
Bank and other loans	54	(268.2)	(194.4)
		(268.2)	(194.4)
Total liabilities		(326.2)	(248.4)
Net assets		246.3	247.7
Equity			
Share capital	25	8.4	8.3
Share premium account	26	45.7	41.1
Merger reserve	27	71.0	71.0
Share incentive reserve	55	16.2	13.9
Capital redemption reserve	30	1.2	1.2
Retained earnings		103.8	112.2
Total equity		246.3	247.7

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's profit for the year was £33.4m (FY16: £111.1m).

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 23 May 2017. They were signed on its behalf by:

David Bower

Chief Financial Officer
23 May 2017

Registered in England No. 2648297

Company statement of changes in equity

Year ended 31 March 2017

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2016	8.3	41.1	71.0	13.9	1.2	112.2	247.7
Profit for the year	—	—	—	—	—	33.4	33.4
Other comprehensive income	—	—	—	—	—	(2.8)	(2.8)
Dividends paid	—	—	—	—	—	(40.3)	(40.3)
Issue of share capital	0.1	4.6	—	—	—	—	4.7
Share-based payments	—	—	—	6.6	—	—	6.6
Share options exercised	—	—	—	(4.3)	—	0.4	(3.9)
Tax on exercised share options	—	—	—	—	—	0.9	0.9
Balance at 31 March 2017	8.4	45.7	71.0	16.2	1.2	103.8	246.3

Year ended 31 March 2016

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2015	8.3	40.5	71.0	13.3	1.2	144.6	278.9
Profit for the year	—	—	—	—	—	111.1	111.1
Other comprehensive income	—	—	—	—	—	0.4	0.4
Dividends paid	—	—	—	—	—	(137.0)	(137.0)
Issue of share capital	—	0.6	—	—	—	—	0.6
Issue of trust shares	—	—	—	—	—	(9.8)	(9.8)
Share-based payments	—	—	—	2.6	—	—	2.6
Share options exercised	—	—	—	(2.0)	—	2.0	—
Tax on exercised share options	—	—	—	—	—	0.9	0.9
Balance at 31 March 2016	8.3	41.1	71.0	13.9	1.2	112.2	247.7

Company cash flow statement

Year ended 31 March 2017

	Notes	2017 £m	2016 £m
Net cash outflow from operating activities	44	(150.2)	(72.8)
Investing activities			
Interest received		0.1	0.1
Dividends received from subsidiary undertakings		48.3	115.8
Amounts received from subsidiary undertakings for share incentive schemes		4.4	5.3
Purchases of intangible assets		(3.7)	(0.3)
Purchases of tangible assets		(0.2)	(0.2)
Issue of shares from the employee benefit trust		—	1.2
Proceeds from transfer of intangibles to subsidiary undertaking		—	19.0
Net cash from investing activities		48.9	140.9
Financing activities			
Dividends paid		(40.3)	(137.0)
Share capital issued		0.8	0.6
New bank and other loans raised		103.3	75.0
Movement in bank and other loans		(29.8)	8.8
Net cash generated by/(used in) financing activities		34.0	(52.6)
Net movement in cash and cash equivalents		(67.3)	15.5
Cash and cash equivalents at beginning of year		62.1	46.2
Effect of foreign exchange rate changes		0.8	0.4
Cash and cash equivalents at end of year	49, 54	(4.4)	62.1

Notes to financial statements (continued)

Year ended 31 March 2017

Company only

The following notes 43 to 56 relate to the Company only position and performance for the year ended 31 March 2017.

43. Significant accounting policies

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's profit for the year was £33.4m (FY16: £111.1m).

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

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

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

44. Notes to the cash flow statement

	2017 £m	2016 £m
Operating loss	(20.2)	(13.0)
Adjustments for:		
Amortisation of intangible assets	1.6	0.2
Depreciation of property, plant and equipment	0.1	0.1
Share-based payment expense	3.1	2.3
Operating cash flows before movements in working capital	(15.4)	(10.4)
Increase in receivables	(112.6)	(64.4)
(Decrease)/increase in payables	(17.4)	3.1
Cash used in operations	(145.4)	(71.7)
Income taxes received	1.5	2.1
Interest paid	(6.3)	(3.2)
Net cash outflow from operating activities	(150.2)	(72.8)

45. Other information

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	69	65
Total audit fees	69	65

Notes to financial statements (continued)

Year ended 31 March 2017

46. Other intangible assets

	Trademarks & access rights £m	Software £m	Total intangibles £m
Cost			
At 1 April 2015	1.8	1.9	3.7
Additions	—	1.5	1.5
Transfer to subsidiary undertaking	—	(1.1)	(1.1)
At 1 April 2016	1.8	2.3	4.1
Additions	—	3.1	3.1
At 31 March 2017	1.8	5.4	7.2
Accumulated amortisation			
At 1 April 2015	0.5	0.9	1.4
Charge for the year	0.1	0.1	0.2
Transfer to subsidiary undertaking	—	(0.8)	(0.8)
At 1 April 2016	0.6	0.2	0.8
Charge for the year	0.1	1.5	1.6
At 31 March 2017	0.7	1.7	2.4
Carrying amount			
At 31 March 2017	1.1	3.7	4.8
At 31 March 2016	1.2	2.1	3.3

47. Property, plant and equipment

	Leasehold Improvements £m	Computer equipment £m	Total tangible assets £m
Cost			
At 1 April 2015	—	0.3	0.3
Additions	0.2	0.1	0.3
Disposals	—	(0.3)	(0.3)
At 1 April 2016	0.2	0.1	0.3
Additions	0.1	0.1	0.2
At 31 March 2017	0.3	0.2	0.5
Accumulated depreciation			
At 1 April 2015	—	0.3	0.3
Charge for the year	0.1	—	0.1
Disposals	—	(0.3)	(0.3)
At 1 April 2016	0.1	—	0.1
Charge for the year	—	0.1	0.1
At 31 March 2017	0.1	0.1	0.2
Carrying amount			
At 31 March 2017	0.2	0.1	0.3
At 31 March 2016	0.1	0.1	0.2

48. Subsidiaries

Details of the Company's subsidiaries at 31 March 2017, including the name, address, country of incorporation and proportion of ownership interest is given in note 16 to the Group financial statements.

	£m
Cost and net book value	
At 1 April 2015, 1 April 2016 and 31 March 2017	194.6

49. Financial assets

Trade and other receivables

	2017 £m	2016 £m
Amounts receivable from Group companies	368.3	230.0
Other receivables	0.9	0.6
Prepayments and accrued income	2.1	2.1
	371.3	232.7

Trade receivables

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

Ageing of past due but not impaired receivables:

	2017 £m	2016 £m
Current	368.3	230.0
Balance at 31 March	368.3	230.0

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is mitigated through the close management and regular review of performance of the subsidiary companies.

No allowance for doubtful debts is considered necessary based on prior experience and the Directors' assessment of the current economic environment.

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £nil (FY16: £62.1m) comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

Notes to financial statements (continued)

Year ended 31 March 2017

50. Financial liabilities

Trade and other payables

	2017	2016
	£m	£m
Trade creditors and accruals	9.4	8.6
Amounts payable to Group companies	—	11.2
Taxes and social security, excluding corporation tax	3.1	1.6
Other creditors	—	1.5
	12.5	22.9

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 12 days (FY16: 19 days).

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

51. Deferred tax

The following are the major deferred tax assets recognised by the Company and movements thereon:

	Retirement Benefit obligations £m	Share scheme £m	Timing differences £m	Total £m
At 1 April 2015	—	1.8	(0.2)	1.6
Charge to income	(0.3)	(0.1)	—	(0.4)
Charge to comprehensive income	(0.1)	—	—	(0.1)
At 1 April 2016	(0.4)	1.7	(0.2)	1.1
Charge to income	(0.4)	(0.2)	(0.3)	(0.9)
Credit to comprehensive income	0.6	—	—	0.6
At 31 March 2017	(0.2)	1.5	(0.5)	0.8

52. Related party transactions

Group companies purchased services of £0.3m (FY16: £0.1m) from Harpin Limited, £0.1m (FY16: £nil) from Pilot Services Limited and £0.1m (FY16: £0.3m) from Harpin Parkin Limited, none of which are members of the Group. These companies are related parties because they are controlled by Richard Harpin, Chief Executive Officer of the Group and Director of the parent company of the Group. Amounts outstanding to all of these companies on 31 March 2017 amounted to £0.1m (FY16: £0.3m).

The Company also provided goods of £nil (FY16: £0.3m), provided services of £5.5m (FY16: £5.5m), lent monies to of £44.5m (FY16: £106.3m) and borrowed monies from of £10.6m (FY16: £29.1m) with subsidiary companies of the Group. Amounts due to subsidiary companies total £nil (FY16: £11.2m). Amounts owed by subsidiary companies total £368.3m (FY16: £230.0m).

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

Remuneration of key management personnel

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

	2017	2016
	£m	£m
Short-term employee benefits	3.0	2.6
Post-employment benefits	0.2	0.2
Share-based payments expense	3.1	2.6
	6.3	5.4

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

53. Share-based payments

During the year ended 31 March 2017, the Company had three (FY16: four) share-based payment arrangements, which are described in note 39.

	LTIP	SAYE	One Plan
2017			
Number			
Outstanding at 1 April 2016	3,105,096	108,649	—
Granted	778,611	—	2,376
Transfer	—	2,149	—
Forfeited	(7,471)	(1,804)	(74)
Exercised	(1,402,609)	(32,626)	—
Outstanding at 31 March 2017	2,473,627	76,368	2,302
Exercisable at 31 March 2017	—	1,398	—
Weighted average exercise price (£)			
Outstanding at 1 April 2016	—	2.53	—
Transfer	—	3.35	—
Forfeited	—	2.60	—
Exercised	—	1.91	—
Outstanding at 31 March 2017	—	2.82	—
Exercisable at 31 March 2017	—	1.92	—
Range of exercise price of options outstanding at 31 March 2017			
£0.01 to £0.99	—	—	—
£1.00 to £1.99	—	1,398	—
£2.00 to £2.99	—	51,496	—
£3.00 to £3.99	—	23,474	—
Weighted average remaining contractual life	2	2	3
Weighted average fair value of options awarded in 2017	£4.83	—	£5.95

Notes to financial statements (continued)

Year ended 31 March 2017

53. Share-based payments (continued)

	LTIP	SAYE	ESOP	DBP
2016				
Number				
Outstanding at 1 April 2015	3,618,101	119,011	255,000	256,995
Granted	830,676	21,325	—	—
Forfeited	(197,181)	(16,247)	—	—
Exercised	(1,146,500)	(15,440)	(255,000)	(256,995)
Outstanding at 31 March 2016	3,105,096	108,649	—	—
Exercisable at 31 March 2016	9,189	459	—	—
Weighted average exercise price (£)				
Outstanding at 1 April 2015	—	2.33	1.92	—
Granted	—	3.35	—	—
Forfeited	—	2.60	—	—
Exercised	—	2.07	1.92	—
Outstanding at 31 March 2016	—	2.53	—	—
Exercisable at 31 March 2016	—	1.96	—	—
Range of exercise price of options outstanding at 31 March 2016				
£0.01 to £0.99	—	—	—	—
£1.00 to £1.99	—	31,813	—	—
£2.00 to £2.99	—	55,511	—	—
£3.00 to £3.99	—	21,325	—	—
Weighted average remaining contractual life	2	2	—	—
Weighted average fair value of options awarded in 2016	£3.98	£1.35	—	—

The weighted average share price at the date of exercise for share options exercised during the year was £5.22 (FY16: £4.23).

The estimated fair values are calculated by applying a Black-Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the LTIP and DBP. The assumptions used in the models are set out in note 39.

The Company recognised total expenses of £3.1m (FY16: £2.3m) related to equity-settled share-based payment transactions.

54. Bank and other loans

	2017	2016
	£m	£m
Bank overdraft	4.4	—
Bank loans	35.7	25.0
Due within one year	40.1	25.0
Bank and other loans	268.2	194.4
Due after one year	268.2	194.4
Total bank and other loans	308.3	219.4

The bank overdraft of £4.4m (FY16: £nil) is part of the Group's cash pooling arrangements. The weighted average interest paid was 2.1% (FY16: 2.0%)

The bank position fluctuates from being cash to overdraft and is therefore classified as cash and cash equivalents in the cashflow.

Bank loans due in less than one year of £35.7m (FY16: £25.0m) comprise the £25.0m short term loan and £10.7m of the €50m amortising loan. The principal features of these loans are set out in note 21.

Bank and other loans due after more than one year comprise of the revolving credit facility, the US Private Placement and the remainder of the €50m amortising loan. The principal features of these loans are set out in note 21.

55. Share incentive reserve

	£m
Balance at 1 April 2015	13.3
Share-based payment charges in the year	2.6
Share options exercised in year	(2.0)
Balance at 1 April 2016	13.9
Share-based payment charges in the year	6.6
Share options exercised in year	(4.3)
Balance at 31 March 2017	16.2

Notes to financial statements (continued)

Year ended 31 March 2017

56. Financial instruments

Principal financial instruments

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

- cash and cash equivalents
- bank overdrafts, revolving credit facilities, bank loans and Private Placements
- trade receivables
- other receivables
- trade payables
- other creditors.

All principal financial instruments are stated at amortised cost.

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in this note and notes 25 to 30 and the Company Statement of Changes in Equity.

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

	2017 £m	2016 £m
Shareholders' funds	246.3	247.7
Bank and other loans	268.2	194.4

Financial risk management objectives

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

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates primarily relates to the Company's long-term debt requirements with floating interest rates. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts.

Foreign currency risk

The Company has exposure to fluctuations in foreign currencies due to borrowings made to fund investments in its overseas subsidiaries which are affected by foreign exchange movements.

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

	Assets		Liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Euro	31.7	14.6	(43.0)	(42.7)
US dollar	214.4	119.7	(57.0)	(63.5)

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

	2017	2016
Increase in £:\$ exchange rate:	10%	10%
Effect on profit before tax (£m)	(14.3)	(5.1)
Effect on equity (£m)	(14.3)	(5.1)
Increase in £:€ exchange rate:	10%	10%
Effect on profit before tax (£m)	1.0	2.6
Effect on equity (£m)	1.0	2.6

Liquidity risk

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

With the exception of the revolving credit facilities, half of the amortising four year term loan and the US Private Placements, all of the Company's financial liabilities are due for payment within two years, based on contractual payment terms.

The maturity profile of the Company's financial liabilities is provided in the table below. The revolving credit facility is drawn down and associated interest is settled on a monthly basis. The principal is included in the table below when the facility is due to expire.

Notes to financial statements (continued)

Year ended 31 March 2017

56. Financial instruments (continued)

Liquidity risk (continued)

	Bank and other loans £m	Trade, other and group payables £m	Total £m
2017			
Under 2 months	1.3	2.5	3.8
Between 2 and 6 months	36.8	5.8	42.6
Between 6 and 12 months	3.1	1.1	4.2
Between 1 and 2 years	16.6	—	16.6
Between 2 and 3 years	140.7	—	140.7
Between 3 and 4 years	14.0	—	14.0
Between 4 and 5 years	3.3	—	3.3
Over 5 years	115.9	—	115.9
Total	331.7	9.4	341.1

	Bank and other loans £m	Trade, other and group payables £m	Total £m
2016			
Under 2 months	1.3	17.7	19.0
Between 2 and 6 months	25.9	3.6	29.5
Between 6 and 12 months	2.1	—	2.1
Between 1 and 2 years	4.2	—	4.2
Between 2 and 3 years	4.2	—	4.2
Between 3 and 4 years	146.9	—	146.9
Between 4 and 5 years	1.7	—	1.7
Over 5 years	53.4	—	53.4
Total	239.7	21.3	261.0

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

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

	2017	2016
Increase in the cost of borrowing	10%	10%
Reduction in profit before tax (£m)	0.2	0.2

Five year summary

Continuing operations

Unaudited	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
External revenue					
UK	319.3	286.0	279.6	283.1	302.0
North America	227.8	152.6	125.3	110.9	100.8
France	91.1	77.4	74.9	77.3	73.8
Spain	130.2	97.5	90.9	82.6	60.5
New Markets	16.6	19.7	13.5	14.4	9.4
External sales	785.0	633.2	584.2	568.3	546.5
Profit/(loss)					
UK	63.2	58.0	56.4	53.4	78.3
North America	21.2	12.1	6.4	12.9	9.5
France	27.1	23.2	23.4	22.3	21.5
Spain	13.3	9.9	7.5	4.0	3.1
New Markets	(6.0)	(5.9)	(5.9)	(5.7)	(4.8)
	118.8	97.3	87.8	86.9	107.6
Amortisation of acquisition intangibles	(14.1)	(10.4)	(10.4)	(13.0)	(13.4)
Exceptional items	—	—	1.7	(46.7)	(25.1)
Operating profit	104.7	86.9	79.1	27.2	69.1
Net interest	(6.4)	(4.3)	(2.4)	(2.8)	(2.6)
Profit before tax	98.3	82.6	76.7	24.4	66.5

Shareholder information

Financial calendar

2017

21 July	Annual General Meeting
3 August	Final dividend for the year ended 31 March 2017
21 November	Interim results for the six months ending 30 September 2017

2018

January	Interim dividend for the year ending 31 March 2018
May	Preliminary results for the year ending 31 March 2018
June	2018 Annual Report and Accounts available

Shareholder helpline

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

Tel:	0370 707 1053
Address:	PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH
Website:	www.investorcentre.co.uk/contactus

Website

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



HomeServe plc

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