HomeServe

2018 Annual Report & Accounts

Highlights

In our 2018 financial year, we continued to deliver excellent service to our customers and strong business growth.

Customers +7%

8.4m

(FY17: 7.8m)

Retention rate

82%

(FY17: 82%)

Revenue +15%

£899.7m

(FY17: £785.0m)

Statutory operating profit +29%

£135.0m

(FY17: £104.7m)

Basic earnings per share +26%

30.2p

(FY17: 24.0p)

Ordinary dividend per share +25%

19.1p

(FY17: 15.3p)

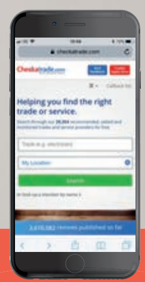
Read more about our KPIs on **page 15.**

Outstanding growth in North America, including our largest ever policy book acquisition

North American customers +20% to 3.6m
Adjusted operating profit +146% to $64.4m

Read more about our North American business on **page 38.**

Acquisition of the remaining 60% of Checkatrade to accelerate creation of a global online marketplace for home repairs and improvements



Checkatrade vetted Tradespeople +22% to 29k

Read more about Home Experts on **page 44.**

Creation of four business lines to drive global growth:

- Membership
- Home Experts
- HVAC
- Smart Home.

Read more about our strategy in the Chief Executive's review on **page 8.**

Our purpose:
HomeServe exists to help people run their homes more easily.

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

To view this report online, go to **homeserveplc.com**

Contents

Strategic report

Governance

Financial Statements

[1] HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in the Annual Report and Accounts 2018 are non-GAAP measures which address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group. Definitions of APMs and the rationale for their usage are included on p209 with a reconciliation, where applicable, back to the equivalent statutory measure.

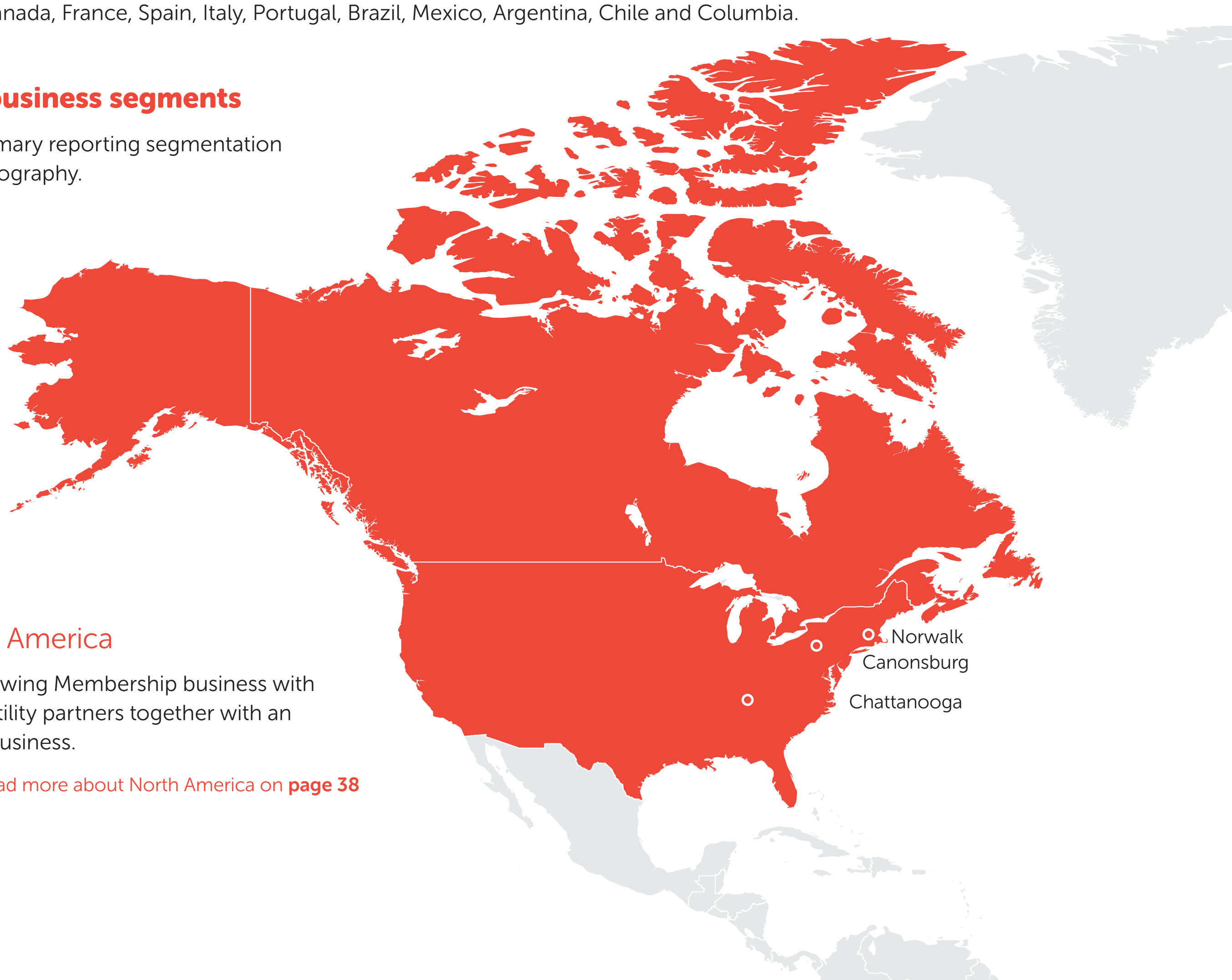
HomeServe at a glance

HomeServe is an international home repairs and improvements business which provides people with access to tradespeople and technology to help them run their homes more easily.

HomeServe was founded by Richard Harpin, our CEO, 25 years ago in the UK. We developed our Membership model in partnership with utility companies, and expanded into France, North America, Spain and Italy. Our key source of current growth is North America, where the acquisitions of Utility Service Partners Inc. in 2016 and the policy book of Dominion Products and Services Inc. in 2017 are boosting strong organic performance. In 2017 we created four global business lines to expand our business model. Together with our developing Home Experts business we are now present in the UK, USA, Canada, France, Spain, Italy, Portugal, Brazil, Mexico, Argentina, Chile and Columbia.

Our business segments

Our primary reporting segmentation is by geography.



North America

Fast growing Membership business with c.550 utility partners together with an HVAC business.

Read more about North America on **page 38**

Our first 25 years

- **1993** HomeServe founded as a joint venture with South Staffordshire Water
- **2001** French business launched as a joint venture with Veolia
- **2003** Entered the USA
- **2004** De-merged from South Staffordshire Water and listed as HomeServe
- **2007** Acquired Reparalia in Spain
- **2012** Renewed customer focus following customer service issues in the UK

Took full ownership of France joint venture.

Our 4 global business lines:

Membership
Subscription-based home assistance for homeowners covering plumbing, heating, electrical, locks, glazing, pest control and technology.

Home Experts
On demand, online marketplace to find vetted and reviewed local tradespeople for a broad range of home repairs and improvements.

HVAC
A complete solution to the installation, repair, maintenance and financing of heating, ventilation and air conditioning.

Smart Home
Development and distribution of technology to enable home automation, including LeakBot, smart thermostats and connected boilers.

UK

Well established Membership business. Leading the Group's LeakBot opportunity and progress in HVAC with acquisition of Help-Link in 2017.

Read more about the UK on **page 36**

France

Well established Membership business with two major partners; entry into HVAC market with acquisition of Electrogaz in 2017.

Read more about France on **page 40**

New Markets

New business development and innovation activities including our Italian associate with Edison Energia and our Home Experts businesses, Checkatrade in the UK and Habitissimo in Spain. Opportunities to expand into new geographies.

Read more about New Markets on **page 44**

Spain

Well established Membership business and a Claims business providing repair services for B2B clients. Plans to develop HVAC.

Read more about Spain on **page 42**

2016

- Acquired Utility Service Partners Inc. (USP) in North America
- Launched LeakBot in the UK
- Acquired initial 40% stake in Checkatrade as part of the Home Experts strategy

2017

- Acquired 70% stake in Habitissimo, in Spain, as part of the Home Experts strategy.
- Joint venture with Edison Energia in Italy
- £125m equity placing
- Acquired the Dominion Products and Services Inc. (DPS) policy book in North America
- Gained 100% control of Checkatrade

Chairman's statement

I am delighted to report that HomeServe has had another strong year, in which we continued to deliver excellent service to our customers and further business growth. We now have 8.4 million customers (FY17: 7.8m); the Group retention rate is stable at 82%; and we delivered a 24% increase in basic earnings per share to 30.2p.

Dividend

Given the Group's performance this year and the Board's confidence in its future prospects, the Board is proposing a final dividend of 14.4p per share, bringing the total ordinary dividend for the year to 19.1p per share of 33.6p, an increase of 25%. The proposed dividend is 1.76x covered by adjusted earnings per share. The Board operates a progressive dividend policy, and targets dividend cover in the range of 1.75x – 2x adjusted earnings per share over the medium-term.

Strategically, this has been a very important year for HomeServe, in which the Board has taken a series of decisions to move us closer to achieving our vision of being the world's most trusted provider of home repairs and improvements. Organic growth augmented by complementary acquisition is central to our strategy in pursuit of that vision. Equally important to the effectiveness of this strategy is the continuing development of our business model with its five key sources of value – partnerships, marketing expertise, customer service, local networks and financial resources. In FY18 we created four global business lines to implement our strategy even more effectively and to leverage our business model to greater advantage, beyond our established Membership business. Our four business lines are Membership, Home Experts, Heating, Ventilation and Air Conditioning (HVAC) and Smart Home.

We continue to build our Membership business in all geographies, with notable success in North America. The Board took the decision to supplement strong organic growth in North America with the acquisition of the policy book of Dominion Products and Services Inc. (DPS) – our largest ever acquisition.

To fund the DPS acquisition and retain balance sheet strength for a pipeline of further opportunities, HomeServe undertook its first ever placing of equity. The Board was strongly in favour of asking for direct support from our shareholders for an acquisition which clearly benefited the core of our business. We were delighted to receive a clear endorsement of our strategy.

In Home Experts, the Board gave the go-ahead to an important step forward, with HomeServe taking control of 100% of Checkatrade in November 2017. Checkatrade gives us the foundation we need to build our Home Experts business in the UK and combines well with the digital expertise of Habitissimo in Spain.

In HVAC, the Board advocated a measured approach, authorising the acquisitions of Help-Link and Electrogaz to provide HVAC bridgeheads in the UK and France respectively.

In Smart Home the Board has elected to focus on territory adjacent to our core businesses - water leakage with LeakBot and also smart thermostat and connected boiler technology.

People

Underpinning HomeServe's ambitious growth strategy is a clear focus on making sure we have the right people in the right positions at every level across the Group, and on giving them the knowledge and skills they need to deliver exceptional performance. To encourage everybody in HomeServe to prioritise and value our people strategy, we created a People Committee in 2017. Its work to date has reviewed insights from new disclosure, for example on the gender pay gap.It has also been instrumental in the development of our global talent strategy and will play a key role in monitoring its implementation.

Board changes

At Board level, we welcomed three Non-Executive Directors – Katrina Cliffe, Edward Fitzmaurice and Ron McMillan – together with one new Executive Director – Tom Rusin. We said farewell to Non-Executive Directors Mark Morris and Ben Mingay. I would like to extend my thanks to both of them for their hard work and insight during their time on the Board. This has been a busy year for the Board, and I am grateful to all of my Board colleagues for the dedication, challenge and expertise they have brought to the Boardroom this year.

After our 2018 financial year end, we announced that Martin Bennett, CEO, HomeServe UK, will step down from the Board at the Annual General Meeting on 20 July and leave the business later in 2018. On behalf of the Board, I would like to take this opportunity to thank Martin for his service to HomeServe. He has made an outstanding contribution over the last 15 years, and in particular since his appointment to the Board in 2009, first as Chief Financial Officer and latterly as UK CEO. Our recent reorganisation to create four global business lines gave Martin the opportunity to consider his next move, and we respect his decision to move on. We all wish him well for the future.

True to our values

As I travelled around HomeServe's offices this year, I have been immensely impressed by the everyday evidence I see of how true we are to our global values. I would like to take this opportunity to say thank you to everyone at HomeServe who has gone the extra mile this year in service of our customers, partners, communities and shareholders, and to thank all of our stakeholders for their continued support.

JM Barry Gibson
Chairman
22 May 2018

See page 12 for our business model.

See page 16 for our strategic priorities

See page 20 for more on our people strategy, as part of Corporate & social responsibility.

Our global values

HomeServe has a vibrant corporate culture based on four global values which define the way we do business. By living these values, we have built our business on strong foundations.

Put customers at the heart of everything we do

Combine relentless innovation with integrity and professionalism

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

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

See page 20 for how we bring these values to life through our approach to Corporate & social responsibility.

When water bills break

How **HomeServe** solved the mystery of the rising rates

"HOW MUCH?
I'd enough to worry about with a baby on the way.
Huge water bills were not what I was expecting.
Sky high and I couldn't see why.
Enter two HomeServe engineers.
They quickly found the source.
A leak had sprung under the front garden.
They dug a hole, fixed the pipe.
And even put the lawn back.
Now my bills are back down to earth.
Thank you HomeServe."
Mrs Bayliss, Walsall
United Kingdom

Discover how life keeps moving for our Customers at **homeserve.com/customerstories**

Chief Executive's review

When we look back in a few years' time on our 2018 financial year, I think we may see it as the year when we further step changed HomeServe's growth opportunities. Our business continued to perform well and the strategic decisions we took will have a major influence on our long-term growth prospects.

Progress in FY18

Our most exciting growth area in the short to medium term is North America. This year's 20% increase in customers was split 50:50 between organic growth and the first tranche of customers acquired with our largest ever acquisition - the policy book of Dominion Products and Services Inc (DPS). Our North American team have been signing new partners at a rate of two per week, and I would like to congratulate them for their dedication and hard work in taking our North American business to scale.

The UK is our most developed, cash generative business. Our UK Membership base is stable at around 2.2m customers, and we continue to see opportunities to improve its size and value through product development, marketing and selective policy book acquisitions. The UK team maintained high levels of customer service all year, including during adverse winter weather conditions, thanks to improved facilities to serve customers online and redeploying an increasingly multi-skilled workforce as the need arose. Looking forward, our priorities in the UK are to broaden our affinity partnerships in new areas such as energy, with partnerships signed this year with E.ON and Octopus Energy; to increase the efficiency of our operations; to develop our Heating, Ventilation and Air Conditioning (HVAC) business; and to continue the roll-out of LeakBot, which is looking very promising.

In France, we continue to enjoy strong relationships with our main partners Veolia and Suez and remain focused on business development opportunities that could unlock new partnerships and opportunities for future growth. We took our first step into HVAC installations in France in December 2017, with the acquisition of Electrogaz.

In Spain, revenue growth in our Membership business and increased efficiency in Claims drove strong profit growth. The current partnership with Endesa draws to a close in the coming weeks. Discussions continue to define a future relationship, which could be a non-exclusive claims handling and service only arrangement. This would enable us to enter discussions with other energy companies. The net effect of not marketing with Endesa is expected to have no significant impact on adjusted operating profit in Spain over the next two years

Our partnership with Edison Energia in Italy continued to make progress, with Edison marketing HomeServe products as part of their strategy to gain market share in the domestic Italian energy supply market. We continue to develop opportunities to expand our Membership model into new markets, and will ensure that new entries are supported by large and committed utility partners.

Positioning for future growth

I see it as crucial to my role as founder and CEO of HomeServe to position our business for the future as well as the present. This year, we continued to develop our five strategic priorities - our people, our affinity partnerships, our local repair networks our digital capabilities and the financial resources at our disposal. These capabilities create the opportunity to expand beyond our traditional Membership business and to this end, we have created four global business lines with the potential to expand our business model.

- Membership – our core subscription-based home assistance service covering plumbing, heating, electrical, locks, glazing, pest control and technology, which we have rolled out successfully in the UK, North America, France, Spain and Italy
- Home Experts – an online, on demand marketplace which matches younger, non insurance minded consumers with vetted and reviewed local tradespeople to carry out a range of household repairs and improvements
- HVAC – a complete solution to the installation, repair, maintenance and financing of heating, ventilation and air conditioning
- Smart Home – developing and distributing technology to enable home automation, including LeakBot, smart thermostats and connected boilers.

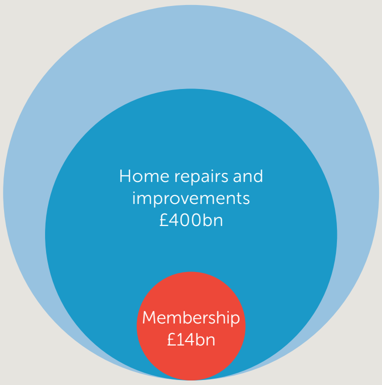
I am delighted to have been able to promote members of my management team to make the most of these new opportunities, in particular Tom Rusin, who is now Global CEO of our Membership business. Tom has been instrumental to our recent success in North America and will bring invaluable insight and energy to drive all of our Membership businesses forward. He has a worthy successor – John Kitzie – already in place in North America, and will continue to be based in Norwalk, Connecticut.

Home Experts

For me, one of the most significant decisions we took this year was to purchase the remaining 60% of Checkatrade, to give us full control of that business. As we develop our Home Experts strategy, Checkatrade brings a strong UK brand and a great process for certifying reputable tradespeople. Over time, we will combine this with the innovative digital capabilities we have access to at Habitissimo, as well as Habitissimo's ability to test different revenue models and to expand effectively into new markets: they are already present in Spain, France, Italy, Portugal, Brazil, Mexico, Argentina, Chile and Columbia. With the financial resources HomeServe can add to the mix, we see enormous potential to develop a scalable, global Home Experts marketplace.

Chief Executive's review continued

Market insight
My interest in Home Experts began with an analysis of our wider market, including not only home repairs but also home improvements. Our core Membership subscription business continues to appeal to around a third of addressable households - homeowners who want to avoid unexpected costs and who value our reliable customer service when fixing problems that occur around their homes. However there is great growth potential with opportunities outside our traditional base - amongst a younger demographic, who are less likely to buy an insurance-type product and more likely to look online for a tradesperson when the need arises. We can deploy our core capabilities to service these consumers and offer a wider range of home improvements as well as repairs.



In our existing markets...
- Membership; UK ONS survey + HomeServe estimate
- Home Repairs + improvement; HomeServe estimate

And...
- An opportunity in Habitissimo's other territories

HVAC and Smart Home
We also made progress in FY18 on defining our HVAC and Smart Home propositions. Based upon the success of our boiler and furnace installation and repair business in North America, we have started to develop this business line in the UK and France via the acquisitions of Help-Link and Electrogaz respectively. HVAC is a highly fragmented market and one where we see potential to grow our market share amongst a new group of high value Membership customers. In the Smart Home market, we will engage in areas adjacent to our other businesses, for example smart thermostats and plumbing-related products. I am delighted that our LeakBot smart water leak detector is starting to gain traction, and we have developed a WiFi version to facilitate broader coverage. Further test agreements have been signed and the first sizeable volume orders agreed with partners in Denmark and the UK.

Looking forward to FY19
We will remain true to our growth strategy. Our priorities in delivering our growth strategy are as follows,

- To continue to grow our core Membership businesses
  - In North America where we expect to complete the second tranche of DPS this autumn and through further organic and acquisition opportunities
  - In the UK, France and Spain by continuing to develop our affinity partnerships and increasing the efficiency of our operations.
  - In new geographies by exploring opportunities for joint ventures with utility partners.
- To further develop our Home Experts proposition and scale our Checkatrade business in the UK by recruiting more tradespeople and attracting more consumers and internationally via Habitissimo
- To roll out our HVAC proposition in the UK, North America, France and Spain
- To progress Smart Home initiatives, including converting LeakBot test agreements to volume orders and signing further insurance partners.

With significant initiatives underway in all four business lines, we have made notable progress this year towards our vision of becoming the world's most trusted provider of home repairs and improvements. We have done so by remaining true to our purpose - to help people run their homes more easily - and to our customer centric values. Every day, I hear heart-warming stories about the lengths our people go to in delivering service to our customers – the Customer Stories featured in this year's Annual Report give you a flavour of this. It is this commitment and enthusiasm above all which powers our business, and I would like to conclude by thanking everyone at HomeServe for their hard work this year.

Richard Harpin
Founder and Chief Executive
22 May 2018

"I see it as crucial to my role as Founder and CEO of HomeServe to position our business for the future, as well as the present."

Richard Harpin
Founder and Chief Executive

Our business model

What we do

HomeServe delivers home repairs and improvements to help people run their homes more easily. Our vision is to be the world's most trusted provider of home repairs and improvements.

We have five key sources of value, which give us the capabilities we need to build four global business lines. These are in different stages of development in different geographies.

Membership **HVAC** **Home Experts** **Smart Home**

How do we do it?

We have five key sources of value for our stakeholders. These are distinct to us and crucial to the success of our business. We have listed against each source of value the KPIs that measure our progress and the most relevant risks.

Partnerships

Our most established route to market is through long-term, exclusive partnerships with utilities, heating manufacturers, insurance companies and specialist service providers. We have a substantial network of over 570 utility partners, and considerable expertise in managing these partnerships for mutual benefit. Our utility partners earn commission on every policy we secure through them and benefit from our long-term approach to delivering value. In highly concentrated markets such as France and Spain, we work with a small number of very large partners, whereas in the fragmented North American market we work with a wide range of small and large partners. HomeServe acts as an insurance intermediary, and does not take any material insurance risk. Our Membership products are underwritten by independent third party underwriters, who are also important long-term partners.

KPI: Affinity partner households

Principal risks: Market disruption (1), Commercial partnerships (2), International development (3)

Marketing

We have three key areas of expertise.

- Innovative product design, where our expertise is focused on adapting to the needs of individual markets to provide products that customers value and use; responding efficiently to market or regulatory change; and creating, developing, testing, launching and assessing the performance of our products in a streamlined fashion
- Data-rich marketing, optimised across a range of channels including direct mail, contact centres and online, with sophisticated monitoring of campaign paybacks
- An increasingly powerful global brand that complements our partner brands.

KPIs: Customers, Policies

Principal risks: Market disruption (1), Digital and innovation (11)

Customer service

Putting the customer at the heart of everything we do is the first and most important of our corporate values. This shines through in the way that our local contact centres operate to handle customer claims and enquiries, and also in the way our engineers behave in customers' homes. We engage the best people right across our business and provide them with the tools and technology they need to do a great job. We have internal measures for customer satisfaction in each of our businesses and we are proud of the external awards we win in each of our businesses.

KPI: Retention rate

Principal risks: Market disruption (1), Regulation and customer focus (8), Digital and innovation (11)

Local networks

We rely on our local networks to deliver consistently high service in our customers' homes and we have many years of experience and expertise in managing these networks. We devote considerable time to recruiting and maintaining those in the network and to providing the infrastructure and technology required for them to operate efficiently. In our Membership business we optimise our mix of directly employed engineers and sub-contractors and in our Home Experts business we are focused on delivering rapid growth in the number of tradespeople we work with to deliver on demand repairs and improvements.

KPI: Tradespeople

Principal risks: Market disruption (1), Recruitment and talent (9)

Financial resources and expertise

Our business is predictable, sustainable and cash generative. Our revenue streams are largely subscription based and we invest in our people, our network, our brand, our partnerships and our technology systems and processes to generate growth. We have opportunities to grow organically and through acquisition in all of our markets and have a strong track record of successful acquisition and integration. To grow our business, we invest in our key sources of value, for the benefit of multiple commercial stakeholders.

KPIs: Adjusted PBT, Net Debt: EBITDA See Glossary on p209 for full detail of our alternative performance measures.

Principal risks: Recruitment and talent (9), Financial (12)

See page 15 for our KPIs

See page 26 for our Principal risks and uncertainties.

Our business model
continued

Our principal stakeholders, and why they benefit from working with us.

Customers

"HomeServe helps me run my home more easily. With HomeServe cover, if something goes wrong, I call them up and they'll fix it."

Partners

"As a utility company, it makes sense to work with HomeServe to deliver top quality home assistance to our customers. In partnership with HomeServe, we can provide the services our customers expect and generate value for our company."

Tradespeople

"HomeServe places great emphasis on its customers and I feel empowered to deliver great service when I'm in customers' homes at their time of need"

Employees

"HomeServe is a great place to work. The company is growing fast and offers me opportunities to develop my skill set and build my career."

Communities

"HomeServe people really care about the communities around them, and take on community projects with commitment and enthusiasm."

Investors

"HomeServe is a well-run, cash-generative business with attractive, sustainable growth prospects."

Value creation

The value we create for all of our stakeholders has the potential to be compounded as we expand our four business lines.

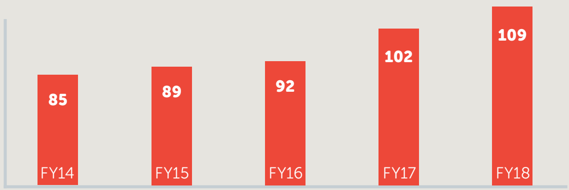
- Consumers may transition to become customers of more than one HomeServe business. For example, Membership subscribers may use on demand Home Experts to access a broader range of trades, or install a new boiler through HVAC
- Tradespeople can find support and opportunity at HomeServe throughout their working lives, whether as employees or small business owners
- Partnerships may expand, for example by creating a joint venture in a new geography.

Our KPIs

Our KPIs are the measures we use to track progress against our strategic priorities and in building our sources of value. They help us analyse past performance and give us insight into future prospects.

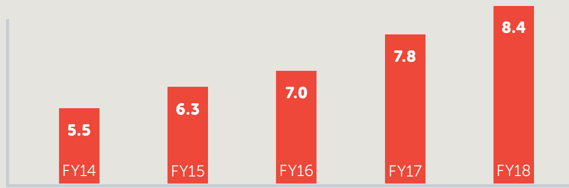
Affinity partner households (m)

Tracks the growth in our addressable market delivered through existing and new partnerships with utilities and municipals.



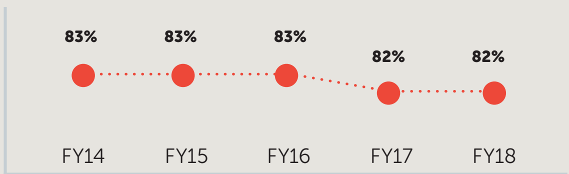
Customers (m)

Tracks our success in converting our addressable market into revenue-generating customers, by delivering great products and service.



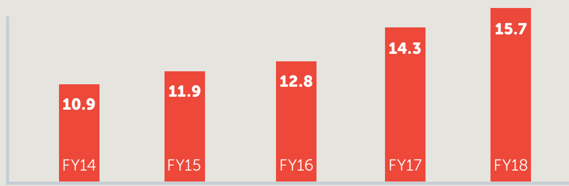
Retention rate

Reflects our ability to deliver fit-for-purpose products and great service to our customers.



Policies (m)

Illustrates our ability to grow our product line through customer focus and innovation.



Income per customer

Measures our ability to design and market increasingly valuable products, and sell them efficiently. Due to currency differences, we track this measure at a geographic level.

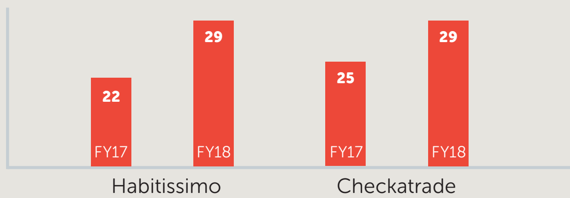
£106	$91	€106	€47
+5%	-12%*	+6%	+57%
UK	North America	France	Spain

* Reflects rapid growth and changes in mix

FY18 vs FY14

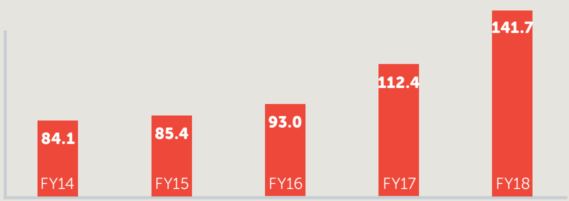
Tradespeople ('000)

Our customers in our Home Experts business. Growing our network of vetted and reviewed tradespeople will enable us to meet consumer needs and grow our business.



Adjusted profit before tax

Is our key profit measure, by which we monitor business growth, efficiency and sustainability.



Net debt to EBITDA

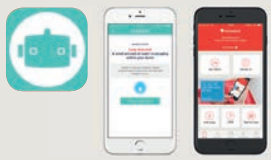
Our key cash ratio, which we use to monitor usage of our financial resources within agreed risk parameters.

0.4x	0.6x	1.4x	1.7x	1.2x
FY14	FY15	FY16	FY17	FY18

Further details on KPIs including calculations can be found in the glossary on page 209.

Strategic priorities

The following strategic priorities are pursued in all of our segments and support our four global business lines. These priorities will retain and advance our existing core strengths and ensure we approach future growth initiatives with the appropriate focus to meet our vision to become the world's most trusted provider of home repairs and improvements.

	Overview	Results
Invest in our people	We recruit and retain the right people in the right roles to ensure we have the expertise to meet both regulatory requirements and the exacting and changing needs of our customers. Detailed succession plans and fulfilling careers will lay the foundation to take advantage of the opportunities in our four business lines.	glassdoor BEST PLACES to work 2017; TOP WORK PLACES 2017 **FY18: 5,855** employees (FY17: 5,008 employees)
	Risks: Regulation and customer focus (8), Recruitment and talent (9)	**KPI(s):** Customers
Manage and extend long-term affinity parentenships	We have active business development exploring new partnerships and we will continue to evaluate and seek to renew our existing ones. Our North American pipeline is particularly strong and we expect to complete tranche 2 of the DPS acquisition in autumn 2018. We intend to enter new territories by agreeing joint ventures with utilities.	**FY18: 570+** partners (FY17: 500+ partners)
	Risks: Market disruption (1), Commercial partnerships (2), International development (3)	**KPI(s):** Affinity partner households
Build our network of tradespeople	Managing a large claims network and ensuring we get the right tradesperson to the right place at the right time is one of our core strengths and a key barrier to entry. We optimise our Membership networks for subcontractors and directly employed engineers. We will recruit and grow our Home Experts tradespeople.	**FY18: 7,000+** engineers & franchisees, **58k** Home Experts (FY17: 5,400+ engineers & franchisees, 46k Home Experts
	Risks: Market disruption (1), Recruitment and talent (9)	**KPI(s):** Tradespeople
Innovate and digitise	Our customers, partners and tradespeople continue to demand greater interaction online. We are committed to providing the smoothest customer experience and to developing products that complement our existing businesses and meet the changing demands and needs of our customers.	
	Risks: IT investment (10), Digital and innovation (11)	**KPI(s):** Policies
Deploy our financial resources	HomeServe has a disciplined approach to financial resource management and all investment decisions are assessed against strict criteria. Capital projects will drive a better customer experience and ensure we scale efficiently. We have options to acquire customers organically through successful marketing programmes and we have proved that we can integrate complementary bolt on M&A effectively in our membership business. M&A also presents an opportunity to accelerate our progress in newer business lines such as Home Experts or HVAC.	Electrogaz Une société HomeServe Help-Link.co.uk The boiler people Checkatrade
	Risks: Financial (12)	**KPI(s):** Financial metrics including adjusted PBT and net debt: EBITDA

Update	How this helps achieve our vision
In 2017 we established a People Committee chaired by our Senior Independent Director and we appointed a Director of Group Talent to ensure this receives the required focus. We value the efforts of all of our staff and are proud of the employer awards we win.	Ensuring our people are skilled, experienced and have the opportunity to develop their own careers is fundamental to HomeServe's success. Talented people who embrace our values and our sharp customer focus will drive the business forward.
For more detail on our people priorities see page 22	
We sign the majority of our new partnerships in North America and in FY18 we were pleased to sign Octopus Energy and E.ON in the UK presenting an exciting opportunity in the energy space. We continue to renew partnerships in all of our businesses. With such a wide portfolio of partners there will now inevitably be a small degree of churn but we will seek to grow the overall base.	Our partnerships are a key competitive barrier to entry. Growing our businesses in existing territories and expanding to new areas with utility brands that customers recognise and trust is fundamental to realising our growth ambitions in Membership.
Our Operating review begins on page 34	
Our Membership businesses completed over 2.6m jobs in FY18. Our 100% ownership of Checkatrade has enabled us to commit financial backing to grow the network more quickly e.g. by allowing monthly rather than annual payments. Habitissimo generated a record number of leads and is developing product and pricing initiatives to grow their networks.	We will extend our reach and broaden our product offering in all countries in which we operate. Large networks of skilled and reliable tradespeople and easily accessible, independent online customer reviews will increase consumer trust and satisfaction.
Our Home Experts initiatives are detailed on page 44	
More customers are choosing to purchase, manage and claim online. A new App has proven popular in the UK and our development of a wifi LeakBot will provide greater reach and scale. Our plans to develop an online, on demand Home Experts solution were boosted by accelerating our 100% ownership of Checkatrade and will enable us to reach a more tech-reliant demographic.	A wider reach and high customer trust and satisfaction is only possible if we provide solutions that meet the changing needs of consumers.
LeakBot and Home Experts detail is in the Operating review beginning on page 34	
We continue to manage resources effectively and evaluate investment opportunities. Having completed significant programmes in recent years we now see capital expenditure reducing in the near term. We will continue to evaluate M&A opportunities.	Strong financial management and investment discipline will ensure we are well placed to be able to take advantage of our growth opportunities.
Our financial review begins on page 46	

Fix it … better than patching it up

HomeServe's commitment to offer customers the best technical solution.

"My wife and I have small children. This is the main reason why we signed up to a water leaks policy with HomeServe. Just a few months after we subscribed, we had to call them up because of a massive water leak. We were pleasantly surprised by HomeServe's handling of this emergency: they reacted fast and we really appreciated the efficiency of the engineers. We got our water supply back in no time and we were able to get on with our family life. A year later, the same pipe sprang another leak. HomeServe sent an engineer round quickly, and he suggested changing the pipe rather than patching it up, to avoid further problems with the damaged pipe. This was a more complex, more expensive option: it cost over 1000 Euros which HomeServe paid. We didn't have to pay a thing! Even better, we can now be sure that the problem has been solved for good."

Réparer…
mieux que panser

Comment **HomeServe** s'engage à toujours proposer la meilleure solution technique à ses clients.

"Ma femme et moi avons des enfants en bas-âge. C'est notamment pour ça que l'on a pris un contrat fuites d'eau chez HomeServe. Quelques mois seulement après avoir souscrit j'ai dû les appeler pour une grosse fuite. Nous avons eu une belle surprise en constatant la grande maîtrise de l'urgence de HomeServe : l'intervention a été rapide et nous avons apprécié l'efficacité des prestataires. L'alimentation d'eau a été rétablie rapidement et notre vie de famille a pu reprendre son cours rapidement. Un an plus tard, une seconde fuite s'est déclarée sur la même canalisation. HomeServe nous a envoyé un prestataire rapide-ment qui a préconisé un changement de canalisation plutôt qu'un simple colmatage pour éviter de futures pannes sur la partie vétuste. Une option plus complexe et plus coûteuse : plus de 1000€ que HomeServe a pris en charge entièrement. Nous n'avons rien eu à payer ! Mieux, nous avons eu l'assurance que le problème était définitivement réglé."

M. R. Guessas, Vénissieux
France

Corporate & social responsibility

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

Our corporate responsibility objectives support our vision and help bring our corporate values to life. They focus on four areas:

1. Putting **Customers** at the heart of everything we do by ensuring that customers are treated fairly and that we provide the high levels of service expected of us
2. Giving our **People** the opportunity to work in an environment which values innovation, integrity and professionalism, rewards success and encourages responsibility and accountability.
3. Using our skills and resources to drive a positive **Social** impact for the benefit of the wider community and support and encourage employee involvement in charitable activities.
4. Having regard for our **Environment**, ensuring we use resources wisely and efficiently to lessen our own impact and encourage awareness in others wherever.

Our business model and strategy aim to create value and build relationships with all of our key stakeholders; customers, partners, tradespeople, employees, communities and investors. Our approach to corporate and social responsibility is also largely people-centric.

See page 5 for our global values.

See page 14 for more information on our principal stakeholders.

HomeServe's impact

Our business model on page 12 lists the sources of value which are key to HomeServe's success. In developing these sources of value, Homeserve is respectful of its wider impacts and responsibilities with regards to social, community and environmental matters. Our business model is not believed to present a significant risk in any of these areas.

People are fundamental to our ongoing success and their recruitment and development is one of our principal risks on page 32. Addressing this risk and developing sources of value such as our local contractor networks places HomeServe in a unique position to be able to have a positive impact on the communities and environment around us. Our strategic initiative to innovate (p16) may also generate positive environmental impacts e.g. reducing water loss through LeakBot or improving energy awareness and usage through smart boiler technology.

Policies

Detailed policies can all be found on our website for;

- Anti-Fraud and Bribery
- Whistleblowing
- Code of Business Conduct
- Environment and Health & Safety

http://www.homeserveplc.com/about-us/corporate-governance/policies.aspx

All Membership businesses were deemed compliant with these policies throughout FY18. Our recent acquisitions of Help-Link and Checkatrade in the UK and Electrogaz in France did not form part of any detailed reviews. Due diligence procedures completed as part of the acquisition processes did not highlight any concerns and all businesses are expected to adopt and comply with HomeServe's policies in FY19.

The Group did not have an approved policy on Human Rights, however we endeavour to demonstrate respect for all people our business touches either directly through our customers, employees and other stakeholders or indirectly throughout our supply chains. A policy will be developed and implemented during FY19.

Customers

Our Customer Promises demonstrate our commitment to our customers. The promises exist in all of our businesses and are embraced by all levels from the front line to senior management and the Board. Our employees are empowered to always do the right thing along every step of the customer journey and we have fostered a culture which places the customer at the heart of our operations. We value our reputation and we continue to win awards for high levels of customer service in all of our businesses.

Our UK 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

Corporate & social responsibility
continued

People

HomeServe's continuing success is reliant on having the best people in all areas of our businesses. A customer focus runs through our recruitment and development processes ensuring all employees share the same purpose.

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 FY18 across the Group was 54:46 (FY17:55:45) (Male:Female) with a team of over 5,800. 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 career development of our employees with talent development a specific focus in FY18. 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 use a range of regular communication channels to keep employees briefed on the Group's strategic and financial progress and any ongoing initiatives that may affect them. This is a two way process and employees are actively encouraged to share ideas and opinions with senior management on HomeServe's internal social media platforms or confidentially through "suggestion boxes". All local CEOs also encourage staff of all levels to attend 1-2-1s with them to discuss anything from product improvement ideas to individual career progression.

There is a Group wide employee share scheme – "One Plan" in which all employees are able to participate and to share in HomeServe's success.

Talent

Developing our global talent strategy has been a key focus during FY18 with a plan in place to drive the attraction, growth and retention of talented employees with the right capabilities to deliver our growth strategy. During FY18 a Group Talent & Development team was established, focused on building a solid foundation for a global talent agenda. The plan was approved by the newly formed People Committee in January 2018.

Central to our work is defining the 'HomeServe Way' which describes the 'DNA' of successful HomeServe Senior Leaders in terms of knowledge, skills and attitude. This is being developed in partnership with the Executive Committee, and provides a clear and consistent framework for hiring, developing and promoting the right people within our most senior population.

It is especially important to HomeServe that we have the right level of diversity responsible for our strategic thinking and decision making. As in many organisations women are currently under-represented at HomeServe's senior levels. At these levels our data shows that 25.5% of our most senior leadership roles globally and 18.2% of our Executive Committee roles and their direct reports are held by women. Whilst this is a good representation, there is more to do to improve this, in particular ensuring that talented womenare appropriately recognised and represented on succession plans for roles that sit on the Executive Committee and on our Board.

Diversity

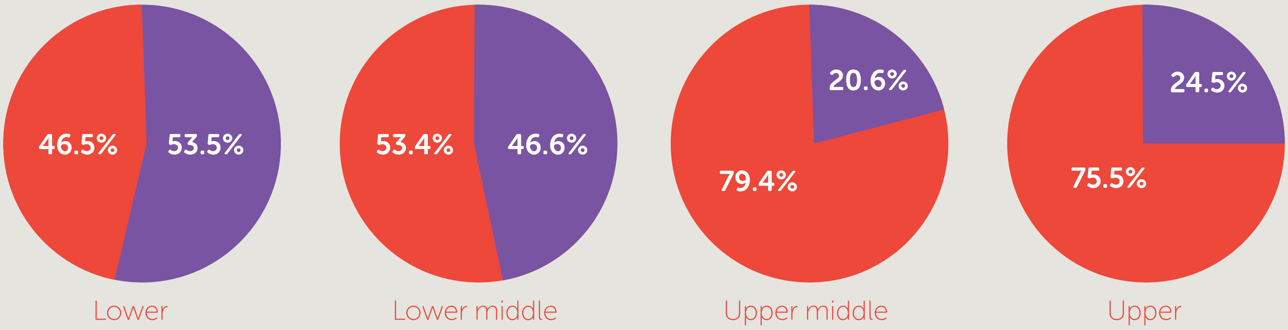
Ensuring that our future senior leadership team better reflects the diversity of the markets we serve and the people we employ is now a key objective of our global talent strategy. A diversity 'lens' will be incorporated into the way we hire, develop and promote our senior talent globally, and we are committed to reporting the resulting impact that this makes in our Annual Report going forward.

The primary principle behind the plan is to 'widen the gate – not lower the bar', and like many organisations we are starting this journey by focusing on a plan to drive increasing levels of gender diversity, both within our current senior leadership team and the succession 'pipeline' that sits beneath this. We recognise that diversity is much broader than gender, but believe that achieving sustainable traction in this critical area of talent will give us strategies that can be applied more broadly to ensure we release the talent of every employee.

Gender Pay

Under UK legislation we reported our required gender pay data for our UK operations in March 2018. The gender pay gap is the difference in the average hourly wage of all men and women across our workforce. HomeServe has always had equal pay for equal roles in all of its businesses, however, like many companies we have significant progress to make to address the balance of our gender pay. We are committed to making improvements in this area with the People Committee engaged to oversee a number of initiatives to improve all diversity, not just gender. These can read about on our UK website at **https://www.homeserve.com/~/ media/uk/documents/gender-pay/ gender-pay-2017-final.pdf**.

In March 2018 we reported our gender pay gap for our UK operations. Our UK pay is distributed across four equally sized quartiles as follows.



Across the whole HomeServe Group, our gender split in FY18 was 54:46 (FY17: 55:45) with a team of over 5,800 employees as detailed below.

	Male	Female	**Total**
Total employees at 31 March 2018	3,134	2,712	**5,846**
Total employees at 31 March 2017	2,879	2,363	**5,242**

Regarding our senior leadership teams, our gender splits were as follows:

Population	% Female	External Benchmark*
Plc Board (Executive & Non Executive Directors)	18.2%	22.8%
Executive Committee	0%	16.6%
Executive Committee & their direct reports	25.5%	24.0%
Global Senior Leadership team	29.6%	N/A

*The external benchmark used is the Hampton Alexander report 2017, FTSE 250 data. This outlines a target of 33% female by 2020 for FTSE250 Boards & Executive & Direct Report Teams

Corporate & social responsibility
continued

Social

We are committed to local causes that our employees feel passionate about and that make a positive contribution in the communities in which we work and they live. Our People are also rewarded for the time they give to their community and we encourage our People to volunteer and support their local communities.

Our business model and our sources of value - in particular our people and tradespeople networks - place us in a unique position to be able to use our skills around the home to help our communities and many of our community projects focus on this area.

The UK has four principal engagement programmes - iServe, CommunityServe, BuildServe and TeamServe. These are various incentive programmes for people who volunteer their personal time, support local schools, participate in initiatives that use our practical engineering and DIY skills, and opportunities for departments or teams to support local causes they feel passionate about.

Our international businesses have also established programmes to encourage all employees to participate in activities they feel passionate about for the benefit of their own communities. This year

We have completed a number of projects in local communities in all of our businesses using engineer and office staff skills.

UK

We have participated in five BBC TV DIY SOS Big Builds.

Spain

Our Spanish team cares passionately about environmental impacts with specific targets to reduce paper and print usage. 90 volunteers participated in a reforestation day in Madrid, planting 120 trees towards offsetting the impact of our Spanish offices' paper consumption.

France

HomeServe France has been building a major charitable partnership with the "Habitat & Humanisme" foundation (H&H) since 2014 helping less privileged people and their housing. Amongst various initiatives this year were a series of running events to raise awareness and funds for the foundation.

North America

Much of North America's CSR programme also focuses on housing needs and utilising our core skills. The "HomeServe Cares" programme helped 33 disadvantaged homeowners receive over $90,000 in urgent repairs across territories in Baltimore, Maryland and Birmingham, Alabama. The ongoing "jeans pass" programme in which HomeServe matches employee donations in return for a simple opportunity to dress more casually in the office also raised much needed funds to aide disaster relief following hurricanes Harvey, Irma and Marie, which all had widespread impacts on homes and housing.

Environment, Health & Safety

Health, safety, well being and environmental guardianship remain central to everything we do. All of our businesses comply with ten guiding principles for occupational health and safety and for environmental management. We focus on safe working environments for employees in all areas of our business whether they are routinely office based or, for example, engineers working in our customers' homes. Our employees are supported in all aspects of their work and we strive for zero work-related injuries and illnesses.

Johnathan Ford, Group Chief Operating Officer is the director responsible for environment, health and safety matters.

Following a review of our policies and procedures we have introduced a new Group Health, Safety and Environment policy into which all our businesses are aligned, the HR directors lead Health and Safety matters in each business and are responsible for the policy execution, except in the UK where the responsibility is with the Chief Risk Officer.

Intra company Safety benchmarking remains strong and both accident frequency rates and lost time injury rates are used to compare and monitor the safety culture and levels of engagement across the businesses.

Across the group we have continued to see a positive trend in the reduction of accident and incidents in FY18 and as a result the amount of lost time because of injury. Because of our growth in our Heating, Ventilation and Air Conditioning businesses alongside our growth in Gas policies within the UK, this has resulted in an increase of directly employed engineers grow, we have continued to increased our focus on Health and Safety through more resources and support for our service operations areas.

The UK has continued to review its operating procedures and has actively undertaken employee campaigns and training to further raise health and safety awareness especially the reporting and recording of near misses. It has also promoted the health and wellbeing of employees through various campaigns and awareness sessions e.g. benefits of exercise and quit smoking sessions.

France has seen a significant reduction in the number of work related accidents with an increased focus on employee education through the implementation of new 'e-learning' for all employees and training on the prevention of road risks for employees.

The US has continued to see an improvement to both the number of injuries and severity of injuries throughout the year, this is due to the multi-faceted safety programme launched in FY17 which focused not only on awareness & training. Part of the US team (South Jersey Energy Service Plus team) achieved the National Safety Council's Perfect Record Award of 60,000 hours with no work time loss incidents

In Spain the accident rate continues to be low, HomeServe Spain continue to raise awareness through campaigns regarding road safety to prevent accidents to and from the place of work. In addition, they have undertaken additional activity regarding Fire Risk Management with a review of the fire evacuation processes across the offices and additional fire drills.

There has been no prosecution or other enforcement actions taken in respect of our business by any of the health, safety or environmental regulators

Principal risks and uncertainties

HomeServe has a robust risk management framework which encompasses the Group's risk policy and overall risk appetite. The framework provides a disciplined and consistent approach across all of HomeServe's business, ensuring a structured response at all levels throughout the Group and across all businesses and geographies, to capture monitor and mitigate risk.

- The **Audit & Risk Committee** is chaired by one of the Non-Executive Directors and is composed of independent Non-Executive directors. 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.

  The Audit & Risk Committee advises the Board on risk appetite and risk strategy, maintains the quality and effectiveness of risk management processes under review and receives regular reports from the Group Risk Committee.

- The **Group Executive Risk Committee** is chaired by the Group Chief Financial Officer, it is composed of the Executive Directors and other representatives of each of the Group businesses. The Committee reports to the Audit & Risk Committee. The Board retains the responsibility for the overall evaluation of the Group's risk management processes.

- The **Group Risk Management Team** proposes the risk framework across the Group and supports the businesses with the implementation, monitoring of the risk maturity and progress of everyday risk management across each business in the Group.

Strategic risks are specific to HomeServe's business model and strategy and may pose a fundamental challenge to its future prospects. They include decisions made and actions taken, or indeed not taken, by the Board to determine HomeServe's direction and positioning within the home repairs and improvements market in multiple geographies.

Operational risks relate to failure in HomeServe's processes. Examples include human error, system failure, failure to comply with prevailing legal and regulatory frameworks etc and may lead to, amongst others, business interruption, financial losses and reputational damage.

Financial risks relate to an inability to secure an adequate amount or appropriate mix of short-term and long-term funding (from capital and debt), failure to comply with debt covenants or failure to allocate or invest capital appropriately or on a timely basis.

All risks could negatively impact HomeServe's success or reputation and together have the potential to lead to reduced profitability, higher cash outflows, reduced cash inflows and ultimately lower returns for all stakeholders including employees, partners, creditors and shareholders. HomeServe's robust risk management framework ensures that risks do not go unchecked and controls and mitigations are put in place to reduce exposure and promote the continued success of the business.

Risk registers are maintained by the management of each business and are reviewed by the Audit and Risk Committee at each of its meetings. Risks are scored on a gross basis following a standard framework according to likelihood and impact and are reduced on a net basis after consideration and application of relevant mitigations and controls.

Changes in Principal risks in FY18

As the largest business line in each geographic segment, Membership forms the spine of HomeServe's strategic risks and there is considerable overlap with the other three areas; Home Experts, Smart Home and HVAC. As a result, the substance of the majority of the strategic risks remains unchanged since the prior year. However, the crystallisation of four distinct areas to support HomeServe's vision to be the world's most trusted provider of home repairs and improvements has leant additional emphasis to certain areas and risks have now been categorised to provide further clarity. Operational and financial risks also remain largely unchanged.

Principal risks and uncertainties

Strategic risks

1. Market disruption
2. Commercial partnerships
3. International development
4. M&A strategy
5. HVAC Integration

Operational risks

6. IT & Cyber Security
7. Underwriting Capacity and Concentration
8. Regulation & Customer Focus
9. Recruitment & Talent
10. IT Investment
11. Digital & Innovation

NB. Financial risks (12) are not scored

- - - -> Movement in FY18

The table below sets out what the Board believes to be the principal risks and uncertainties facing the Group, the mitigating actions for each, and an update on any change in the profile of each risk during the past year. All risks carry equal importance and weighting for the Board, however additional focus and priority may be given to specific risks for a period of time in certain circumstances e.g. following a material acquisition or to implement plans to reduce any risk which exceeds the appetite threshold.

The principal risks and uncertainties below should be read in conjunction with the Business Review and the Financial Review. Additional risks and uncertainties of which HomeServe is not currently aware or which are believed not to be significant may also adversely affect strategy, business performance or financial condition in the future.

1. Market Disruption (Strategic risk)

There are a number of competitors providing similar products and services in HomeServe's existing markets. There is the potential for competitors to expand into other geographies and for new entrants to introduce new products or new technologies that erode HomeServe's market share.

Over time market disruption may have a negative impact on KPIs such as customers and policy retention rates. Net income per customer may decrease if HomeServe is forced to reduce prices to retain market share and affinity partner households may reduce if a partner were lost to a competitor or decided to offer competing products in-house.

FY18 update

HomeServe's acquisition of 100% of Checkatrade in FY18 and 70% of Habitissimo in FY17 marked an entry into the online home repairs and improvements sector. As one of the few remaining industries to undergo a substantial shift online there are a number of companies exploring opportunities in this sector. There have been no new competitive entrants in Membership.

Mitigation(s)

HomeServe believes that home assistance cover and the online model as offered by Checkatrade serve different customer demographics and needs so there is little cannibalisation expected of the existing 8.4m membership customers and it should not interfere with growth plans for that area of the business.

Principal risks and uncertainties
continued

2. Commercial Partnerships (Strategic Risk)

Underpinning HomeServe's success in its chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies, and municipal utility providers. The loss of one of these relationships could impact HomeServe's future customer and policy growth plans and retention rates. Similarly growth plans, particularly in North America, are focused on signing new partners to extend reach and provide new marketing opportunities to grow the business.

FY18 update

HomeServe's North American business signed over 100 partners in FY18 and received Hart-Scott Rodino competition clearance for the Dominion Products and Services Inc. (DPS) policy book acquisition. Tranche 1 completed on 18 December 2017 and tranche 2 is expected to complete in autumn 2018, bringing additional partner opportunities. In the UK HomeServe signed new deals with E.ON and Octopus Energy and HomeServe continues to work with key partners in France. In Spain the current partnership with Endesa draws to a close in the coming weeks. Discussions continue to define a future relationship, which could be a non-exclusive claims handling and service only arrangement. This would enable HomeServe to enter discussions with other energy companies. The net effect of not marketing with Endesa is expected to have no significant impact on adjusted operating profit in Spain over the next two years.

Mitigation(s)

With over 570 partners across the Group it is inevitable that HomeServe or a partner may choose not to renew a partnership as circumstances and priorities change. With wider portfolios of partners in the UK and North America this is less of an issue. Where relationships are more concentrated e.g. France and Spain HomeServe regularly monitors partnerships and maintains frequent two-way dialogue. The majority of partnerships are secured under long-term contracts which HomeServe will often seek to proactively renew prior to the end of the contract term.

3. International Development (Strategic Risk)

Part of HomeServe's stated strategy is to pursue opportunities to expand into new geographies via a joint venture with a utility partner. There is a risk that this strategy is not executed due, for example, to an inability to find a suitable partner. As a consequence HomeServe may incur investment in management time and company resources that does not provide a return. There is also the risk that a partner may be signed and at a later date either the partner or the geography are found to be inappropriate.

If no new geographies are entered, there will be slower progress in increasing Affinity Partner Households and there may be a decline in other KPIs and profitability generally if management time and resource becomes strained.

FY18 update

HomeServe continues to explore international development opportunities. As yet no firm agreement has been reached but there remains a pipeline of active partner discussions.

Mitigation(s)

HomeServe conducts thorough market research on all potential geographies and will only enter those perceived as lower risk on the basis of micro and macro factors including, amongst others, corruption index, ease of doing business, quality of housing stock, quality and experience of potential utility partners. A dedicated International Development team ensures sufficient management bandwidth for the overall business.

4. M&A strategy (Strategic Risk)

HomeServe has increased its M&A activity in recent years as a means to accelerate a number of strategic goals e.g. partner and customer growth in North America, customer acquisition in the UK. There is a risk that HomeServe overpays for transactions or underestimates the time and resource required to integrate new businesses, potentially leading to lower than anticipated cash inflows and revenue, increased costs, reduced profitability and an increased likelihood of impairment. By contrast a successful M&A strategy should diversify risk by, for example, introducing new partners and channels, increasing profitability and should lead to increases in KPIs such as customers and policies.

FY18 update

During FY18 HomeServe completed a number of acquisitions, the largest of which were the policy book of DPS in North America, the remaining 60% share of Checkatrade and Help-Link in the UK.

Mitigation(s)

HomeServe conducts thorough due diligence and consults with experienced advisers when considering any transaction. The Group has strict investment hurdles and all transactions are expected to clear these. All transactions are subject to local Board approval with Plc Board approval required for all material transactions. There are dedicated transformation and integration teams in all businesses and HomeServe may seek to retain key management and personnel to provide greater surety around the achievement of the associated investment cases.

5. HVAC Integration (Strategic Risk)

The acquisition and integration of smaller HVAC businesses is a way to accelerate HomeServe's progress in this business line. As distinct from the M&A risk listed above, the integration risk relates specifically to integrating the HVAC businesses with HomeServe's existing Membership businesses and its ability to provide HVAC products, like installations, to Membership customers and also provide HVAC customers with Membership products. Failure to integrate businesses quickly and effectively could increase cost, resulting in failure to achieve predicted revenues and potentially lead to impairment.

FY18 update

There has been an HVAC acquisition in each of the UK and France.

Mitigation(s)

There are dedicated teams in each business tasked with business change and transformation and ensuring businesses are integrated and their subsequent performances are appraised. The single acquisitions in the UK and France will enable a blueprint for successful integration and best practice for any further similar acquisitions.

Principal risks and uncertainties
continued

6. IT & Cyber Security (Operational Risk)

In line with other businesses HomeServe is subject to the increased prevalence and sophistication of cyber-attacks which could result in unauthorised access to customer and other data or cause business disruption to services. A successful cyber attack might have a significant impact on reputation, reducing the trust that customers place in HomeServe and could lead to legal liability, regulatory action and increased costs to rectify. A lapse in internal controls and a subsequent data breach or loss would have a similar impact.

Total customer numbers and policy retention rates may reduce and partners may terminate affinity relationships if they perceive customer data to be at risk.

FY18 update

Managing this risk remains a key area of focus and a high priority. A permanent Group Chief Information Security Officer to oversee information security strategy and governance across the Group is now in position. HomeServe has a dedicated role responsible for information security in each business and during the year, defined an Information and Cyber Security Strategy to focus improvement activities over the next 4 years. HomeServe continued to complete cyber audits as part of its annual assurance plan and will continue to do so in FY19.

General Data Protection Regulation (GDPR) regulation introduces wide ranging changes affecting data protection and data privacy. A Group initiative has been led by HomeServe's Data Protection Officer to ensure compliance ahead of the 25 May 2018 enforcement date.

Mitigation(s)

HomeServe has a number of defensive and proactive practices across the Group to mitigate this risk. There is a detailed information security policy, which is communicated across the Group and training is provided as required. Regular penetration testing is in place to assess defences and HomeServe continues to invest in IT security, ensuring a secure configuration, access controls, data centre security and effective communication of policies and procedures to all employees.

7. Underwriting Capacity and Concentration (Operational Risk)

The Membership business line markets and administers policies that are underwritten by independent third party underwriters. HomeServe acts as an insurance intermediary and does not take on any material insurance risk. If underwriters were unable or unwilling to underwrite these risks and HomeServe were unable to find alternative underwriters it would require the risk to be underwritten directly, thereby exposing the business to material insurance risk, which is contrary to its preferred operating model. Obtaining relevant regulatory approvals for a new underwriter may take time, leading to business disruption. A material change in the operating model would also drive a change in accounting policy that could affect short term profitability. Customer numbers and retention rates may fall if customers experience reduced service levels or are not covered throughout any period of disruption.

FY18 update

Underwriting capacity was increased in FY17 with additional underwriters added in North America, France and Spain. There have been no new relationships entered into this year but all existing relationships remain strong.

Mitigation(s)

Regular meetings take place in all territories to review and understand underwriting performance and to accommodate growth in the customer and policy books as a result of M&A activity. With the exception of the UK, HomeServe works with a number of different underwriters so is not materially dependent on one sole provider. In the UK where there is one main underwriter, HomeServe maintains relationships with a number of other underwriters who are willing and able to underwrite the business. HomeServe undertakes regular reviews with all underwriters to ensure that current product performance and trends are understood.

8. Regulation & Customer Focus (Operational Risk)

HomeServe is subject to regulatory requirements in each of its markets, particularly relating to product design, marketing materials, sales processes and data protection. Failure to comply with regulatory requirements in any of its countries could result in the suspension, either temporarily or permanently, of certain activities.

Much regulation is intended to protect the rights and needs of consumers and failure to adhere to the high expectations customers have for HomeServe could lead to reduced retention and higher customer losses.

In addition, legislative changes relating to partners may change their obligations with regard to the infrastructure they currently manage and hence the products and services HomeServe can offer to customers. It is possible such legislative changes could reduce, or even remove, the need for some of HomeServe products and services.

HomeServe is also subject to wider regulation concerning companies outside of its industry including e.g. anti-corruption, anti-fraud and bribery, modern slavery etc. Specific policies can be found at **http://www.homeserveplc.com/about-us/corporate-governance/policies.aspx**.

FY18 update

New regulation came into effect in the UK in FY18 affecting the whole insurance industry, which requires companies to disclose prior year prices on customer renewal documents. HomeServe has ensured all renewal documents are compliant and changes were made in line with the required timescale.

The Insurance Distribution Directive (IDD) is a further piece of EU-led regulation affecting all of HomeServe's European businesses, applied from February 2018 and requiring that all sales adequately assess and demonstrate customer demands and needs for HomeServe's products. Steps have been taken in each of the UK, France and Spain to ensure full compliance.

In the prior year the primary regulator in the UK, the Financial Conduct Authority (FCA), reduced the intensity of its supervision. The reduced level of supervision has continued throughout this financial year.

Mitigation(s)

HomeServe believes that regulation has a positive impact on the business and encourages a culture that promotes customers' interests and will improve HomeServe's prospects over both the short and long term. HomeServe complies with local regulation in all of its businesses as a minimum but will also seek to take best practice from one business and apply it to all others.

HomeServe has regulatory specialists, compliance teams and Non-Executive Directors in each of business to help ensure that all aspects of the legislative regime in each territory are fully understood and adopted as required.

Specifically in the UK, HomeServe maintains regular dialogue with the FCA, while in North America there is regular contact with the Attorneys General. In other businesses, dialogue is maintained with local regulators.

HomeServe keeps up to date with changes in government and regulatory policy, which ensures that products and services are designed, marketed and sold in accordance with all relevant legal and regulatory requirements and that the terms and conditions are appropriate and meet the needs of customers.

Principal risks and uncertainties
continued

9. Recruitment & Talent (Operational Risk)

HomeServe's ability to meet growth expectations and compete effectively is, in part, dependent on the skills, experience and performance of its personnel. The inability to attract, motivate or retain key talent could impact overall business performance.

FY18 update
HomeServe continued to enjoy growth throughout FY18. The Group is larger than 12 months ago and engaging skilled personnel remains of utmost importance.

Mitigation(s)
Employment policies, remuneration and benefits packages and long-term incentives are regularly reviewed and designed to be competitive with other companies.

Employee surveys, performance reviews and regular communication of business activities are just some of the methods used to understand and respond to employees' views and needs.

Processes are in place to identify high performing individuals and to ensure that they have fulfilling careers, and HomeServe is managing succession planning effectively. A Director of Group Talent was appointed in FY18, looking at how HomeServe develops and promotes its best talent and future leaders.

10. IT Investment (Operational Risk)

The Group relies on several key systems to manage its customer interactions. Appropriate and timely maintenance and investment is required to ensure systems continue to meet the changing needs of the business and its customers. Failure to invest appropriately to manage customer interactions and provide high quality service may result in lower retention and higher customer losses. There is also a dependence on quality 'back-office' systems and any failure in those may lead to business interruption and could jeopardise the ability to analyse performance indicators and react to any trends. Over investment in any new initiatives could see investment outweigh future benefits and lead to impairment.

FY18 update
The UK continues to develop its replacement customer management system. This is a significant project intended to deliver an improved customer experience and a number of marketing opportunities and operational efficiencies. Any significant delays in the project or faults in its design or implementation could adversely impact the intended benefits and lead to increased costs, reduced revenues and asset impairment.

There has also been investment in the core claims handling and network management software in the UK, North America and Spain. Such investments enable an effective customer journey and efficient and scalable management of networks.

Mitigation(s)
All investment decisions are subject to the Group's strict investment criteria and hurdles. Major IT programmes are allocated specific governance structures and oversight with members of senior management sitting on the Programme Board.

HomeServe engages a number of external advisers on large software projects to provide appropriate breadth and depth of experience and expertise to ensure there is no over-reliance on any one supplier and to support management in project delivery.

11. Digital & Innovation (Operational Risk)

As in other industries, customers in all businesses increasingly wish to engage with HomeServe by digital means: joining online and maintaining details or making a claim via HomeServe's website and App or posting onto social media channels such as Twitter and Facebook. If HomeServe is not flexible enough to respond to changing needs, customers may explore competitor products and choose not to renew. There is also a reputational risk as complaints logged via social media can quickly escalate if not dealt with in an appropriate and timely manner.

There is also an increasing demand for innovative products in HomeServe's markets and the adoption of 'Smart Home' products continues to grow.

FY18 update
A comprehensive HomeServe App was launched in the UK in FY18 enabling customers to manage details, make claims and explore hints and tips from their smart phone.

HomeServe owns a stake in tado°, a smart thermostat manufacturer and developed a wifi version for its smart water leak detector "LeakBot" in FY18.

Mitigation(s)
HomeServe continues to review and respond to customer comments and needs and customers are offered a number of channels through which they can engage with HomeServe: telephone, website, Digital Live Chat, paper, email and social media. The developing Home Experts business also offers an alternative for customers seeking a fully digital experience.

12. Financial

The main financial risks are the availability of short-term and long-term funding to meet business needs and take advantage of strategic priorities such as M&A opportunities, the risk of policyholders not paying monies owed, and fluctuations in interest rates and exchange rates. Following the UK's decision to leave the European Union the Group could be subject to higher exchange rate fluctuations.

FY18 update
On 1 August 2017, the Group entered into a new multi-currency revolving credit facility with both existing and new banking partners. The new terms of the facility provide committed credit of £400m which runs until 31 July 2022 with two one-year extension options, subject to agreement by the banking partners, which would extend the maturity to 31 July 2024. Loans have variable interest rates linked to LIBOR or EURIBOR. With other funding, principally from Private Placements, HomeServe had over £270m headroom against its available sources of debt at the year end.

HomeServe completed a successful £125m equity placing on 19 October 2017 retaining balance sheet strength and liquidity and providing flexibility for the acquisition of DPS and for future inorganic investment opportunities.

Interest rate risk
HomeServe's policy is to manage interest cost using a mix of fixed and variable rate borrowings. Where necessary, this is achieved by entering into interest rate swaps for certain periods, in which HomeServe agrees 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.

Credit risk
The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions. The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.

Liquidity risk
HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

Foreign exchange risk
Short term foreign exchange risk is mitigated with the natural hedging provided by the geographical spread of the businesses. While this will protect against some of the transaction exposure, HomeServe's reported results would still be impacted by the translation of non-UK operations.

Operating review

Financial performance for the year ended 31 March

	Revenue		Statutory operating profit/(loss)		Adjusted operating profit/(loss) [1]	
£million	**2018**	2017	**2018**	2017	**2018**	2017
UK	**365.6**	326.5	**59.3**	62.0	**61.1**	63.2
North America	**282.1**	227.8	**40.5**	14.7	**48.6**	21.2
France	**100.0**	91.1	**25.1**	21.1	**31.5**	27.1
Spain	**141.3**	130.2	**16.5**	13.0	**16.6**	13.3
New Markets	**18.6**	16.6	**(6.4)**	(6.1)	**(4.4)**	(6.0)
Inter-segment	**(7.9)**	(7.2)	**—**	—	**—**	—
Group	**899.7**	785.0	**135.0**	104.7	**153.4**	118.8

Key Performance Indicators for the year ended 31 March

	Affinity partner households (m)		Customer numbers (m)		Policy retention rate	
	2018	2017	**2018**	2017	**2018**	2017
UK	**26**	24	**2.2**	2.2	**79%**	80%
North America	**55**	50	**3.6**	3.0	**83%**	82%
France	**15**	15	**1.1**	1.0	**88%**	89%
Spain	**12**	12	**1.3**	1.3	**78%**	78%
New Markets	**1**	1	**0.2**	0.3	**—**	—
Group	**109**	102	**8.4**	7.8	**82%**	82%

[1] HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in the Annual Report and Accounts 2018 are non-GAAP measures which address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group. Definitions of APMs and the rationale for their usage are included on p209 with a reconciliation, where applicable, back to the equivalent statutory measure.

HomeServe had a very good year with strong underlying performance boosted by strategic acquisitions, notably in North America with the policy book of Dominion Products and Services Inc. (DPS), in the UK with Help-Link Limited and the AA's home emergency policy book and in France where the acquisition of Electrogaz marked a first step into HVAC installations.

Total customers increased to 8.4m from 7.8m and the Group now has over 570 affinity partner relationships that provide access to 109m households, up from 102m in the prior year. Customers continue to value HomeServe's products and the Group retention rate remained strong at 82%.

The continued organic success of the North American business allied to the acquisition of DPS and the successful integration of Utility Service Partners (USP) saw North American adjusted operating profit grow by 129% to £48.6m, as the Group delivered total adjusted operating profit of £153.4m, up 29%.

Over half of the Group's profits are now generated overseas, with further profit progression in France and Spain complementing outstanding growth in North America. The UK remains highly cash generative and the largest single contributor to Group profits.

The New Markets segment contains the Group's investments in international development, the Home Experts opportunity via Checkatrade and Habitissimo and its Italian associate.

Affinity Partner Households +12%
26m
(FY17: 24m)

Customers -1%
2.2m
(FY17: 2.2m)

Income per customer +10%
£106
(FY17: £96)

Policies +6%
5.9m
(FY17: 5.6m)

Policy retention rate -1ppt
79%
(FY17: 80%)

Operating review
United Kingdom

As HomeServe's most developed business, the UK is highly cash generative and the largest contributor to the Group's operating profit. It has made good strategic progress in FY18 with further investment in growth opportunities including LeakBot and boiler installations.

Operational performance

Adjusted operating profit of £61.1m (FY17: £63.2m) was down on the prior year, having incurred a one-off cost of c. £2.5m as headcount was reduced as part of an ongoing drive to reduce complexity and introduce further efficiency into the UK operations.

UK customers totalled 2.2m at year end, reflecting a retention rate of 79% (FY17: 80%) and 0.3m new customers added through marketing campaigns (FY17: 0.4m). Included in the year end total are 0.1m customers who are expected to transfer to HomeServe over the course of FY19 following the acquisition of the AA's home emergency services policy book. This acquisition also saw 70 AA plumbing and gas engineers move over to join HomeServe's 1,000-plus strong national network of directly employed engineers (FY17: 850 engineers), further strengthening HomeServe's position in the UK Home Assistance market.

The value of HomeServe's UK customer base is increasing, with customers taking advantage of more cover, with a resultant 10% increase in income per customer and average policies per customer up to 2.7 (FY17: 2.5).

New affinity partnerships were agreed in the year with E.ON and Octopus Energy. The partnership with Octopus is an opportunity to work with an innovative challenger in the energy space and there is great potential from partnering with E.ON to market products to their customers. Both partnerships offer an opportunity to expand beyond the UK's traditional base of water utility partners.

£million	2018	2017	Change
Revenue			
Net policy income	**221.6**	213.4	+4%
Repair services	**106.3**	100.3	+6%
Other	**37.7**	12.8	+193%
Total revenue	**365.6**	326.5	+12%
Adjusted operating costs	**(304.5)**	(263.3)	+16%
Adjusted operating profit	**61.1**	63.2	-3%
Adjusted operating margin	**17%**	19%	-2ppts

Customer satisfaction remains very high, as evidenced by strong scores on independent sites such as Reevoo (95%) and Trustpilot (8.2), (FY17: 93% and 8.3 respectively). The ability to use products effectively when customers most need HomeServe is critical to maintaining high satisfaction. In FY18 the UK network completed a record number of 1.2m jobs, up 12% on FY17. On average the UK network was in a customer's home once every 26 seconds. There is a strong correlation between staff engagement and customer satisfaction, which is why it was important to HomeServe to have maintained its Top 10 position on Glassdoor's Top Places to Work.

Customers are increasingly choosing to interact online. Investment in the core customer management and claims systems has supported this, together with the launch of a new customer App. The ability to enrol, manage and claim online aids efficiency in the business, provides alternative solutions for customers and alleviates pressure on contact centres during times of high volumes - as happened at the end of FY18 with the extreme cold weather. An increase in the ability to provide claims solutions over the phone or by helpful hints and tips on the website also has the potential to provide remedies for customers who are happy to be guided through 'self-fix' steps to fix common plumbing or heating problems.

The acquisition of Help-Link Limited in August 2017 expanded HomeServe's boiler installation resources and formed an end-to-end heating business encompassing installation, assistance cover, service and repair. Of the one million domestic boiler installations in the UK every year, the vast majority are undertaken by local and regional tradespeople. There is significant opportunity for HomeServe to gain market share and offer customers access to a local tradesperson, combined with the scale and expertise of a national network with a wider choice of complementary products including smart thermostats.

There was good progress on Smart Home with LeakBot, HomeServe's smart water leak detector. Additional investment was made in the year to support the development and launch of a WiFi version that will facilitate broader coverage and appeal and enable a faster roll out. Further test agreements have been signed with a number of other insurers and the first sizeable orders agreed with partners in Denmark and the UK.

The 100% investment in Checkatrade presents additional exciting opportunities for synergies with the existing UK business, particularly around heating, which will be assessed and pursued throughout FY19. Checkatrade is discussed in more detail under the New Markets section.

Financial performance

Net policy income increased by 4% to £221.6m as a result of the increase in net income per customer as customers continued to take richer products with more cover. This was in part offset by the slight reduction in the total customer count. The 0.1m customers from the AA expected to transfer in FY19 did not contribute any revenue to the FY18 results.

Repair network income rose due to the increased number of jobs completed for customers.

Other revenue includes transactions with other Group companies and income from the installation of boilers and smart thermostats. The rise in FY18 was due to the additional revenue generated from boiler installations following the acquisition of Help-Link.

Adjusted operating costs increased 16% reflecting the increased repair cost to complete 12% more jobs. There was also additional one-off investment incurred to integrate Help-Link and remove the previous heating franchise model. In the second half of the year, HomeServe took action to structure its UK business more effectively, resulting in headcount reductions and a one-off cost of c. £2.5m. Although this represents a small proportion of the overall UK workforce, it was a difficult decision but one reached without any impact on customer facing roles and to ensure that the business is placed well for the future.

The two percentage points reduction in adjusted operating margin was largely a result of the increased number of repair jobs which carry little margin, costs associated with the headcount reduction and the effect of additional revenue from Help-Link which was loss making in the year due to integration and associated transaction costs.

Affinity Partner Households +10%
55m
(FY17: 50m)

Customers +20%
3.6m
(FY17: 3.0m)

Income per customer -6%
$91
(FY17: $97)

Policies +25%
5.6m
(FY17: 4.5m)

Policy retention rate +1ppt
83%
(FY17: 82%)

Operating review
North America

North America is HomeServe's largest current opportunity. FY18 saw an outstanding performance as continued double digit organic expansion was supplemented by strategic M&A to accelerate ambitious growth plans. Adjusted operating profit more than doubled to $64.4m, demonstrating the ability of the business to scale and integrate its growth opportunities efficiently.

Operational performance

The North American business continues to go from strength to strength with a proven track record of strong organic growth supported by the successful integration of acquired policy books. This year Utility Service Partners Inc. (USP) and the policy book of Dominion Products and Services Inc. (DPS) have both been efficiently interfaced with existing systems and processes, bringing a key step up in operating leverage and increased margin traction.

Customer numbers increased 20% to 3.6m (FY17: 3.0m). Customer satisfaction remained very high and was reflected in the strong retention rate of 83% (FY17: 82%), and successful marketing campaigns added 1.0m gross new customers (FY17: 0.8m). Double digit organic customer growth of 11% was further enhanced by HomeServe's largest ever acquisition; the policy book of DPS.

The purchase of the DPS policy book was announced on 19 October 2017. It brings a total of c. 0.5m customers and marketing opportunities to c. 7m households, for a total enterprise value of $143m. It is structured to complete in two tranches. The first tranche completed on 18 December 2017 and delivered an initial 0.3m customers. Tranche 2 is expected to complete in Autumn 2018, bringing the remaining 0.2m customers. DPS is a highly complementary policy book and marketing has already commenced utilising the Dominion Energy brand to 4m households under tranche 1. The second tranche is expected to bring an additional 3m households and further marketing opportunities with Dominion Energy's own partners.

$million	2018	2017	Change
Revenue			
Net policy income	**349.1**	273.5	+28%
Repair services	**12.0**	7.7	+57%
Other	**14.1**	11.8	+19%
Total revenue	**375.2**	293.0	+28%
Adjusted operating costs	**(310.8)**	(266.8)	+17%
Adjusted operating profit	**64.4**	26.2	+146%
Adjusted operating margin	**17%**	9%	+8ppts

Total affinity partner households increased to 55m from 50m in FY17 as HomeServe signed an average of two new partners every week, a total of over a hundred new partners for the year with access to around 10m utility households (including tranche 1 of DPS). HomeServe now works with a wide portfolio of almost 550 water, electric and energy utilities and municipals.

It is inevitable that as the number of partners continues to grow, HomeServe or a partner may choose not to renew or extend agreements as circumstances and corporate priorities change. The large portfolio now present in North America ensures that there is no over-reliance on any one partner. During the year the partnerships with Duke Energy and AARP ended with the removal of 5m households from the household count but with no change to our growth expectations.

The pipeline of potential partner opportunities remains strong and HomeServe remains confident of increasing its number of partners throughout FY19. The National League of Cities (NLC) relationship that was acquired with USP has been renewed and its endorsement and support will continue to play an important role.

The existing Membership customer base offers great prospects for HomeServe to market its installation products. Total HVAC installations in the year increased 15% as HomeServe installed furnaces and boilers to meet the wider needs of the customer base beyond simply providing emergency repairs.

The team in North America was recognised with 18 awards at the annual Stevie Awards for Sales & Customer Service, including 3rd place overall, rewarding its focus on delivering great customer service.

HomeServe has continued to invest at various stages of the customer journey to further improve the customer experience. Digital channels experienced the largest growth in FY18 with even more customers now choosing to join online. Other technology initiatives such as new field management software have enhanced the operational efficiency of the network and further improved engineer attendance, ensuring customers receive visits at the appointed time. The network of 170 directly employed engineers and over 1,300 sub contractors completed 0.4m jobs, up 12% on FY17.

The Connecticut head office was once again recognised as a Top Place to Work and investment in a new contact centre in Chattanooga will greatly improve staff engagement and establish a hub for customer service excellence. Having begun in Chattanooga with just 35 employees in 2010, the new facility with 350 employees officially opened on 25 April 2018 and is a great indicator of the progress made by HomeServe in North America in less than a decade.

Financial Performance

Net policy income increased 28% to \$349.1m (FY17: \$273.5m) reflecting the larger customer base and the successful integration of USP and the first tranche of DPS. Repair services income includes the jobs completed by the directly employed network and reflects the growing claim volumes from a higher customer base. Other income includes installation revenue and rose 19%, illustrating the growing HVAC installation volumes.

As expected, income per customer fell slightly to \$91 (FY17: \$97) due to the inclusion of USP and DPS customers who hold a different product mix and who were not in the prior year metric. A medium term target of \$100 net income per customer remains achievable, particularly as excluding the impact of USP and DPS, the income per customer increased to \$101 (FY17: \$97).

Adjusted operating costs rose 17% to \$310.8m (FY17: \$266.8m) reflecting continued business growth, a full year of USP and integration costs associated with DPS. The significant increase in the adjusted operating margin, up 8 percentage points to 17%, demonstrates the ability of the business to scale efficiently and integrate the policy books of USP and DPS without incurring substantial additional operating costs.

£million	2018	2017	Change
Revenue			
Net policy income	**262.4**	212.7	+23%
Repair services	**9.6**	6.0	+58%
Other	**10.1**	9.1	+12%
Total revenue	**282.1**	227.8	+24%
Adjusted operating costs	**(233.5)**	(206.6)	+13%
Adjusted operating profit	**48.6**	21.2	+129%
Adjusted operating margin	**17%**	9%	+8ppts

Affinity Partner Households

15m

(FY17: 15m)

Customers +1%

1.1m

(FY17: 1.0m)

Income per customer +5%

€106

(FY17: €101)

Policies -1%

2.3m

(FY17: 2.3m)

Policy retention rate -1ppt

88%

(FY17: 89%)

Operating review
France

HomeServe France's core Membership business is highly profitable and cash generative. Growth opportunities were pursued with potential new partners and in December 2017 the French business made its first step into providing heating installations through the acquisition of Electrogaz.

Operational performance

Total customers increased to 1.1m as France continued to have the highest retention rate in the Group at 88% (FY17: 89%). Customer service standards remained very high as evidenced by achieving the Élu Service Client de l'Année for the second year running. Partner relationships with Veolia and Suez are strong and delivered 0.1m new customers (FY17: 0.2m).

Key to further growth in the Membership business is unlocking a new partnership and there is a pipeline of opportunities at various stages of discussion with energy and water partners. Additional partnership opportunities have been agreed with Veolia to launch a multi-channel approach to marketing, reducing reliance on direct mail and taking advantage of increased calls into Veolia's centralised contact centre to grow the number of sales made directly by the partner, similar to the approach undertaken with Suez. In energy, HomeServe has worked with Butagaz for a number of years and will now partner with them to sell membership products as Butagaz looks to grow its share of the mains domestic gas and electric supply market.

Initial steps were made in FY18 to pursue HomeServe's strategy in heating installations with the acquisition of Electrogaz, a business in the South of France with almost 60 years of expertise in the repair, maintenance and installation of hot water and heating systems, renewable energy devices and domestic air conditioning and ventilation systems. The business has already been successfully integrated and is actively trading as

€million	2018	2017	Change
Revenue			
Net policy income	**111.7**	106.9	+5%
Repair services	**0.5**	0.5	-4%
Other income	**1.0**	—	+100%
Total revenue	**113.2**	107.4	+5%
Adjusted operating costs	**(77.5)**	(75.9)	+2%
Adjusted operating profit	**35.7**	31.5	+13%
Adjusted operating margin	**32%**	30%	+2ppts

Electrogaz...A HomeServe Company. FY19 will focus on proving out this opportunity and assessing potential to increase presence in this market.

France is also focused on becoming a digital-first business, looking to further improve customer interaction and introduce greater operational efficiency. FY18 focused on enhancing the website and providing the functionality for customers to manage their policy details online. These efforts will be continued by providing customers in France with the same opportunities as those in the UK to also use a HomeServe App and to make a claim online.

Financial performance

Total revenue increased by 5% to €113.2m (FY17: €107.4m) primarily due to a 5% increase in income per customer which itself benefitted from improved network efficiencies and a reduced cost to serve. Included in other income is €1m of post acquisition income from Electrogaz, which was acquired during the year.

Adjusted operating costs were broadly stable at €77.5m (FY17: €75.9m) resulting in two percentage points improvement in the adjusted operating margin to 32% as revenue increases directly benefitted the bottom line. Adjusted operating margin is expected to remain at around 30%.

£million	**2018**	2017	Change
Revenue			
Net policy income	**98.6**	90.7	+9%
Repair services	**0.4**	0.4	+2%
Other income	**1.0**	—	+100%
Total revenue	**100.0**	91.1	+10%
Adjusted operating costs	**(68.5)**	(64.0)	+7%
Adjusted operating profit	**31.5**	27.1	+16%
Adjusted operating margin	**32%**	30%	+2ppts

Affinity Partner Households
12m
(FY17: 12m)

Customers +1%
1.3m
(FY17: 1.3m)

Income per customer +11%
€47
(FY17: €43)

Policies +2%
1.5m
(FY17: 1.5m)

Policy retention rate
78%
(FY17: 78%)

Operating review
Spain

Good revenue growth from the maturing Membership policy book, together with increased efficiency in the repair services (Claims) business delivered increased profitability in Spain.

Operational performance

Total customers rose 1% to 1.3m as the business in Spain continued to add customers through its current affinity partnership with Endesa. After a strong first half, political unrest and legislative change in Catalonia, as well as launch delays in other regions, slowed customer acquisition in the final six months, with a total of 0.4m gross new customers (FY17: 0.5m) added in the year. In Spain the current partnership with Endesa draws to a close in the coming weeks. Discussions continue to define a future relationship, which could be a non-exclusive claims handling and service only arrangement. This would enable HomeServe to enter discussions with other energy companies. The net effect of not marketing with Endesa is expected to have no significant impact on adjusted operating profit in Spain over the next two years.

The retention rate remained stable at 78% and an increasing number of renewers year on year has driven strong progression in income per customer.

The Claims business ("Repair services") works with a number of Spain's largest bancassurers managing a large volume of claims across multiple trades and closed 0.8m jobs, in line with the prior year. Jobs continue to be completed by a wide network of over 2,400 subcontractors and 198 franchisees (FY17: 1,972 subcontractors and 197 franchisees).

The Spanish business also intends to pursue a HVAC strategy similar to the approach in the UK and France and is exploring opportunities to enter this space.

€million	2018	2017	Change
Revenue			
Net policy income	**63.0**	57.2	+10%
Repair services	**97.1**	97.1	–
Total revenue	**160.1**	154.3	+4%
Adjusted operating costs	**(141.2)**	(138.5)	+2%
Adjusted operating profit	**18.9**	15.8	+20%
Adjusted operating margin	**12%**	10%	+2ppts

Financial performance

Total revenue increased 4% to €160.1m driven principally by the maturity of the Membership book and the resultant 11% rise in income per customer to €47.

Tight control ensured operating costs rose at a lower rate than revenue, increasing by only 2% on prior year to €141.2m. The higher income per customer in Membership, a focus on operating efficiencies in the Claims business and an increasing mix of larger value jobs contributed to the two percentage points increase in the adjusted operating profit margin.

£million	2018	2017	Change
Revenue			
Net policy income	**55.6**	48.3	+15%
Repair services	**85.7**	81.9	+5%
Total revenue	**141.3**	130.2	+9%
Adjusted operating costs	**(124.7)**	(116.9)	+7%
Adjusted operating profit	**16.6**	13.3	+26%
Adjusted operating margin	**12%**	10%	+2ppts

Checkatrade tradespeople +17%
29k
(FY17: 25k)

Habitissimo tradespeople +29%
29k
(FY17: 22k)

Checkatrade website hits +3%
16.1m
(FY17: 15.7m)

Habitissimo website hits +46%
81.3m
(FY17: 55.7m)

Operating review
New Markets

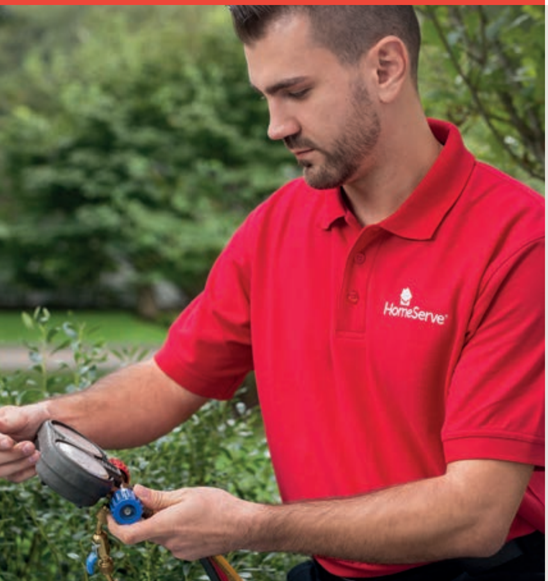
Operational performance
HomeServe's New Markets segment contains its operations in Italy, business development activities to expand into new geographies and the results of Checkatrade and Habitissimo, its Home Experts initiatives.

The Italian associate, in partnership with Edison Energia had 0.2m customers (FY17: 0.3m) and continued to market HomeServe's products as part of it's own strategy to gain market share of the domestic Italian energy supply market.

Although no new partnerships have yet been established, active business development discussions remain ongoing with a number of prospective utility partners in other geographies. HomeServe continues to believe that its products offer utilities a good opportunity to improve their own profiles and increase the engagement and loyalty of their customers.

Notable progress was made in Home Experts as HomeServe secured full ownership of Checkatrade. Through the initial 40% investment on 13 December 2016, HomeServe had the option to increase its investment by a further 35% in mid 2019 but on 17 November 2017 the option was superseded and HomeServe secured the remaining 60% to take full 100% control.

Securing a controlling stake has facilitated faster development and testing to prove out the proposed model and growth plans. The additional investment that HomeServe can provide has already enabled new payment methods for tradespeople, such as monthly direct debits. Due to working capital constraints Checkatrade previously only offered annual payments but the new options will now attract more tradespeople and enable the introduction of different pricing initiatives. Since taking full control in November 2017, total tradespeople has already increased 9% to 29k and the final quarter of FY18 saw three record months for new tradespeople joining Checkatrade. The pricing initiatives introduced have also already lifted Checkatrade's average revenue per trader.



£million	2018	2017	Change
Revenue			
Italy	–	14.8	-100%
Home Experts	**18.6**	1.8	+958%
Total revenue	**18.6**	16.6	+12%
Adjusted operating loss	**(4.4)**	(6.0)	+29%

Key to the long term success of Checkatrade is defining and refining the optimum model for the benefit of consumers as well as tradespeople. Checkatrade continues to attract over a million unique users to the website each month and will look to increase this through further investment in advertising funded primarily by the new pricing initiatives. Product development such as priority membership options for homeowners that reward repeat usage are also being assessed, as is an emergency on demand product. Attracting more consumers to the website and increasing consumer usage will be a critical factor in simultaneously increasing the number of tradespeople.

Habitissimo, the Spanish Home Experts business also had a successful year, continuing to grow the number of leads it generates for its tradespeople, increasing to 2.1m from 1.4m in FY17. Habitissimo possesses considerable technical expertise and its digital capabilities have enabled it to quickly and efficiently test a number of additional products and routes to markets. Habitissimo has also developed and piloted software which will increase the engagement of its tradespeople by providing a tool for them to efficiently manage and track their businesses. Checkatrade will continue to develop and test in the UK, but as the two businesses work more closely together, Habitissimo may ultimately provide the technical skills and capabilities to roll the model out efficiently into other markets as it has already demonstrated with a light footprint in Latin America.

Financial Performance

HomeServe accounts for the net result of its Italian operation as an associate with its result included in the overall New Markets investment. Consequently there was no revenue recorded for the year ended 31 March 2018.

The increase in Home Experts revenue was driven largely by a full year's ownership of Habitissimo and acquiring 100% of Checkatrade. Upon taking control on 17 November 2017, Checkatrade became a subsidiary and all results after this date have been fully consolidated. The results of Habitissimo have been consolidated for the full period.

Total investment in New Markets was £4.4m (FY17: £6.0m), £5.7m on an underlying basis, having benefitted from a one-off re-measurement gain of £1.3m before deal costs, associated with the acquisition of the remaining 60% of Checkatrade.

The Strategic Report was approved by the Board and signed on its behalf by Richard Harpin, Chief Executive Officer on 22 May 2018.

Home Experts performance metrics

		2018	2017	Change
Checkatrade tradespeople	k	**29**	25	+17%
Habitissimo tradespeople	k	**29**	22	+29%
Checkatrade website hits	m	**16.1**	15.7	+3%
Habitissimo website hits	m	**81.3**	55.7	+46%

Financial review

We have delivered another strong set of financial results and the Group continues to be highly profitable and cash generative.

Group statutory results

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

The Group delivered 25% growth in profit before tax to £123.3m. Operating profit growth was up 29% to £135.0m but was offset by an increase in net finance costs to £11.7m (FY17: £6.4m). Net finance costs rose principally as a result of unwinding interest on deferred consideration in relation to previous M&A activity and costs associated with refinancing HomeServe's debt facilities at the beginning of the financial year.

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

£million	2018	2017
Total revenue	**899.7**	785.0
Operating profit	**135.0**	104.7
Net finance costs	**(11.7)**	(6.4)
Adjusted profit before tax [1]	**141.7**	112.4
Amortisation of acquisition intangibles	**(18.4)**	(14.1)
Statutory profit before tax	**123.3**	98.3
Tax	**(27.4)**	(23.9)
Profit for the year	**95.9**	74.4
Attributable to:		
Equity holders of the parent	**96.3**	74.4
Non-controlling interests	**(0.4)**	—
	95.9	74.4

[1] HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in the Annual Report and Accounts 2018 are non-GAAP measures which address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group. Definitions of APMs and the rationale for their usage are included on p209 with a reconciliation, where applicable, back to the equivalent statutory measure.

Amortisation of acquisition intangibles

The amortisation of acquisition intangibles of £18.4m (FY17: £14.1m) relates to customer and other contracts held by businesses, which were acquired as part of business combinations and asset purchases and has increased this year principally due to the acquisition of the policy book of Dominion Products and Services Inc. (DPS) in North America and Checkatrade in the UK.

Tax strategy

The Group has continued to operate within the tax strategy approved by the Board during the financial year ended 31 March 2017. The tax strategy is subject to annual review and reflects HomeServe's status as a plc, and the regulated nature of its business which requires strong governance and consideration of reputation as well as compliance with local laws, regulations and guidance. HomeServe made the UK elements of the tax strategy document publicly available in April 2017 as required by UK legislation.

The Group tax strategy covers how HomeServe:

(i) applies tax governance on an ongoing basis and maintains strong internal controls in order to substantially reduce tax risk;

(ii) will not engage in artificial transactions the sole purpose of which is to reduce tax;

(iii) holds a strategic aim to retain its low tax risk rating as determined by the UK Tax Authority's Business Risk Review process; and

(iv) works 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 £27.4m (FY17: £23.9m), representing an effective tax rate of 22% (FY17: 24%). The corporate income tax rates in the overseas countries in which the Group operates continue to be higher than the UK corporate income tax rate of 19% (FY17: 20%), which results in a Group effective rate higher than the headline UK rate.

Changes to the corporate income tax rates across a number of countries in which the Group operates have been announced. The UK corporation tax rate of 19% in FY18 is also expected to apply in FY19 and FY20, with a reduction to 17% in FY21 onwards.

During December 2017, the US enacted a comprehensive overhaul of its tax system, which has resulted in a blended (Federal/State) rate of 38% in FY18 (FY17: 40%), which will reduce to 27% in FY19 onwards.

France also enacted new tax legislation in December 2017 which will see its main rate of corporate income tax reduce from 33% in FY18 (FY17: 33%) to 25% as of FY22. Meanwhile, Spain's corporate income tax rate continues to be 25% (FY17: 25%).

As the proportion of the Group's profits earned overseas continues to grow the effective tax rate of 22% (FY17: 24%) is expected to increase slightly in future years.

Cash flow and financing

HomeServe's business model continues to be highly cash generative with cash generated by operations in FY18 of £164.2m (FY17: £139.9m), representing a cash conversion ratio against adjusted operating profit of 107% (FY17: 118%). The cash conversion ratio is expected to remain in excess of 100%.

Working capital increased by £42.4m in FY18 reflecting the timing of certain supplier payments and continued growth in all businesses.

Capital expenditure included £54.6m in relation to ordinary and transformational capital expenditure, the largest elements of which related to the core customer management system in the UK; claims handling and job deployment systems in the UK, North America and Spain; ongoing digitisation in all businesses; and the development of a WiFi version of LeakBot in the UK. Total partner payments amounted to £16.5m (FY17: £14.1m) in respect of the acquisition of customers originated by Endesa in Spain and Suez in France.

The core customer management system is being replaced in the UK. It is anticipated that this new customer-centric system will improve agent processes and provide more opportunity to identify and offer the best solutions for customers' needs. Investments in the engineer and contractor networks in the UK, North America and Spain will improve customer service and enable claims handling and job deployment efficiencies.

An increasing proportion of customers wish to engage with HomeServe digitally at all stages of the customer journey and further investment was made to support this, improving websites in all businesses and enhancing the online claims journey in the UK. This area remains a focus in FY19 with plans to expand the online and mobile self-serve functionality in all businesses.

HomeServe will continue to invest in all of its businesses, including in its new global business lines where it sees significant opportunity to develop its presence in HVAC, Smart Home and Home Experts. Capital

Financial review
continued

Group cash flow

£million	2018	2017
Adjusted operating profit	**153.4**	118.8
Amortisation of acquisition intangibles	**(18.4)**	(14.1)
Operating profit	**135.0**	104.7
Depreciation and amortisation	**62.6**	49.5
Non-cash items	**9.0**	6.8
Increase in working capital	**(42.4)**	(21.1)
Cash generated by operations	**164.2**	139.9
Net interest	**(10.5)**	(6.4)
Taxation	**(27.2)**	(20.0)
Capital expenditure – Ordinary	**(54.6)**	(44.4)
Capital expenditure – Partner Payments	**(16.5)**	(14.1)
Repayment of finance leases	**(0.6)**	(1.0)
Free cash flow	**54.8**	54.0
Acquisition of associate	**—**	(24.7)
Acquisitions of subsidiaries	**(54.2)**	(74.2)
Acquisition of policy book	**(53.6)**	—
Dividend from associate	**0.4**	—
Disposal of subsidiary	**—**	(1.7)
Equity dividends paid	**(50.4)**	(40.3)
Issue of shares (net of associated issue costs)	**123.3**	0.9
Net movement in cash and bank borrowings	**20.3**	(86.0)
Impact of foreign exchange	**2.9**	(6.3)
Net debt acquired	**(0.1)**	(0.4)
Finance leases	**0.5**	0.8
Opening net debt	**(261.4)**	(169.5)
Closing net debt	**(237.8)**	(261.4)

expenditure in FY19 is expected to be slightly lower than FY18 before trending towards a normalised rate of £35m per annum in FY20 and beyond.

Acquisitions

The Group has incurred a net cash outflow in respect of business combinations of £54.2m in the year.

There were three key cash outflows resulting from business combinations in the year ended 31 March 2018;

On 2 August 2017 HomeServe acquired 100% of the issued share capital and obtained control of Help-Link UK Limited for a total cash outflow in the period of £6.7m.

On 17 November 2017 HomeServe increased its investment in Sherrington Mews Limited, the holding company of the Checkatrade Group, by 60%, taking its total holding up to 100%. The consideration for the remaining 60% was £50m which resulted in a net cash outflow of £38.4m for the year. Of the £50m, £10m was utilised by Checkatrade's founder to subscribe for the allotment and issue of 1,193,317 HomeServe plc shares at a price of £8.38 per share (calculated by reference to the closing price on 16 November 2017).

On 29 December 2017 HomeServe acquired 100% of the issued share capital of PXB Invest SAS, the holding company of Electrogaz, a provider of heating installations in France, incurring a net cash outflow of £4.6m

In addition to the net cash outflow on the acquisitions above of £49.7m, there was a further outflow of £4.5m relating to deferred consideration in respect of business combinations in prior periods and an immaterial acquisition in the UK (FY17 £3.1m). A cash outflow of £53.6m was also incurred in relation to the policy book of DPS, following completion of tranche 1 of the acquisition on 18 December 2017 by HomeServe.

Earnings per share

Basic earnings per share for the year increased from 24.0p to 30.2p, an increase of 26%. On an adjusted basis, earnings per share increased 24% from 27.0p to 33.6p. The weighted average number of shares increased from 309.9m to 318.9m primarily due to the equity placing on 19 October 2017 and also due to shares issued in part consideration for the Checkatrade acquisition and 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 14.4p per share (FY17: 11.2p) to be paid on 2 August 2018 to shareholders on the register on 6 July 2018.

Together with the interim dividend declared in November 2017 of 4.7p (November 2016: 4.1p), this represents a 25% increase in the total ordinary dividend payment for the year of 19.1p (FY17: 15.3p), which is 1.76x covered by the FY18 adjusted earnings per share (FY17: 1.76x). As previously indicated, the Board continues to adopt a progressive dividend policy and targets a dividend cover in the range 1.75 - 2x over the medium term.

Financing

In FY18 the Group targeted net debt in the range of 1.0-1.5x EBITDA, measured at 31 March each year. With net debt of £237.8m and EBITDA of £197.6m the Group was inside this range at 1.2x.

It is four years since the Board last reviewed its capital structure policy, during which time the Group has grown considerably, made and integrated a number of significant acquisitions, and diversified its revenue streams.

Accordingly, the Board has determined that the Group can now support a leverage policy range of 1.0 - 2.0x Net Debt: EBITDA at March year-ends, compared to the previous policy of 1.0 – 1.5x. As at present, the Group will be prepared to see leverage outside the new range for reasonable periods of time if circumstances warrant, and the new range itself will be subject to periodic review. With the ordinary seasonality of the business, net debt is expected to increase at the next half year.

During the year, the Group entered into a new multi-currency revolving credit facility with both existing and new banking partners. The new terms of the facility provide committed credit of £400m which runs until 31 July 2022 with two one-year extension options, subject to agreement by the banking partners, which would extend the maturity to 31 July 2024. Loans have variable interest rates linked to LIBOR or EURIBOR. With other funding, principally from Private Placements, the Group had over £270m headroom against its available sources of debt at the year end.

Net interest paid increased to £10.5m (FY17: £6.4m) due principally to costs associated with the renewal of the Group's debt facilities in early FY18.

On 19 October 2017, HomeServe placed 15,243,903 new ordinary shares in HomeServe plc at a price of 820 pence per share, raising gross proceeds of £125m. The Placing Shares issued represented, in aggregate, approximately 4.9 per cent of HomeServe's issued

Financial review
continued

ordinary share capital. The successful placing funded the acquisition of DPS and retained balance sheet strength and liquidity to provide the flexibility for future inorganic investment opportunities, including the subsequent purchase of the remaining 60% of Checkatrade.

Foreign exchange impact

The impact of changes in the Euro and USD exchange rates between FY17 and FY18 has resulted in a £1.6m increase in the reported revenue and a £0.8m decrease in adjusted operating profit of the international businesses as summarised in the table below. Beneficial movements in the Euro have been more than offset by a strengthening of Sterling against the USD, particularly in the second half of the year when HomeServe generated the majority of its profits.

There was no material difference for the impact of foreign exchange on statutory operating profit.

With an increasing proportion of HomeServe's profits generated overseas, the potential translation impact of foreign exchange movements on reported profits may have a larger impact. A ten cent movement in the FY18 average USD rate of 1.33 and the Euro rate of 1.13 would each have had approximately a £3.5m impact on full year adjusted operating profit.

David Bower
Chief Financial Officer
22 May 2018

Foreign exchange impact

		Average exchange rate			Revenue	Effect on (£m) Adj. operating profit.
£million		2018	2017	Change	2018	2018
North America	$	**1.33**	1.31	2%	**(9.1)**	**(2.9)**
France	€	**1.13**	1.19	(5%)	**3.9**	**1.2**
Spain	€	**1.13**	1.19	(5%)	**6.3**	**0.9**
New Markets	€	**1.13**	1.19	(5%)	**0.5**	**–**
Total International					**1.6**	**(0.8)**

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 2021. 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 2018 were reviewed by the Executive Committee in February and then approved by the Board in March 2018.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group. The Principal Risks and Uncertainties sets out the principal strategic, operational and financial risks which could threaten HomeServe's business model, future performance and growth plans and its liquidity or solvency. HomeServe has a robust risk management framework which addresses its risk appetite and risk policy. All major risks are scored based on their potential impact and likelihood and are reviewed regularly by the Audit & Risk Committee.

Various severe but plausible stress tests have been performed both on individual and combined scenarios which modelled;

- the impact of the loss of a key commercial partner
- the impact of a reduced customer focus and a resultant reduction in customer satisfaction and retention
- market disruption from a new competitor
- the impact of new or amended regulation and legislation
- the impact of losing a key underwriting relationship

Stress tests indicated that no single scenario would impact the viability of the Group over the next three years. As might be expected the impact increases if different risks were to materialise simultaneously, however it is considered unlikely that such a scenario would occur given the nature and relative diversification of the business. In such scenarios HomeServe would also be able to take decisions to protect the profitability of the business over a three year period by, for example, scaling back marketing investment to offset any reductions in income.

The Directors' assessment has been made with reference to the geographical spread of HomeServe's operations and its strong financial position resulting from a large portfolio 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 110m households under Affinity Partner brands. Retention rates are high across all established businesses, resulting in stable and recurring cash flows from a large, diverse customer base.

Considering the Group's current position, the principal risks and the Board's assessment of the Group's future, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years to 31 March 2021.

Going concern

The Directors continue to adopt the going concern basis in preparing the financial statements. Please refer to page 140.

Read more about the potential impact of principal risks and uncertainties on page 26.

Quick off the mark

How **HomeServe** defied expectation

"My boiler was always on and working overtime.
Costing me money – I couldn't work it out.
Until I realised there was a leak.
I knew I was with HomeServe...
But I never knew just how fast they could be!
A fully equipped engineer arrived.
I just couldn't believe how quick and easy it all was.
Boiler and day back on track!
No stress, no worry. Very happy!"
Mr Albaba
Birmingham

Discover how life keeps moving for our Customers at **homeserve.com/customerstories**

Contents

Governance

Chairman's overview

Dear Shareholder

I am pleased to present this year's Corporate governance report. As a Board, we continue to believe that good corporate governance underpins good business performance. 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 FY18.

Board focus

As a Board we regularly discuss and review:

- Our business model and its sources of value that give us advantage
- 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.

As I set out in my introduction to the Strategic report on page 4, this has been a very important year for HomeServe, in which we have taken a series of decisions to move us closer to achieving our vision of being the world's most trusted provider of home repairs and improvements. To help realise this vision, we have created four global business lines to help drive performance across multiple geographies – Home Assistance Membership, Home Experts, Heating Installations and Smart Home. The Board has worked closely with management to ensure that we have the right organisation structure to support a more globally focused business.

We have continued to build our Home Assistance Membership business in all geographies, with particular success in North America where we completed our largest acquisition to date, of the policy book of Dominion Products and Services Inc (DPS).

The Board debated how to finance the DPS acquisition and having considered the options carefully, agreed that to maintain flexibility for future opportunities, it would be beneficial to undertake a public placing. This was the first public placing we had undertaken and we were pleased that it was such a success.

In Home Experts, in November 2017, we were able to take control of 100% of Checkatrade which gave us the platform we need to build our Home Experts business and works well with the digital expertise to which we have access through our shareholding in Habitissimo.

In Heating Installations and Smart Home, the Board advocated a measured approach, approving the acquisitions of Help-Link in the UK and Electrogaz in France to provide installation capability. Our Smart Home strategy will focus on technology that is complementary to our core business, water leakage and smart thermostats.

Board changes

During the year we welcomed three new Non-Executive Directors to the Board; Katrina Cliffe, Edward Fitzmaurice and Ron McMillan and one new Executive Director; Tom Rusin. We have also said farewell to Mark Morris and Ben Mingay who both retired as Non-Executive Directors. Further details on these changes are set out on page 61. I would like to extend my thanks to both Mark and Ben for their contribution and support during their time on the Board. In particular, as Chairman of the Audit & Risk Committee, Mark made a significant impact on the Group's governance arrangements and culture.

We have announced today that Martin Bennett will be stepping down from the Board at the Annual General Meeting on 20 July 2018. Martin has made an outstanding contribution to HomeServe and we would like to thank him and wish him well for the future.

Culture

Culture is important both to the operation of the Board and the Group as a whole. I aim to facilitate an open and collaborative culture and encourage constructive dialogue in Board meetings. Employee engagement surveys are conducted at least annually throughout the Group and the results are reviewed at the Board and locally to enable us to take action where needed.

Board effectiveness

During the year, a review of the Board and its committees was facilitated by Lintstock Limited. Further details on the review is provided on page 68. 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
22 May 2018

Compliance and other statements

The Company is committed to the Principles of corporate governance contained in the 2016 UK Corporate Governance Code ('the Code') which is available at **http://www.frc.org.uk.** Under the Code, the Board is required to make a number of statements, as follows:

Compliance with the Code

The Directors confirm that, throughout FY18, the Company continued to apply the main Principles of the Code and complied with all of the relevant Provisions of the Code, save that the Senior Independent Director did not meet with any shareholders during the year although this opportunity was actively promoted.

Viability statement and going concern

Statements in respect of viability and going concern are set out on page 51.

Principal risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group (including those which would threaten the business model, future performance, solvency or liquidity), their appetite with respect to those risks and the systems required to mitigate and manage them. Details on the review process are set out on page 74. Further details on the principal risks and uncertainties can be found on pages 26 to 33.

Annual review of systems of risk management and internal control

The Board, through the Audit & Risk Committee, monitored the Group's systems of risk management and internal control and carried out a review of their effectiveness. The Board concluded that overall, these systems were effective. Details on the review process are set out on page 72.

Fair, balanced and understandable

The Directors consider that, taken as a whole, this Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance and position, business model and strategy. Details on the process for arriving at this conclusion are set out on page 80.

Application of principles

The section below sets out how the Company has continued to apply the main Principles of the Code during the year.

A. Leadership

A.1 Role of the Board

The Board is responsible for providing effective leadership. It met formally eight times during the year. 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. The full schedule is available on our website **http://www.homeserveplc.com/about-us/corporate-governance/our-board.**

A.2 Division of responsibilities

The Chairman's responsibilities are clearly defined in a written specification agreed by the Board which makes clear the division of responsibilities between the Chairman and the Chief Executive. The Chairman's responsibilities 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.

A.3 The Chairman

The Chairman, Barry Gibson, sets the agendas for meetings and ensures that appropriate time is available for discussion of all agenda items, with particular focus on strategic issues. He facilitates open and constructive dialogue during meetings and promotes productive relations between Executive and Non-Executive Directors.

On his appointment in April 2010, the Board considered Barry to be independent in character and judgement in accordance with the Code.

A.4 Non-Executive Directors

The Non-Executive Directors provide the Board with a breadth of experience, independent judgement and constructive challenge. They meet regularly without the Executive Directors and at least once a year without the Chairman. The Senior Independent Director provides advice and support to the Chairman as required and to the other members of the Board. The Chairman and Senior Independent Director are also available for shareholder meetings.

B. Effectiveness

B.1 Composition of the Board

At the year end, the Board comprised six Non-Executive Directors (including the Chairman) and five Executive Directors. The Board considers all of the Non-Executive Directors (excluding the Chairman) to be independent in character and judgement.

B.2 Appointments to the Board

The process for Board appointments is generally led by a sub-committee created for the purpose. This approach allows those Directors with the most relevant experience to be involved in recruiting for particular roles. The committee then makes recommendations to the Board. For more information on Board appointments and the work of the Nomination Committee, please refer to pages 70 to 71.

B.3 Commitment

The commitment required of Directors is discussed prior to appointment.

Application of principles
continued

B.4 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. Newly appointed Board members are required to undergo an induction programme which includes obtaining a thorough understanding of the Group's various operations.

Training and development is provided on an ongoing basis as required and Board members have the opportunity to receive formal training from external providers if they wish. The Chairman considered the training and development needs of individual Directors and he has provided mentoring to the Chief Executive.

B.5 Information and support
The Chairman, supported by the Company Secretary, ensures that all Board members receive accurate and timely information on matters being considered at Board or Committee meetings. In advance of each Board or Committee meeting, all relevant papers are made available to the Directors via a secure electronic portal.

The Company Secretary is the secretary to the Board and its Committees and is also the secretary to the Executive Committee. All Directors have access to the services of the Company Secretary and Directors may take independent legal and other professional advice at the expense of the Company.

B.6 Evaluation
The Board conducts an annual, externally facilitated evaluation of its performance and that of its Committees. Further details are set out on page 68.

B.7 Re-election of Directors
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.

C. Accountability
C.1 Financial and business reporting
The Strategic report is set out on pages 2 to 51 and provides information about the performance of the Group, the business model, strategy and the principal risks and uncertainties relating to the Group's future prospects.

C.2 Risk management and internal control
The Board sets the Group's risk appetite and through the Audit & Risk Committee, monitors and annually reviews the effectiveness of the Group's systems of risk management and internal control. Further information on risk management and internal control is provided on pages 72 to 75.

C.3 Audit & Risk Committee and Auditor
The Board has delegated a number of responsibilities to the Audit & Risk Committee which is responsible for overseeing the Group's financial reporting processes, internal controls and the work undertaken by the external auditor. The Chairman of the Audit & Risk Committee provides regular updates to the Board.

Further detail on the work of the Audit & Risk Committee is provided on pages 76 to 83.

D. Remuneration

D.1 Level and components of remuneration

The Remuneration Committee is responsible for setting a remuneration policy that will attract, retain and motivate Executives. The focus of the policy is to align the interests of the Executives to those of shareholders and the long-term success of the Company.

D.2 Procedure

Details of the work of the Remuneration Committee are provided on pages 84 to 113.

E. Relations with shareholders

E.1 Dialogue with shareholders

The Group actively engages with investors and solicits their feedback. The Chairman met with a number of shareholders during the year and ensures that the Board is kept informed of shareholder views. The Senior Independent Director is available for meetings with major shareholders and the Board receives a monthly report from the Group Communications and Investor Relations Director along with analyst and broker briefings.

E.2 Constructive use of general meetings

The AGM gives all shareholders the opportunity to communicate directly with the Board. All Directors attend the AGM and are available for questions both during the formal part of the meeting and informally afterwards.

Relations 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 Senior Independent Director, who are available to discuss any questions which they may have in relation to the running of the Company.

During the year, the Chairman met with a number of major shareholders and contact was made with the top 10 shareholders offering a meeting with the Senior Independent Director. None of the shareholders contacted wished to arrange a meeting.

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. Feedback is actively sought following the Interim and Preliminary Results presentations and presented to the Board.

Leadership

The Board

The Board is responsible for the effective leadership and long-term success of the Group. It 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 Company's future strategy
- the approval of major financial commitments
- the acquisition of significant companies or businesses
- the Company's internal controls
- the recommendation or approval of dividends
- the approval of preliminary and interim financial statements
- appointments to the Board and its Committees.

The full schedule is available on our website **http://www.homeserveplc.com/about-us/corporate-governance/our-board.**

The Board has delegated certain of its responsibilities to the Committees of the Board. Further detail on the work of the Committees is provided later in the Annual Report. The terms of reference of each of the Board's Committees are available on request from the Company Secretary and are available on our website **http://www.homeserveplc.com/about-us/corporate-governance/committees**

Board composition

As at 31 March 2018, the Board comprised six Non-Executive Directors (including the Chairman) and five Executive Directors. The Non-Executive Directors have a diverse range of skills and experience which enables them to oversee business performance and provide constructive challenge. The Executive Directors have extensive commercial, financial and operational experience both within HomeServe and beyond.

During the year there were a number of changes to the Board:

- On 23 May 2017, Tom Rusin, Chief Executive, HomeServe North America was appointed as an Executive Director.
- On 23 May 2017, Katrina Cliffe was appointed as a Non-Executive Director and member of the Audit & Risk Committee.
- On 23 May 2017, Edward Fitzmaurice was appointed as a Non-Executive Director.
- On 27 October 2017, Ron McMillan was appointed as a Non-Executive Director and member of the Audit & Risk Committee. He became Chairman of the Audit & Risk Committee on 27 February 2018.
- Mark Morris retired as Senior Independent Director and Chairman of the Audit & Risk Committee on 27 February 2018 after nine years on the Board.
- Stella David was appointed as Senior Independent Director on 27 February 2018.
- Ben Mingay retired as a Non-Executive Director on 26 March 2018 after six years on the Board.

Short biographies of each of the Directors, including their membership of Committees, are set out on pages 64 to 66.

Leadership
continued

Board meetings

Up to eight regular meetings are held each year to review and monitor current and forecast performance. Regular reports on monthly financial and operational 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 members of the Executive Committee who are not on the Board, to devise and discuss the Company's medium and long-term strategic focus and development strategy.

Regular formal and informal presentations are given in order to inform Directors of issues of importance affecting the Group. Occasionally, meetings of the Board are held at the Group'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 FY18, the Board held one meeting in Spain and the annual strategy meeting was held in the UK. These meetings provided the Board with an invaluable insight into the two businesses and enabled the Directors to meet the local senior management teams. In the UK, the Board also met front line staff including engineers.

Attendance at meetings

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

Nomination Committee meetings are held on an ad hoc basis as required as the preference is for the Board as a whole to consider succession planning. Specific sub-committees are established for new appointments to the Board. The activities of this Committee are described on pages 70 to 71.

	Board	Audit & Risk Committee	Remuneration Committee
R Harpin	8/8		
M Bennett	8/8		
D Bower	8/8		
J Ford	8/8		
T Rusin [1]	7/7		
J M B Gibson	8/8		6/6
K Cliffe [2]	5/7	2/2	
S David	8/8		6/6
E Fitzmaurice [3]	7/7		
C Havemann	8/8	3/3	
R McMillan [4]	4/4	2/2	
B Mingay [5]	8/8	3/3	6/6
M Morris [6]	7/7	3/3	5/5

[1] Tom Rusin joined the Board on 23 May 2017.
[2] Katrina Cliffe joined the Board on 23 May 2017.
[3] Edward Fitzmaurice joined the Board on 23 May 2017.
[4] Ron McMillan joined the Board on 27 October 2017.
[5] Ben Mingay retired from the Board on 26 March 2018.
[6] Mark Morris retired from the Board on 27 February 2018.

Executive Committee

Members
Richard Harpin (Chairman)
Martin Bennett
David Bower
Johnathan Ford
Guillaume Huser
H Stephen Phillips
Tom Rusin

Responsibilities

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, procedures and budgets
- the monitoring of operating and financial performance
- the prioritisation and allocation of resources and
- the oversight of group wide initiatives and investments.

The Committee has adopted formal terms of reference which are available on our website **http://www.homeserveplc.com/about-us/corporate-governance/committees**.

Culture

The last few years have seen increased focus on culture across the Group. Central to this has been the development of our Customer and People promises which are now well established in each business.

A Group wide employee engagement survey is run at least annually with the same set of questions used in each territory. Questionnaires are completed by employees on an anonymous basis and the process is facilitated by an external provider. The results of the surveys are reviewed and discussed by the Board and are used by local Executive teams to develop engagement action plans.

The Board gains valuable insight and feedback from the Executive Directors in respect of the culture and behaviour across the Group and the internal audit function also considers culture as part of its reviews.

Board of Directors and Executive team

JM Barry Gibson (66)
Chairman

Appointed to the Board: April 2004
Appointed as Chairman: April 2010
Committee memberships:
Nomination (Chair), Remuneration
Key areas of prior experience:
Retailing, travel, leisure
Principal current external appointments:
None

Barry was 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.

Richard Harpin (53)
Chief Executive Officer

Appointed to the Board: May 2001
Committee memberships:
Executive
Key areas of prior experience:
Consumer marketing, management consultancy, entrepreneurship
Principal current external appointments:
Growth Partner LLP

Richard is the Founder and Chief Executive Officer of HomeServe, which was set up in 1993 as a joint venture with South Staffordshire Group. Also the founder and Non-Executive Director of Growth Partner LLP, investing in and helping small consumer businesses to step change their growth and the Enterprise Trust, a charity that encourages young enterprise, apprenticeships and SME's. Previously a brand manager with Procter & Gamble, followed by management consultancy with Deloitte and his own company.

Martin Bennett (49)
Chief Executive, HomeServe UK

Appointed to the Board: June 2009
Committee memberships:
Executive
Key areas of prior experience:
Accountancy, audit, mergers and acquisitions
Principal current external appointments:
None

Martin was appointed as Chief Executive 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.

David Bower (46)
Chief Financial Officer

Appointed to the Board: February 2017
Committee memberships:
Executive
Key areas of prior experience:
Accountancy, audit, investor relations, mergers and acquisitions
Principal current external appointments:
None

David was 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.

Johnathan Ford (48)
Chief Operating Officer

Appointed to the Board: September 2012
Committee memberships:
Executive
Key areas of prior experience:
Accountancy, audit, investor relations, mergers and acquisitions
Principal current external appointments:
None

Johnathan was 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.

Tom Rusin (49)
Global CEO, Membership

Appointed to the Board: May 2017
Committee memberships:
Executive
Key areas of prior experience:
Affinity marketing
Principal current external appointments:
None

Tom was appointed as Global CEO, HomeServe Membership in April 2018 following nearly seven years as Chief Executive Officer, HomeServe USA. 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.

Katrina Cliffe (51)
Non-Executive Director (Independent)

Appointed to the Board: May 2017
Committee memberships:
Audit & Risk, Remuneration, Nomination
Key areas of prior experience:
Financial services
Principal current external appointments:
Non-Executive Director of Cembra Money Bank AG, ABTA (Association of British Travel Agents) and Shop Direct Finance Company Limited where she chairs the Risk Committee

Katrina was previously General Manager at American Express Global Business Travel, EMEA, having been General Manager, Global Corporate Payments, UK. Prior to American Express she held senior roles at Lloyds TSB Group PLC, Goldfish Bank Ltd and MBNA International Bank.

Stella David (55)
Senior Independent Director (Independent)

Appointed to the Board: November 2010
Committee memberships:
Remuneration (Chair), Nomination
Key areas of prior experience:
Marketing, drinks industry, international
Principal current external appointments:
Non-Executive Director of C&J Clark Ltd, Bacardi Ltd and Norwegian Cruise Line Holdings

Stella was 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. She also spent seven years as a Non-Executive Director at Nationwide Building Society.

Board of Directors and Executive team
continued

Edward Fitzmaurice (55)
Non-Executive Director (Independent)

Appointed to the Board: May 2017
Committee memberships:
Nomination
Key areas of prior experience:
Retailing, insurance
Principal current external appointments:
None

Edward was previously Chief Executive Officer of Hastings Insurance Group and part of the MBO team of that business in 2009. He served as the Non-Executive Chairman of Hastings Insurance Services Ltd 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. His earlier career was spent at Dixons plc and Anglo American.

Chris Havemann (50)
Non-Executive Director (Independent)

Appointed to the Board: December 2015
Committee memberships:
Audit & Risk, Remuneration, Nomination
Key areas of prior experience:
Digital
Principal current external appointments:
CEO of RM222 Ltd, parent company of Reality Mine Limited

Chris 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.

Ron McMillan (65)
Non-Executive Director (Independent)

Appointed to the Board: October 2017
Committee memberships:
Audit & Risk (Chair), Remuneration, Nomination
Key areas of prior experience:
Accountancy, audit
Principal current external appointments:
Senior Independent Director and Chairman of the Audit Committee of N Brown PLC, SCS PLC and 888 Holdings PLC. Non-Executive Director and Chairman of the Audit Committee of B&M European Value Retail SA.

A Chartered Accountant, Ron worked in PwC's assurance business for 38 years and has extensive knowledge and experience in auditing, financial reporting and governance. During his time at PwC, his roles included Global Finance Partner, Chairman of the North of England and Deputy Chairman and Head of Assurance for the Middle East.

H Stephen Phillips (51)
CEO, Global Partnerships

Committee memberships:
Executive

Key areas of prior experience:
Business development, marketing, international

Principal current external appointments:
None

Stephen was appointed as CEO, Global Partnerships in January 2018 having led HomeServe Spain since 2005. 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.

Guillaume Huser (51)
Chief Executive, HomeServe France

Committee memberships:
Executive

Key areas of prior experience:
Financial services, business development, affinity marketing, international

Principal current external appointments:
None

Guillaume was appointed as Chief Executive, 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 (48)
Company Secretary

Appointed as Company Secretary: July 2008

Key areas of prior experience:
Company secretarial, pensions

Principal current external appointments:
Trustee of, and Secretary to, the industry wide Water Companies Pension Scheme

Anna started her career at Severn Trent plc and joined South Staffordshire plc as Assistant Company Secretary in 1996. Following the demerger of HomeServe plc and South Staffordshire plc in 2004 she continued as Assistant Company Secretary of HomeServe plc, becoming Company Secretary in 2008.

Effectiveness

Director induction
During the year, Tom Rusin visited the UK, Edward Fitzmaurice visited the UK and US, Katrina Cliffe visited the US, UK and Spain and Ron McMillan visited the UK, France and the US. Both Katrina and Ron have spent a day on the road in the UK with an engineer which provided them with an opportunity to gain a real insight into the customer experience.

Board development
During the year, training has been provided for the Board as a whole on information security and cyber risks and health and safety both of which had been identified as key risks. In addition, the Executive Directors have taken part in leadership development activity and a digital workshop designed to improve their knowledge of this important area.

Time commitment
Time commitment is discussed with prospective Non-Executive Directors as part of the recruitment process. The Board is satisfied that all Non-Executive Directors have sufficient time to meet their commitment to the Company.

Executive Directors may serve as a Non-Executive Director on one other board so long as this does not interfere with their time commitment to the Company. If they do, they may retain the fees. None of the Executive Directors currently have other relevant board appointments.

Re-election of Directors
Ron McMillan has been appointed since the last AGM and as such will be proposed for election at the 2018 AGM. All other Directors will offer themselves for re-election apart from Martin Bennett who will be stepping down from the Board. The Board is content that each of the Non-Executive Directors is independent.

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

The Board evaluation is facilitated by Lintstock Limited. Online questionnaires are completed by all Directors on an annual basis and responses are collated into a report which is discussed at a Board meeting. Every third year, Lintstock interview all of the Directors so that any themes can be developed and feedback investigated in more depth. Lintstock Limited has no other connections with the Company.

The FY17 review highlighted the need to develop the Group's people strategy. In direct response to this, the People Committee was established to provide additional focus and impetus to people related activity. It was also agreed that the Board should continue to visit different HomeServe operations and interact with the wider management teams and to this end, during FY18, the Board visited Spain and the UK.

In FY18, Directors completed evaluation questionnaires in January 2018 and these were followed up in February 2018 by individual interviews with Lintstock who then compiled a formal written report summarising the Directors' views. This report was discussed by the Board in March 2018.

The overall performance of the Board was rated very highly. In particular the Non-Executives' support and challenge of management was positively rated as was the relationship between the Board and the Chief Executive and the atmosphere at meetings. As a result of the review, the following priorities were identified:

- ensuring that the new Board members were appropriately embedded;
- monitoring the changes in the management structure to support the growth across four global business lines;
- overseeing delivery of the Home Experts strategy; and
- progressing the talent agenda.

It was agreed that all of these priorities should be given appropriate time on the Board agenda over the coming year.

In FY18, for the first time, an upward review of the Board was also completed. Senior executives who had regular exposure to the Board and had presented at Board or Committee meetings were asked a series of questions about the support and challenge provided by the Board and how interaction with the Board could be improved. Generally, feedback was positive but some useful suggestions were made in respect of increasing the visibility of the Board across the Group and improving the process around attending and presenting at Board meetings. These suggestions are being integrated into the planning for future Board meetings.

Nomination Committee report

Dear Shareholder

As a Board, we recognise that having the right people is vital to the success of our business and whilst the Nomination Committee has a formal role to play in ensuring that the Board has the right mix of skills and experience to deliver our strategy, we believe that succession planning is best addressed by the Board as a whole. This ensures that the Executives as well as the Non-Executives can be fully involved in discussions on talent.

We recognise that we have more to do on the people agenda and we have therefore established a People Committee to move us forward in respect of talent and diversity throughout the Group.

Members

J M Barry Gibson (Chairman)
Katrina Cliffe (appointed 23 March 2018)
Edward Fitzmaurice (appointed 23 March 2018)
Stella David
Chris Havemann
Ron McMillan (appointed 23 March 2018)
Ben Mingay (retired 26 March 2018)
Mark Morris (retired 27 February 2018)

Responsibilities

The primary responsibilities of the Committee are to:

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

The Committee has adopted formal terms of reference which are available on our website **http://www.homeserveplc.com/about-us/corporate-governance/committees**

Key issues considered during the year

The Nomination Committee did not meet formally during the year. Succession planning arrangements were considered by the Board as a whole rather than by the Nomination Committee to ensure that both Executives and Non-Executives were fully aligned.

Specific sub-committees were appointed during the year to consider the appointment of Tom Rusin to the Board and the appointment of three Non-Executive Directors, Katrina Cliffe, Edward Fitzmaurice and Ron McMillan. The creation of specific sub-committees enabled those Directors with relevant experience to be involved in the recruitment and appointment process. For example, it was felt that it was important for Mark Morris's experience as the outgoing Audit & Risk Committee Chairman to be leveraged when searching for his successor.

Support was provided for board appointments by Spencer Stuart. Spencer Stuart has no other connection to the Company. Led by the Chairman, the sub-committees met informally on a number of occasions to consider the candidates for the roles and Directors not on the committees were given the opportunity to meet with the shortlisted candidates. Following this, recommendations were made to the Board.

Succession planning

We recognise the importance of ensuring 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. The process identifies emergency, short-term and long-term successors for each role and therefore allows any training and development requirements or recruitment issues to be highlighted. 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 as a whole reviews the high level plan at least annually.

Diversity

We are committed to ensuring that our Board is appropriately diverse. We are supportive of the recommendations in the review of the Davies Report and the Hampton-Alexander Review to promote greater female representation on corporate boards and when seeking to recruit for Board positions we ensure that 'long lists' include women candidates. We have also considered the McGregor-Smith Review and will ensure that the recommendations of this review are taken into account going forward.

We believe that a diversity of experience and psychological profile is also 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.

Currently, the Board does not have a formal diversity policy but it is intended that this will be actively considered over the coming year through the People Committee.

We have recently commissioned a specialist consultancy to undertake a benchmark review of our diversity and inclusion policies and procedures and to facilitate interviews and focus groups across the business with the aim of gaining a better understanding of whether our employees feel that we operate a fair and undiscriminating approach. The outcome of this benchmark review will be discussed at the People Committee and will provide useful background for the development of our policy.

More information is provided in the Corporate responsibility report on pages 20 to 25.

People Committee

The People Committee was formed in 2017 in response to the FY17 board effectiveness review which recognised that the Group as a whole needed to do more to promote the people agenda. The Committee is chaired by Stella David, our Senior Independent Director and is made up of both Non-Executive and Executive Directors. The Group Legal and HR Director and the newly recruited Group Director of Talent also attend.

Reporting to the Board, the Committee has adopted formal terms of reference which include the determination and oversight of the Group's people related strategies including succession planning, employee engagement and culture, diversity and learning and development.

JM Barry Gibson
Chairman
22 May 2018

Accountability

Board assessment of risk management and internal control

The Board has overall responsibility for the Group's system of risk management and internal control including setting of risk appetite. The Audit & Risk Committee has a key role to play in overseeing risk management and 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 on pages 76 to 83.

The Board is responsible for reviewing the effectiveness of risk management and internal control systems, specifically that:

- There is an ongoing, systemised process for identifying, evaluating and managing the principal risks faced by the Group.
- This system has been in place for the year under review and up to the date of approval of this Annual Report.
- The system is regularly reviewed by the Board.
- The system accords with the FRC guidance on risk management, internal control and related financial and business reporting.

During the year, the Board has directly, or through the Audit & Risk Committee, overseen and reviewed the development and performance of risk management activities and practices and the systems of internal control in place across the Group. As a result, the Board is satisfied that the risk management and internal control systems that are in place remain effective.

The Board delegated the responsibility for conducting the work required for it to provide the 'fair, balanced and understandable', 'going concern' and 'viability' statements to the Audit & Risk Committee. In conducting this work, the Audit & Risk Committee acts on behalf of the Board and its activities remain the responsibility of the Board. The relevant Board statements on these matters are set out on pages 51 and 56.

The principal risks and uncertainties are set out on pages 26 to 33.

System of risk management and control

The Board has delegated the day-to-day management of the Group 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 risk governance model is based on the 'three lines of defence' as follows:

1st line of defence

A risk management framework is in place which includes the agreed risk appetite, policies and procedures. The Group's management operates a formal process for identifying, managing and reporting on the 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 Executive Risk Committee and the Audit & Risk Committee. Support is provided by the 2nd line of defence oversight functions.

2nd line of defence

Independent oversight is provided by the various control functions including risk, compliance and specialist functions such as health and safety and information security. The 2nd line provides advice on risk appetites, independent review of risk ratings and action plans and reports on risk management to the Board and the Audit & Risk Committee.

3rd line of defence

The Group has a dedicated internal audit function and a formal audit plan is in place to address the key risks across the Group and the operation and effectiveness of internal controls. The function reports to the Board through the Audit & Risk Committee.

Accountability
continued

Risk management cycle

Risk appetite

Risk appetite is defined as the amount and type of risk we are willing to pursue or retain in order to meet our strategic objectives. Our assessment of risk appetite is guided by our vision and mission and informed by our strategic objectives. It is used as a measure against which all of our current and proposed activities are tested.

Risk appetite is reviewed bi-annually to ensure that it is aligned with the strategy.

Risk framework

A risk framework is in place across the Group which includes risk appetite, materiality and scoring matrices and key risk indicators. Each business is expected to adhere to the Group risk framework and to report regularly on its risk registers and key risk indicators but if appropriate, the Group framework may be customised to local requirements as long as minimum standards are met. A mechanism exists to extend the Group's risk framework to any significant new business that is acquired or established immediately upon acquisition or start-up.

Risk assessment and risk registers

All businesses assess risks for likelihood and impact based on the materiality matrix included in the Group risk framework. Controls are then implemented to manage the risks. Risks are scored on a gross and net basis and rated as red, amber or green. Risk registers capture key risks and these are reviewed at local risk committees with the principal risks being reviewed by the Group Executive Risk Committee and the Audit & Risk Committee.

Consideration is given to whether risks are within or outside appetite and particular attention is given to actions being taken to mitigate risks. Incidents are recorded and reported on at the various committees.

Risk oversight

Oversight of the risk management process is provided by the Assurance & Risk Director and local risk and compliance teams, the Audit & Risk Committee and ultimately, the Board.

Internal control

Internal audit acts as the 3rd line of defence. In order to ensure the independence of the internal audit function, the Assurance & Risk Director's primary reporting line is to the Chairman of the Audit & Risk Committee.

The internal audit function fulfils its role and responsibilities by delivery of the annual, risk based audit plan. There are no restrictions on the scope of internal audit's work.

A report is issued after each audit which provides an opinion on the control environment and details any issues found. Internal audit then work with the businesses to agree remedial actions which are tracked to completion.

The Assurance & Risk Director submits reports to local boards and committees and attends those meetings as required. He attends and reports to every Audit & Risk Committee.

Financial reporting

Three year business plans, annual budgets and investment proposals for each business are formally prepared, reviewed and approved by the Board.

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, with all material transactions being approved by the Board.

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. Ahead of the financial results being presented to the Board, monthly business review calls are held, attended by Executives, representatives from the Group finance function and local senior management. These calls provide an opportunity for a detailed review of performance and to identify any issues or trends.

Half year and annual 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.

The Board considers that the processes undertaken by the Audit & Risk Committee are appropriately robust, effective and in compliance with the guidelines issued by the Financial Reporting Council. During the year, the Board has not been advised by the Audit & Risk Committee on, or had identified itself, any failings, fraud or weaknesses in internal control which have been determined to be material in the context of the financial statements.

Viability statement

The approach to the viability statement and the statement itself are shown on page 51.

Whistle blowing

A whistle blowing policy is in place and 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. Issues are independently investigated by internal audit and feedback is provided through the external hotline.

A number of calls were made to the external hotline during the year but no issues were raised that required any action from the Board.

Audit & Risk Committee report

Dear Shareholder

Having being appointed as Chairman of the Committee on 27 February 2018, I am pleased to present the Committee's report for the year.

The Committee is an important element of the Group's governance structure. Our role is to review and advise the Board on financial reporting including the various statements made in the Annual Report on viability, going concern, risk and controls and whether, when read as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Members
Ron McMillan (Appointed to the Committee on 27 October 2017 and became Chairman on 27 February 2018)
Mark Morris (Chairman until 27 February 2018, when he retired)
Katrina Cliffe (appointed 23 May 2017)
Chris Havemann
Ben Mingay (retired 26 March 2018)

All members of the Committee are independent Non-Executive Directors and the Committee as a whole has competence relevant to our sector. Both Mark Morris and I have recent and relevant financial experience. Mark 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.

I was appointed to succeed Mark as Chairman of the Committee on his retirement. I joined the Committee on 27 October 2017 and attended the November and February meetings to ensure that there was an appropriate handover. I worked in PwC's assurance business for 38 years with 28 years as an audit partner and have extensive knowledge and experience in auditing, financial reporting and governance. During my time at PwC, my roles included Global Finance Partner, Chairman of the North of England and Deputy Chairman and Head of Assurance for the Middle East. I also chair the Audit Committees of N Brown PLC, SCS PLC, 888 Holdings Plc and B&M European Value Retail SA.

All members of the Committee are expected to have an understanding of financial reporting, relevant corporate legislation, the functions of internal and external audit and the regulatory and compliance framework of the Group. Katrina Cliffe brings experience in financial services to the Committee. She chairs the Risk Committee and is a member of the Audit Committee of Shop Direct Finance Company Limited. Chris Havemann is from an entrepreneurial background and also brings a wealth of experience in respect of digital.

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.

Board reporting
I provide 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.

Committee Effectiveness

The effectiveness of the Committee is reviewed as part of the annual Board review process facilitated by Lintstock Limited. The FY18 review concluded that the Committee was operating effectively and benefitted from a high quality cycle of work. Particular mention was made of the transparency in respect of audit findings. Positive comments were made in respect of the clarity of the reporting to the Board by my predecessor and I will be looking to ensure that I continue with this.

Responsibilities

The primary responsibilities of the Committee are to:

- monitor, on behalf of the Board, compliance with and the effectiveness of, the Group's accounting and internal control systems
- review the independence of the external auditor and agree their terms of engagement and remuneration
- review the scope of and outputs from the external audit
- approve the scope of the work undertaken by and the outputs from the work done by internal audit
- make recommendations to the Board on accounting policies and their application
- review the annual and interim financial statements before they are presented to the Board
- advise the Board on the Group's overall risk appetite, tolerance and strategy
- monitor, on behalf of the Board, current risk exposures
- receive reports from compliance functions and 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 Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Committee has adopted formal terms of reference which are available on our website **http://www.homeserveplc.com/about-us/corporate-governance/committees**.

Summary of meetings in the year

The Committee usually meets three times in the year and did so in FY18. Details of meeting attendance are set out on page 62. The timing of Committee meetings is arranged to accommodate the release of financial information, the approval of the external and internal audit plans and the review of the outputs of those plans. In addition to scheduled meetings, I met with the CFO and members of his team, the Assurance & Risk Director and the external auditors.

Audit & Risk Committee report
continued

During the year the agenda included the following items:

- Half year results
- Full year results
- Consideration of new accounting standards (IFRS 9, IFRS 15 and IFRS 16)
- External audit plans and reports
- Internal audit plans and reports
- Risk registers from each territory
- Updates on regulatory compliance activity including the General Data Protection Regulation
- Updates on certain key risks, in particular, information security
- Updates on the efforts to improve the focus on cash management and efficiency
- Consideration of governance and controls in partly owned subsidiaries and joint ventures
- Whistle blowing reports
- Internal audit effectiveness and independence including the external quality review completed by PwC
- External audit effectiveness and independence.

Significant issues related to the financial statements

The Committee oversaw the process used by the Board to assess going concern and the viability of the Group, the stress testing of key trading assumptions and the preparation of the viability statement which is set out on page 51.

The Committee also satisfied itself that the disclosures in relation to accounting judgements and key sources of estimation uncertainty were appropriate and obtained, from the external auditor, an independent view of the key disclosure issues and risks. Management present reports to the Committee setting out the basis for the assumptions used and these reports are then discussed and challenged by the Committee. All of the issues were also discussed with the external auditor and their views taken into account. The Committee is satisfied that the judgements made are reasonable and appropriate disclosures have been included in the accounts.

The Committee assessed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements. The Committee also reviewed reports from the external auditor on the half year and full year results, which provided an overview of the audit work undertaken and highlighted any issues for discussion.

The significant issues considered in the year were:

Issue	How it was addressed by the Committee
Revenue recognition As an insurance intermediary, the Company is required to recognise revenue at the point at which a policy goes on risk. As such, revenue reflects commission due from underwriters and is therefore considered to be on a net basis. Some elements of revenue are deferred to cover future costs and also to provide for policies which may cancel mid term.	The Committee reviewed the approach taken to estimate claims handling costs, indirect costs associated with job completion and processes for policy cancellations and satisfied itself that a consistent approach had been taken.
Accounting for new customer acquisitions Customer acquisition costs are either expensed directly to the income statement or are capitalised and amortised over the life of the customer depending on the nature of the agreement with the partner.	The Committee reviewed the treatment of acquisition costs in relation to three partners, Endesa in Spain, Suez in France and Veolia in France and satisfied itself that the treatment was appropriate.
Carrying value of goodwill The total goodwill balance at 31 March 2018 of £387m has been allocated to the relevant cash generating units (CGUs) and tested for impairment by comparing the carrying value of net assets (including allocated goodwill and acquisition intangibles) with the value in use, defined as the present value of future cashflows attributable to the CGUs.	The Committee reviewed the ‘headroom’ to ensure that the value in use supported the carrying value of the net assets and satisfied itself that no impairment was required.
Business combinations and asset purchases During the year the Group completed a number of acquisition transactions.	The Committee reviewed the Group’s accounting for these acquisitions and satisfied itself that it was appropriate.
Capitalisation of development costs The Group has incurred significant costs in relation to the development of new IT systems, a programme which is expected to complete during FY19.	The Committee considered the benefits due to be delivered by the programme and the costs and satisfied itself that the discounted benefits of the new systems were significantly higher than the carrying value of the asset.

Audit & Risk Committee report
continued

Board statements

Going concern

The Committee reviewed whether it was appropriate to adopt the going concern basis for the preparation of the Annual Report. Consideration was given to the Group's three year forecasts, availability of committed bank facilities and expected headroom under the financial covenants and a report from management was considered. The Committee ensured that the assumptions underpinning the forecasts were stress tested and that the factors which impact on risks and uncertainties were properly considered.

Following the Committee's review, it recommended to the Board that it was appropriate to adopt the going concern basis. The going concern statement is shown on page 51.

Viability statement

The Committee reviewed a report from management setting out the basis for the conclusions in the viability statement. The approach to the viability statement and the statement itself are shown on page 51.

Fair, balanced and understandable

Having reviewed the Annual Report and taking into account the verification exercise completed, the Committee confirmed to the Board that it was fair, balanced and understandable and provided the necessary information for shareholders to assess the Group's performance and position, business model and strategy.

Risk management and internal control

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, we also review action plans in respect of significant risks. Information security and cyber risks were a particular focus during the year.

The Committee also monitors, on behalf of the Board, the effectiveness of the Company's material accounting and internal control systems. In fulfilling this responsibility for FY18, the Committee considered reports from management and the internal and external auditors.

The Committee considers that appropriate controls are in place across the Group, that the Group has a well defined organisational structure with clear lines of responsibility and a comprehensive financial reporting system. The Committee also considers that the Group complies with the FRC guidance on risk management, internal control and related financial reporting.

Further details in respect of risk management and internal controls are set out on pages 72 to 75. Details in respect of the principal risks and uncertainties are set out on pages 26 to 33.

Regulation and compliance

The Group operates in a regulated marketplace and is subject to different regulatory requirements designed to protect customers across its different territories. This creates risk for the business as non compliance can lead to reputational damage, financial penalties and potential loss of licence to operate.

The Committee receives regular updates on legal and compliance from management and believes that key compliance indicators are strong across the Group. All established businesses outside the UK are required to complete Annual Compliance Reports to confirm that the requirements of the Group Compliance Framework have been met and that processes and controls are sufficient to identify breaches in local law and regulations.

The Committee reviewed the Group's readiness for the General Data Protection Regulations (GDPR) which are due to come into force in May 2018 and is comfortable that each business will meet the implementation date.

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.

Deloitte LLP has been the Group's auditor since FY03, although the lead audit partner rotates every five years. The current lead audit partner, Matthew Perkins, was appointed in FY15.

The Committee reviews the performance of the external auditor annually based on their understanding of the Group, their approach to key areas of judgement and the extent of challenge, the quality of reporting and the efficiency and conduct of the audit. Feedback is also sought from Group finance and local management on the external auditor's performance. We also reviewed the external auditor's transparency report, 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 is satisfied that the audit continues to be effective and that Deloitte LLP continues to provide constructive and independent challenge to management and consistently demonstrates a realistic and commercial view of the business. 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 Company confirms that it has complied with the provisions of the CMA's Statutory Audit Services Order for the financial year under review.

Audit & Risk Committee report
continued

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.

During the year, the Committee approved a revised policy in respect of non-audit services which reflected the revised Ethical Standards. The revised policy sets out an updated list of prohibited services and in particular, prevents Deloitte LLP from providing almost all taxation services. The 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 50% of the total fees payable in respect of audit and compliance services. In addition, any proposed spend over a predetermined limit must be approved by the Committee.

The fees payable to the auditor in respect of audit and audit-related assurance services totalled £901,000 and the fees for non-audit related work (excluding audit-related assurance services) totalled £9,000 which equated to 1% of the audit fees. Further detail on the fees paid is provided in Note 6.

Interaction with regulators

The Financial Reporting Council reviewed the FY17 Annual Report as part of its thematic review of alternative performance measures. Feedback from the review was shared with the Chairman of the Committee and discussed with management and the external auditor. No substantive issues were raised but we will continue to consider how we can improve the disclosure of alternative performance measures.

Internal audit

The Committee considers and approves the internal audit plan which is based on an assessment of the strategic risks faced by the Group which are regularly reviewed locally and by the Committee. In addition, key control processes are reviewed on a cyclical basis. 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 Executive Risk Committee. A regular 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. Reports are graded as 1 if the controls currently operated are inadequate and expose the business to significant loss or regulatory breach. There were no such reports in the year.

During the year, the Committee received 42 reports in respect of the following areas:

Finance	Key financial controls and processes including balance sheet control reviews, purchase to pay, order to cash and record to report cycles
Operations	Key operations processes including fulfilment, contractor management, business continuity planning and disaster recovery, compliance and risk management
IT controls	Key IT controls including disaster recovery, mobile device management and general controls such as logical access, back up and restore processes and controls
Information Security	Developments in information and cyber security including penetration testing, firewalls, server security and crisis management

In relation to each of the above, internal audit made recommendations for improvements, the vast majority of which have been or are being implemented by management.

During the first half of the year, in line with best practice, an external quality assessment of the internal audit function was completed by PwC. PwC were selected to undertake the assessment following a formal tender process which included a second tier provider.

PwC concluded that the internal audit function was providing effective assurance to the Group but there were some opportunities to improve the efficiency and effectiveness of the function. The output from that review was discussed by the Committee in May 2017 and it was agreed that it would be beneficial to augment the internal skills and experience available by entering into a co-sourced arrangement to ensure that the Group could access appropriate technical and specialised resource on a global and flexible basis.

A tender process was undertaken in July 2017 which included first and second tier providers as well as a boutique firm. As a result of the process, PwC were chosen as the most appropriate co-source partner and they started working with the internal team during the year.

Looking ahead

Going forward, I shall ensure that the Committee continues to acknowledge and embrace its role of protecting the interests of shareholders as regards the integrity of the published financial information and the effectiveness of audit.

I shall be available at the AGM to answer any questions and would like to thank my colleagues on the Committee for their help and support.

Ron McMillan
Chairman of the Audit & Risk Committee
22 May 2018

Directors' remuneration report

Dear Shareholder

I am pleased to present the Remuneration report for the year ended 31 March 2018.

Performance and reward
It has been a year of record profit growth in which we continued to deliver excellent service to our customers. In particular, we have seen outstanding growth in North America including our largest ever policy book acquisition.

The stretching financial and non financial targets for the overall Group have been met. In the UK, despite good operational performance, the challenging profit target was not met. As such, no bonuses were payable in respect of the UK.

In respect of longer-term performance, the LTIP awards granted in 2014 vested in full in June 2017 with HomeServe's total shareholder return (TSR) at the end of the three year performance period to 22 June 2017 being 124.1% compared to the FTSE 250 Index TSR of 33.3%. The 2014 awards were based solely on relative TSR performance.

The LTIP awards granted in June 2015 were based 25% on TSR performance and 75% on adjusted earnings per share (EPS) performance, with both conditions measured over a three year performance period to 31 March 2018. Based on TSR performance to 31 March 2018 of 139.8% compared to the FTSE 250 Index TSR of 29.6% and EPS growth of 21.05% per annum, the 2015 awards will vest in full in June 2018. A two year posting vesting holding period applies to the 2015 awards.

Although the 2014 and 2015 LTIP awards were granted, and will vest, one year apart, both are disclosed in the remuneration table as the performance period for both awards ended during FY18. This is a one off situation caused by a change in the performance period following the reintroduction of EPS as a performance condition. From next year, the position will revert to normal and only one award will be disclosable.

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

Remuneration policy FY19
The remuneration policy was approved by shareholders at last year's AGM. Our LTIP expires during the course of 2018 and we have given consideration to what should follow.

The LTIP has proven to be a successful tool for incentivising and rewarding our senior management team and has generated strong alignment between the returns received by shareholders and the reward paid to management over the last ten years. Having consulted with shareholders we are therefore proposing a renewal of the current Plan with some minor operational changes to reflect updated market practice.

The minor changes to be made to the LTIP are:

- The ability to grant uncapped awards in exceptional circumstances has been removed;
- The recovery and withholding provisions have been enhanced to cover a period of three years from vesting (previously one year); and
- The circumstances in which the recovery and withholding provisions can be invoked have been expanded to include a substantial failure of risk management, material reputational damage and/or evidence of misbehaviour or material error by the relevant individual (alongside the existing criteria). We are comfortable that our approach is robust and workable should these provisions ever need to be operated.

Under the LTIP, HomeServe is able to offer annual awards of performance shares to Executive Directors and Executives may voluntarily invest a portion of their annual bonus to be matched with additional shares up to a 2:1 ratio. The maximum individual award limits have not changed since 2008 and will remain unchanged in the new Plan to be put to shareholders. Performance share awards for FY19 will be limited to 150% of salary.

The Committee is aware that some institutional investors consider matching arrangements to be overly complex. However, having operated the same scheme successfully for 10 years our Executives are very familiar with it. We considered alternative long-term incentive structures as part of our review, including the possibility of consolidating the reward elements into a single performance share grant, but concluded that there was significant merit in retaining the current structure, namely:

- It requires Executives to invest in the Company providing absolute alignment (both upside and downside risk) with the Company's shareholders;
- The investment is done primarily through the annual bonus. In years where no bonus is payable, the investment opportunity is capped at 25% of salary, providing an automatic scale back to the available reward in periods where the Company is not performing as well as expected; and
- The overall rewards on offer are considered appropriate taking into account the Company's size and the emphasis within our reward framework towards long-term performance.

The Committee therefore concluded that retaining the current structure is the optimal approach.

Consideration has been given to the performance targets for the FY19 grant and it has been agreed that awards will continue to be based 25% on TSR performance and 75% on EPS performance. The threshold EPS growth target will require 9% cumulative annual growth which is higher than the 6% threshold set for previous grants. The stretch target will remain unchanged at 15% per annum.

In terms of the other element of the reward package for Executive Directors for FY19:

- The maximum bonus opportunity remains unchanged at 100% of salary. The 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.
- Emphasising the importance the company places on Directors' shareholdings, the minimum guideline shareholding for Directors will be increased to 300% of salary/fee for FY19.
- Following Tom Rusin's appointment as Global CEO, HomeServe Membership in April 2018, his basic salary was increased by 8.3% from $600,000 to $650,000. This increase reflected the global nature of the role and the size of the business he is now leading. Salaries for other Executive Directors will increase by 2% with effect from 1 July 2018 in line with the average increase for the UK workforce.

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
22 May 2018

Directors' remuneration report
continued

Directors' remuneration policy

The Directors' remuneration policy was approved by shareholders at the 2017 AGM and is not subject to a shareholder vote this year. The policy is set out below for information only. In order to assist shareholders, the remuneration scenario charts later in the report have been updated to reflect the proposed remuneration levels for FY19 and we have added additional commentary, where relevant, to explain how the policy will be operated in FY19.

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 was completed in April 2017 by the Company Secretary and Assurance & Risk Director and considered by the Committee in May 2017. The review identified the potential risks in respect of the policy and assessed the controls and procedures in place to mitigate those risks. The Committee concluded that overall, the remuneration policy was appropriate and did not encourage excessive risk taking.

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.	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. 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. 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. Details of the current salaries of the Executive Directors are set out in the Annual Report on Remuneration.
Performance related bonus	The annual bonus is designed to drive and reward the short-term operating performance of the Company and encourage the delivery of consistently good customer outcomes.	Annual (determined after the year end)	Annual bonuses are determined by reference to performance against a mix of financial, non financial and personal objectives. Before any bonus is payable a minimum level of both customer and financial performance must be achieved. Bonuses are based on Group performance. Individual performance accounts for no more than 20% of the overall bonus opportunity. The maximum potential quantum is 100% of salary. Bonuses are payable in cash but may be voluntarily deferred by the executive into shares under the matching element of the LTIP.

Directors' remuneration report
continued

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	Awards of performance and matching shares are granted under the Long Term Incentive Plan (which was approved by shareholders in 2008 and will be put to shareholders for re-approval at the 2018 AGM). The maximum limit is 200% of salary for performance share awards (currently, awards of 150% of salary are made to the Executive Directors) and a maximum 2:1 match on voluntary investment of bonus into shares. The maximum amount of bonus that may be invested is set at 75% of the maximum bonus potential (i.e. 75% of salary). If the bonus earned is less than 25% of salary, then the executive may invest the equivalent of 25% of salary, from their own money, in shares to receive a matching award. In determining the number of matching awards to be granted, the investment is deemed to be made gross of tax. Dividend equivalents may be awarded on shares vesting under the Plan. 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.
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	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. Richard Harpin currently continues to participate in the Water Companies Pension Scheme (a defined benefit scheme which is closed to new members). Retirement benefits under the scheme are restricted by a notional earnings cap (£143,560 for FY19). An unapproved pension contribution equal to 20% of the amount by which basic salary exceeds the notional cap is provided.

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Other benefits	Provides a competitive package of benefits to assist with recruitment and retention of staff.	N/A	Other benefits 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. Other benefits may be provided as appropriate and Directors can access HomeServe products and services on the same terms as offered to employees. Any reasonable business related expenses (including tax thereon) may be reimbursed if determined to be a taxable benefit. There is no maximum limit on the value of the benefits provided but the Committee monitors the total cost of the benefit provision.
All Employee Share Plans	To encourage employee share ownership.	N/A	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.
Chairman and Non-Executive Directors' fees		N/A	Non-Executive Director fees are determined by the Board. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions. The fee levels are reviewed periodically and are set to reflect the responsibilities and time commitment of the role and the experience of the individual. Fee levels are set by reference to rates in companies of comparable size and complexity. The fees for the Non-Executive directors comprise a basic Board fee, with additional fees paid for chairing a Committee or for the Senior Independent Directorship. The Chairman receives an all encompassing fee for his role. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. The fees are paid monthly in cash. Any reasonable business related expenses (including tax thereon) may be reimbursed if determined to be a taxable benefit. The Chairman and Non-Executive Directors may be eligible to access HomeServe products and services on the same terms as offered to employees.

Directors' remuneration report
continued

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 excellent short-term operating performance of the Company. 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.

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 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.

Changes to operation in FY19
The existing LTIP expires in 2018 and we will be seeking to renew the Plan at the 2018 AGM. Further information is provided later in this report.

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.

Changes to operation in FY19
In respect of the LTIP, we are taking the opportunity to update the clawback provisions in the Rules when the Plan is renewed at the AGM. The period during which clawback can be invoked will be extended to three years and the criteria will be expanded to include a substantial failure of risk management, material reputational damage and/or evidence of misbehaviour or material error by the relevant 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.

Directors' remuneration report
continued

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.

Changes to operation in FY19
The shareholding guideline will be increased in FY19 to three times annual basic salary or fee.

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.

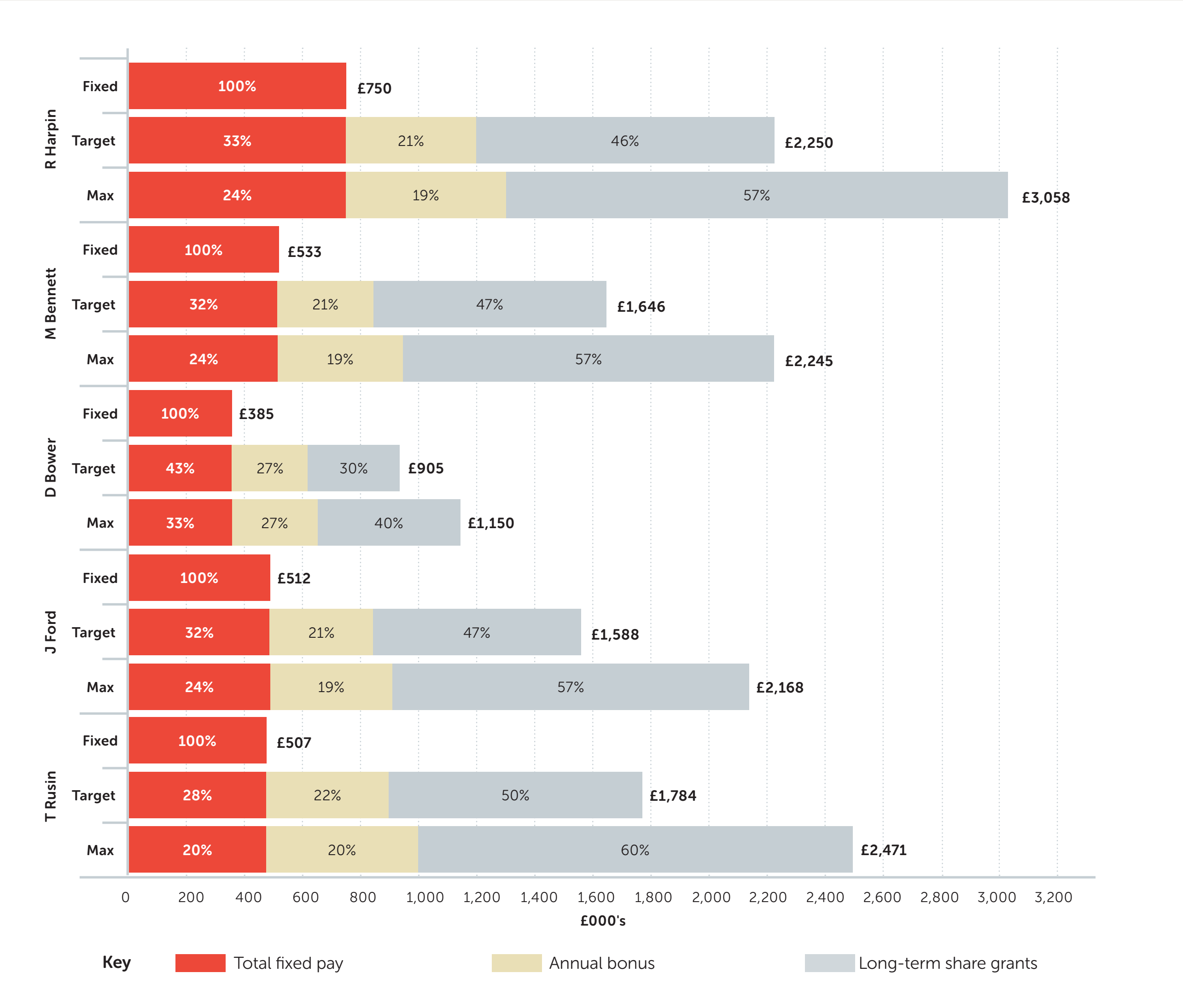
Although the Committee does not consult directly with employees on directors' pay, the Committee does take into consideration the pay and employment conditions of all employees when setting the policy for directors' remuneration. In terms of comparison metrics, the Committee takes into account the average 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 and did so in respect of the renewal of the LTIP.

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 in FY19 of 90% of salary plus matching awards of 90% of salary.
Maximum	maximum annual bonus of 100% of salary plus maximum LTIP awards in FY19 of 150% 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 2018.
The value of taxable benefits is based on the actual values paid in FY18 apart from for Tom Rusin where expected benefits are shown.
Richard Harpin participates in a defined benefit scheme which has been valued according to BIS regulations. The other UK Executives receive a pension 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.

Directors' remuneration report
continued

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
T Rusin	4 April 2018

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.

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 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).

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.

Directors' remuneration report
continued

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. The terms and conditions of appointment for Non-Executive Directors are available for inspection.

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
K Cliffe	23 May 2017
S David	23 November 2016
E Fitzmaurice	23 May 2017
C Havemann	1 December 2015
R McMillan	27 October 2017

Outside Appointments

Executive Directors may hold one outside appointment and can retain any fees received. No Executive Director currently has a relevant outside appointment.

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 2018 Annual General Meeting.

Remuneration Committee Members

Stella David (Chairman)
JM Barry Gibson
K Cliffe (appointed 23 March 2018)
C Havemann (appointed 23 March 2018)
R McMillan (appointed 23 March 2018)
Mark Morris (retired 27 February 2018)
Ben Mingay (retired 26 March 2018)

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.

The full schedule is available on our website: **http://www.homeserveplc.com/about-us/corporate-governance/our-board**.

Directors' remuneration report
continued

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 Pensions and Lifetime Savings Association. 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.

Key issues considered during the year

Aside from the usual cycle of discussions in respect of pay and bonuses, the key issue discussed by the Committee during the year was the renewal of the LTIP. Consideration was given to whether an entirely new plan should be implemented but having looked at the alternatives, it was agreed that the existing Plan had provided a strong link between pay and performance and continued to be the most appropriate solution for the business.

Advisers

During the year New Bridge Street ('NBS'), a firm of independent remuneration consultants, served as advisers to the Committee. The Committee selects its own advisers. 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. 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 £49,000.

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 for the year under review (Audited)

	Year	Salary and fees £000	Taxable benefits [8] £000	Pensions [9] £000	Bonus £000	2013-2016 LTIP £000	2014-2017 LTIP [10] £000	2015-2018 LTIP [10] £000	Other [11] £000	**Total FY18 £000**	Total FY17 £000
Executives											
R Harpin	FY18	563	26	147	541	—	3,769	3,517	—	**8,563**	
	FY17	555	28	155	555	2,929	—	—	34		4,256
M Bennett	FY18	418	21	84	—	—	2,747	2,587	—	**5,857**	
	FY17	412	21	82	313	2,313	—	—	34		3,175
D Bower [1]	FY18	300	19	60	300	—	216	451	—	**1,346**	
	FY17	46	4	8	46	—	—	—	31		135
J Ford	FY18	405	17	81	380	—	1,983	2,261	—	**5,127**	
	FY17	394	17	76	394	1,166	—	—	—		2,047
T Rusin [2]	FY18	399	6	6	372	—	1,688	1,889	—	**4,360**	
	FY17	—	—	—	—	—	—	—	—		—
Non-Executives											
J M B Gibson	FY18	250	—	—	—	—	—	—	—	**250**	
	FY17	250	—	—	—	—	—	—	—		250
K Cliffe [3]	FY18	47	—	—	—	—	—	—	—	**47**	
	FY17	—	—	—	—	—	—	—	—		—
S David	FY18	65	—	—	—	—	—	—	—	**65**	
	FY17	65	—	—	—	—	—	—	—		65
E Fitzmaurice [4]	FY18	47	—	—	—	—	—	—	—	**47**	
	FY17	—	—	—	—	—	—	—	—		—
C Havemann	FY18	55	—	—	—	—	—	—	—	**55**	
	FY17	55	—	—	—	—	—	—	—		55
R McMillan [5]	FY18	25	—	—	—	—	—	—	—	**25**	
	FY17	—	—	—	—	—	—	—	—		—
B Mingay [6]	FY18	55	—	—	—	—	—	—	—	**55**	
	FY17	55	—	—	—	—	—	—	—		55
M Morris [7]	FY18	66	—	—	—	—	—	—	—	**66**	
	FY17	73	—	—	—	—	—	—	—		73
Total FY18		**2,695**	**89**	**378**	**1,593**	**—**	**10,403**	**10,705**	**—**	**25,863**	
Total FY17		1,905	70	321	1,308	6,408	—	—	99		10,111

1 David Bower was appointed to the Board on 6 February 2017.
2 Tom Rusin was appointed to the Board on 23 May 2017. He is paid in USD and the USD amounts have been converted into GBP for the purposes of this table using the average exchange rate for FY18.
3 Katrina Cliffe was appointed to the Board on 23 May 2017.
4 Edward Fitzmaurice was appointed to the Board on 23 May 2017.
5 Ron McMillan was appointed on to the Board 27 October 2017.
6 Ben Mingay retired from the Board on 26 March 2018.
7 Mark Morris retired from the Board on 27 February 2018.
8 Benefits comprise company car, fuel allowance and medical insurance.
9 Details of pension benefits and contributions can be found later in the report.
10 The 2014 LTIP award was granted on 23 June 2014 and vested based on relative total shareholder return over the three year performance period to 22 June 2017. The 2015 LTIP awards was granted on 25 June 2015 and will vest based on earnings per share and relative total shareholder performance over the three year period to 31 March 2018. The awards were granted and will vest approximately a year apart in accordance with our LTIP grant policy. However, as the performance period for both awards ends during the same financial year (albeit nine months apart), we are obliged to include both awards in this year's remuneration table. The value shown for each LTIP award includes an amount in respect of dividend equivalents which are paid in cash.
11 'Other' represents the value of any sharesave options exercised.

Directors' remuneration report
continued

Details of variable pay earned in the year (Audited)

Annual Bonus

For FY18, 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 profit before tax	25%	25%	£131.0m	£135.0m	£141.7m	100%
	Group net debt [1,2]	5%	–	–	£255.7m	£237.8m	100%
Non financial measures	Customer growth (excluding Italy)	25%	0%	7.9m	8.1m	8.1m	100%
	Customer satisfaction (measured as a weighted average level of customer satisfaction across UK, US, France, Spain and Italy) [1]	25%	–	–	8.6	8.9	100%

[1] No bonus was payable for below target performance
[2] Adjusted for equity placing and acquisitions completed in the year

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

		Weighting	% Payable at Threshold	Threshold	Target/Stretch	Actual	% Payable
Financial measures	Group profit before tax [2]	10%	25%	£131.0m	£135.0m	£141.7m	0%
	Adjusted UK profit before tax	15%	25%	£69.4m	£73.1m	£61.1m	0%
	UK net cash [1]	5%	–	–	£0.9m	£(25.8)m	0%
Non financial measures	UK customer growth	25%	0%	2.216m	2.236m	2.200m	0%
	UK customer satisfaction [1,2]	25%	–	–	9.0	9.3	0%

[1] No bonus was payable for below target performance
[2] Although these targets were met, nothing is payable as the UK profit target was not met

Financial and non financial bonus targets for Tom Rusin (US CEO)

		Weighting	% Payable at Threshold	Threshold	Target/Stretch	Actual	% Payable
Financial measures	Group profit before tax	10%	25%	£131.0m	£135.0m	£141.7m	100%
	Adjusted US profit before tax	15%	25%	\$53.5m	\$56.3m	\$64.4m	100%
	US net debt [1]	5%	–	–	\$275.9m	\$242.4m	100%
Non financial measures	US customer growth	25%	0%	3.159m	3.325m	3.566m	100%
	US customer satisfaction [1]	25%	–	–	8.6	8.7	100%

[1] No bonus was payable for below target performance

Personal bonus targets

	Objectives	Weighting	Outcome	% Payable
R Harpin	• Prove out the Home Experts model • Achieve a step change in internal and external communications • Implement a personal leadership development plan • Sign an agreement to open in one new country • Successfully complete HVAC acquisitions in three countries	20%	Key achievements included: • Successful test of Home Experts model completed • Reorganisation of management structure to prepare for growth across four global business lines • Global Talent Director appointed and development programmes for senior talent established, including a forum for potential senior successors • HVAC acquisitions completed in the US, France and the UK	80%
M Bennett	• Create a separate HVAC business unit in the UK • Complete the implementation of the new CRM solution in the UK and commence implementation of the new claims solution • Support development and delivery of key strategic initiatives in Checkatrade • Take action to drive 50k – 100k of new customers per annum in the UK • Implement a recruitment, induction and training programme to deliver the best frontline in the UK	20%	As the stretching UK profit target was not met, no bonus was payable in respect of personal performance.	0%
D Bower	• Improve the Group wide focus and performance in respect of cash • Provide support for HVAC acquisition strategy including implementation of appropriate approval process and performance monitoring • Implement a co-sourced arrangement for internal audit and improve the efficiency of the audit plan • Develop a co-ordinated and consistent communication and investor relations strategy • Refinance the revolving credit facility and secure additional long-term funding	20%	Key achievements included: • Cash workshops held in each business and a new dashboard implemented • HVAC acquisitions completed in the US, France and the UK and a streamlined approval process implemented • PwC were selected as the co-source partner for internal audit and commenced work alongside the internal team • Vision and strategy video produced in different languages and event driven communication implemented internally and externally • Revolving Credit Facility refinanced in FY18 and HomeServe's first ever equity placing completed	100%

Directors' remuneration report
continued

J Ford	• Implement automation, self serve and self fix solutions across the Group • Develop, agree and commence implementation of a software plan for new countries • Implement detailed strategic plan for HVAC • Deliver a global recruitment and training plan for senior executives • Deliver two significant digital developments	20%	Key achievements included: • Progress made in respect of online claims, automated calls and self fix to differing degrees in each territory • New Group Chief Information Officer appointed and software solution selected for new countries and implemented for claims in Spain • Business plan, target operating model and acquisition criteria approved for HVAC and acquisitions completed in the US, France and the UK • Global Talent Director appointed and development programmes for senior talent established	70%
T Rusin	• Acquire and integrate at least three contractors • Step change the brand position of HomeServe in North America • Complete the roll out of the full digital road map for the US business • Develop systems pricing capability • Complete one or more utility or HVAC policy book acquisitions	20%	Key achievements included: • Acquisition of two contractors with another one in progress • Renewal of the relationship with the National League of Cities and an improvement in the Better Business Bureau rating • Digital road map agreed and roll out will complete in FY19 • Acquisition of DPS policy book	85%

Details of the bonuses payable are shown below. The Group as a whole delivered record profit growth but despite good operational performance in the UK, the stretching profit target was not met. As a result, no bonuses were payable in respect of the UK business.

Name	Bonus £	% of salary
R Harpin	540,614	96%
M Bennett	—	—
D Bower	300,000	100%
J Ford	380,230	94%
T Rusin [1]	372,312	97%

[1] Tom Rusin was appointed on 23 May 2017.

Annual bonuses are paid in cash but the Executive Directors have the opportunity to invest their bonuses (up to 75% of the maximum) in HomeServe shares in order to participate in the matching element of the LTIP.

Long-term Incentive Plan

Details of the performance conditions for the 2014 and 2015 LTIP awards are set out below.

2014 awards (vested in FY18)

The 2014 LTIP performance and matching 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)	HomeServe TSR of 124.1% compared to Index TSR of 33.3%	100% vesting

The awards vested in full on 28 June 2017. As the performance period for the awards ended during the financial year, the awards have been included in the remuneration table on page 99 based on the value of the shares on vesting. Details of the number and value of shares vesting to each Executive Director are set out in the table on page 106.

2015 awards (due to vest in FY19)

The 2015 LTIP performance and matching awards were granted on 25 June 2015. The performance conditions for these awards were as follows:

Condition	Percentage of award to which the condition applies	Performance period	Threshold target	Stretch target	Actual performance	Vesting
TSR (underpinned by underlying financial performance)	25%	3 years to 31 March 2018	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 139.8% compared to Index TSR of 29.6%	25%
EPS	75%	3 years to 31 March 2018	Compound annual growth of 6%	Compound annual growth of 15%	Compound annual growth of 21.05%	75%

Performance for both the total shareholder return and earnings per share condition was based on performance over the three financial years ended 31 March 2018. Based on the strong performance of HomeServe over this period the stretch performance targets were exceeded and the awards will vest in full in June 2018. A two year post-vesting holding requirement applies to 2015 awards.

As the performance period for the 2015 awards ended during the year under review, the awards have also been included in the remuneration table on page 99 (alongside the 2014 awards). The 2015 awards have been valued for the purpose of the remuneration table on page 99 using the average share price over the last three months of the financial year.

Whilst we are obliged to include both the 2014 and 2015 awards in the remuneration table on page 99, the awards were granted and will vest approximately one year apart (in accordance with our annual grant policy).

Directors' remuneration report
continued

Summary of outstanding awards (Audited)

	31 March 2018	Awarded during year	Lapsed during year	Vested during year	31 March 2017	Date granted	Type of award
R Harpin	**—**	—	—	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
	111,632	111,632	—	—	—	27.6.17	Performance
	107,547	107,547	—	—	—	27.6.17	Matching
M Bennett	**—**		—	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
	82,810	82,810	—	—	—	27.6.17	Performance
	79,781	79,781	—	—	—	27.6.17	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
	59,250	59,250	—	—	—	27.6.17	Performance
J Ford	**—**	—	—	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
	80,184	80,184	—	—	—	27.6.17	Performance
	76,279	76,279	—	—	—	27.6.17	Matching
T Rusin [2]	**—**	—	—	135,971	135,971	23.6.14	Performance
	—	—	—	85,513	85,513	23.6.14	Matching
	154,740	—	—	—	154,740	25.6.15	Performance
	81,557	—	—	—	81,557	25.6.15	Matching
	155,624	—	—	—	155,624	1.7.16	Performance
	112,223	—	—	—	112,223	1.7.16	Matching
	93,920	93,920	—	—	—	27.6.17	Performance
	83,823	83,823	—	—	—	27.6.17	Matching

[1] David Bower was appointed on 6 February 2017.
[2] Tom Rusin was appointed on 23 May 2017.

The performance conditions are as follows:

- 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% CAGR 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% CAGR for maximum vesting)
- 2016 awards above 150% of salary – compound annual EPS growth of 15% to 20% (20% CAGR for maximum vesting)
- 2017 awards – 25% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting) and 75% compound annual EPS growth (15% CAGR for maximum vesting)

David Bower had two outstanding restricted share awards which pre dated his appointment as CFO. These awards are not subject to performance conditions.

Further details on LTIP awards granted in the year (Audited)

On 27 June 2017, 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 at grant £	% that vests at threshold
R Harpin	27.6.17	111,632	£7.595	150%	847,845	25%
M Bennett	27.6.17	82,810	£7.595	150%	628,942	25%
D Bower	27.6.17	59,250	£7.595	150%	450,004	25%
J Ford	27.6.17	80,184	£7.595	150%	608,998	25%
T Rusin	27.6.17	93,920	£7.595	150%	713,322	25%

Matching share awards

	Date of grant	Shares purchased	Award size	Matching award	Determine awards	Face value at grant £	% that vests at threshold
R Harpin	27.6.17	28,500	2:1 match	107,547	£7.595	816,819	25%
M Bennett	27.6.17	21,142	2:1 match	79,781	£7.595	605,937	25%
J Ford	27.6.17	20,214	2:1 match	76,279	£7.595	579,339	25%
T Rusin	27.6.17	22,213	2:1 match	83,823	£7.595	636,636	25%

The performance awards and the matching awards are subject to a three year vesting period and 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.

Vesting is also subject to underlying financial performance and a two year post vesting holding period applies.

Directors' remuneration report continued

Further details on awards vested in the year

Performance and matching awards granted on 24 June 2014 vested in full during the year. In addition, a restricted award granted to David Bower before he was appointed as CFO also vested.

	Date of grant	Type of Award	Date of exercise	No of Shares	Share price at exercise	Face value at exercise £
R Harpin	23.6.14	Performance	28.6.17	247,301	£7.26	1,884,358
	23.6.14	Matching	28.6.17	247,298	£7.26	1,884,338
M Bennett	23.6.14	Performance	28.6.17	184,615	£7.26	1,406,711
	23.6.14	Matching	28.6.17	175,958	£7.26	1,340,747
D Bower	23.6.14	Performance	28.6.17	14,192	£7.26	108,139
	23.6.14	Restricted	28.6.17	14,192	£7.26	108,139
J Ford	23.6.14	Performance	28.6.17	130,096	£7.26	991,292
	23.6.14	Matching	28.6.17	130,094	£7.26	991,277
T Rusin	23.6.14	Performance	28.6.17	135,971	£7.26	1,036,058
	23.6.14	Matching	28.6.17	85,513	£7.26	651,583

The face value shown includes an amount in respect of dividend equivalents which are paid in cash.

One Plan Matching Shares (Share Incentive Plan)

	31 March 2018	Acquired during year	31 March 2017	Aggregate face value of shares awarded during the year £ [3]
R Harpin	**207**	119	88	898
M Bennett	**207**	119	88	898
D Bower [1]	**207**	119	88	898
J Ford	**182**	119	63	898
T Rusin [2]	**226**	103	123	796

[1] David Bower was appointed on 6 February 2017.
[2] Tom Rusin was appointed on 23 May 2017.
[3] Based on the acquisition price of the associated Partnership Shares. The highest share price was £8.24 and the lowest share price was £6.55.

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.

Shareholding Guidelines (Audited)

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 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.

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

	22 May 2018	31 March 2018	31 March 2017	Outstanding LTIP awards	**Total 31 March 2018**	Value of shares counting towards guideline holding (as a % of salary or fee) [1]	Guideline met?
R Harpin [2]	39,684,172	39,684,114	39,160,649	1,025,947	**40,710,061**	51,814%	Yes
M Bennett	555,316	555,258	533,750	758,326	**1,313,584**	977%	Yes
D Bower	81,428	81,370	66,008	147,770	**229,140**	200%	Yes
J Ford	191,788	191,730	171,152	689,426	**881,156**	349%	Yes
T Rusin [3]	477,938	477,879	371,546	681,887	**1,159,766**	779%	Yes
J M B Gibson	150,070	150,070	150,070	–	**150,070**	443%	Yes
K Cliffe [4]	12,076	12,076	–	–	**12,076**	162%	No
S David	68,945	68,945	68,945	–	**68,945**	702%	Yes
E Fitzmaurice [5]	786,265	786,265	–	–	**786,265**	10,550%	Yes
C Havemann	20,000	20,000	20,000	–	**20,000**	268%	Yes
R McMillan [6]	–	–	–	–	**–**	–	No
B Mingay [7]	n/a	57,142	57,142	–	**57,142**	n/a	n/a
M Morris [8]	n/a	71,716	71,716	–	**71,716**	n/a	n/a

[1] Calculated using the shareholding and share price on 29 March 2018 of £7.38 divided by the Executive's salary or Non-Executive's fee on that date.
[2] Includes an indirect interest of 28,500.
[3] Tom Rusin was appointed to the Board on 23 May 2017.
[4] Katrina Cliffe was appointed to the Board on 23 May 2017.
[5] Edward Fitzmaurice was appointed to the Board on 23 May 2017.
[6] Ron McMillan was appointed to the Board on 27 October 2017.
[7] Ben Mingay retired from the Board on 26 March 2018.
[8] Mark Morris retired from the Board on 27 February 2018.

Directors' remuneration report
continued

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. His normal retirement age is 60.

	2018 £000	2017 £000
Accrued pension per annum at end of period [1]	61	58
Accrued lump sum at end of period [1]	184	174
Director's contributions in the period	–	–
Single figure of pension remuneration attributable to the Scheme [2]	62	71
Unapproved pension contributions paid as cash	85	84

[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:

	2018 £000	2017 £000
M Bennett	**84**	82
D Bower [1]	**60**	8
J Ford	**81**	76

[1] David Bower was appointed on 6 February 2017.

Tom Rusin participates in a US 401k pension plan (a defined contribution scheme) to which the Company contributed £5,806 ($7,690) between 23 May 2017 (his date of appointment to the Board) and 31 March 2018.

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 nine years ended 31 March 2018. 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.

Total shareholder return

Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 March 2018, of £100 invested in HomeServe plc on 31 March 2009 compared with that of £100 invested in the FTSE-250 Index. The other points plotted are the values at intervening financial year-ends.

Directors' remuneration report
continued

Chief Executive's remuneration (Audited)

The total remuneration figures for the Chief Executive during each of the last nine 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	**2018**
Total remuneration (£000s)	1,030	953	559	953	1,212	1,200	3,355	4,256	**8,563**[3]
Annual bonus	100%	87%	0%	75%	100%	96%	98%	100%	**96%**
LTIP awards vesting	21%[1]	51%[2]	60%	0%	0%	0%	100%	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.
[3] The total includes the 2014 and 2015 LTIP awards which were granted and will vest a year apart.

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 FY17 and FY18 compared to the average for all employees of HomeServe plc.

	% Change from FY17 to FY18		
	Salary	Benefits	Annual Bonus
Chief Executive Officer	1.5%	-7.6%	1.4%
Average of other HomeServe plc employees	3.0%	3%	20.1%

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:

	FY17 £m	**FY18 £m**	change
Staff costs (£m)	237.5	**267.5**	13%
Dividends (£m)	40.3	**50.4**	25%
Tax (£m)	23.9	**27.4**	15%
Retained profits attributable to equity holders of the parent (£m)	74.4	**96.3**	29%

£10.7m of the staff costs figures relate to pay for the Executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share based awards are accounted for.

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

Loss of Office Payments (Audited)

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

Application of the remuneration policy for FY19

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). Following Tom Rusin's appointment as Global CEO, HomeServe Membership in April 2018, his basic salary was increased by 8.3% from $600,000 to $650,000. This increase reflected the global nature of the role and the size of the business he is now leading.

Salaries for the other Executives will increase by 2% which is in line with the average increase for the UK workforce.

The salaries for the Executive Directors effective from 1 July 2018 will therefore be as follows:

Name of Director	Salary as at 1 July 2017	Salary as at 1 July 2018	Increase %
R Harpin	£565,228	£576,533	2.0%
M Bennett	£419,297	£427,683	2.0%
D Bower	£300,000	£306,000	2.0%
J Ford	£406,000	£414,120	2.0%
T Rusin [1]	$600,000	$650,000	8.3%

[1] Tom Rusin was appointed on 23 May 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 reviewed during the year but no changes were made.

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

Directors' remuneration report
continued

Annual bonus performance targets
The annual bonus plan for FY19 will operate on a similar basis to FY18 and is consistent with the policy detailed earlier in this report.

Financial measures (30% of bonus)	Non financial measures (50% of bonus)	Personal objectives (20% of bonus)
• Profit before tax (25%) • Net debt (5%)	• Customer growth (25%) • Customer satisfaction (25%)	• Up to five stretching personal objectives

The Committee considers the forward looking performance targets to be commercially sensitive, therefore a 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
Renewal of the LTIP
Subject to shareholder approval of the 2018 LTIP at our AGM in July, the long-term incentive plan will continue to provide a mix of performance (up to 200% of salary) and matching share awards (2:1 match on up to 75% of salary bonus invested in shares). In line with the policy, the FY19 Performance Share award for Executive Directors will be at 150% of salary.

Performance criteria
For Performance Share awards and Matching Share awards, the performance targets for FY19 grants will be:

FY19 weighting	3 year performance target	Change from FY18
75% based on EPS	9% to 15% per annum EPS growth (for 25% to 100% vesting).	Threshold increased from 6% to 9%
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 FY19 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.

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 has been increased to three 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 three times their fee also applies to Non-Executive Directors.

Shareholder voting at the 2017 Annual General Meeting

At last year's Annual General Meeting held on 21 July 2017, the following votes from shareholders were received:

	Remuneration report		Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	256,946,678	99%	251,822,236	99%
Against	2,680,918	1%	2,890,417	1%
Total votes cast (for and against excluding withheld votes)	259,627,596	100%	254,712,653	100%
Votes withheld	1,488,726		6,403,669	
Total votes (including withheld votes)	**261,116,322**		**261,116,322**	

General

The market price of the Company's shares at 29 March 2018 was £7.38 (2017: £5.65). During the year the price ranged from £5.635 to £8.67.

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 2018 amounted to 25,089 ordinary shares.

By Order of the Board

Stella David
Chairman of the Remuneration Committee
22 May 2018

Directors' report

The Directors have pleasure in presenting their Annual Report for the year ended 31 March 2018.

Management report

The Directors' report, together with the Strategic report set out on pages 2 to 51 form the Management Report for the purposes of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R.

Statutory information contained elsewhere in the Annual Report

Information required to be part of this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference.

Information	Location in Annual Report
Likely future developments in the business of the Company or its subsidiaries	Page 9
Employees (employment of disabled persons, employee engagement and policies)	Page 22 to 23
Corporate governance statement	Page 54 to 76
Directors' details (including changes made during the year)	Pages 61 and 64 to 66
Related party transactions	Note 46 on page 205
Diversity	Page 22
Share capital	Note 25 on page 177
Going concern and viability statement	Page 51
Employee share schemes (including long-term incentive schemes)	Note 29 on pages 179 to 182
Financial instruments: Information on the Group's financial instruments and risk management objectives and policies, including our policy for hedging	Note 24 on pages 172 to 177
Disclosure of information to Auditor	Page 118

Results and Dividends

The Directors are recommending the payment on 2 August 2018 of a final dividend of 14.4p per ordinary share to shareholders on the register at the close of business on 6 July 2018 which, together with the net interim dividend of 4.7p per ordinary share paid on 5 January 2018, results in a total net dividend for the year of 19.1p per share (FY17: 15.3p).

Greenhouse Gas Emissions Reporting

	Global tonnes of CO2e FY18 [1]	Global tonnes of CO2e FY17
Combustion of fuel and operation of facilities	11,366	8,835
Electricity, heat, steam and cooling purchased for own use	2,423	3,656
Total	13,789	12,491
Tonnes of CO_2e per thousand customers	1.65	1.60

[1] Data excludes Checkatrade, a company only fully owned from November 2017.

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 statements. 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.

Political donations

No political donations were made during the year.

Rules on appointment and replacement of Directors

Apart from Martin Bennett who is stepping down from the Board, all the Directors will seek election or re-election at the AGM in accordance with the Company's Articles of Association and the recommendations of the Code.

A Director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the Board or a member (or members) entitled to vote at such meetings. In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual seeks election at the next AGM.

A Director may be removed by the Company in certain circumstances set out in the Articles of Association or by an ordinary resolution of the Company.

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.

Articles of Association

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.

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 25. There is one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at a general meeting of the Company.

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

Details of employee share schemes are set out in note 29. 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 2017 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 2018 AGM.

Authority to purchase shares

The Company was authorised at the 2017 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 2018 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 2018 Annual General Meeting of the Company will be held on 20 July 2018.

Fixed Assets

Capital expenditure on tangible fixed assets amounted to £11.0m (FY17: £8.0m) during the year.

Directors' interests in shares

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March and 22 May 2018 are set out in the Remuneration report on page 107. None of the Directors serving at the year end had a beneficial interest in the share capital of any subsidiary company.

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 22 May 2018, except for the following:

	As at 31 March 2018		As at 22 May 2018	
Name	ordinary shares	%	ordinary shares	%
Invesco Limited	45,708,633	13.9	45,708,633	13.9
Richard Harpin [1]	39,684,114	12.0	39,684,172	12.0
Baillie Gifford & Co	17,124,224	5.2	17,124,224	5.2
Woodford Investment Management LLP	16,560,085	5.0	16,560,085	5.0

[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
22 May 2018

Statements of 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.

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.

Website publication

The Directors are responsible for ensuring the Annual Report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website **http://www.homeserveplc.com** is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement

We confirm to the best of our knowledge:

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

- 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.

By Order of the Board

Richard Harpin
Chief Executive Officer
22 May 2018

David Bower
Chief Financial Officer
22 May 2018

Independent Auditor's report to the members of HomeServe plc

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2018 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 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.

We have audited the financial statements of HomeServe plc (the 'Company') and its subsidiaries (the 'Group') which 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 46.

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 Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Carrying value of goodwill;
- Carrying value of the new Customer Relationship Management ("CRM") system; and
- Cancellation provision and revenue deferrals.

Within this report, the key audit matters identified are the same as the prior year. In the prior year the carrying value of goodwill and the CRM system were combined into one key audit matter, within this report they have been separated to two key audit matters.

Materiality

The materiality that we used for the Group financial statements was £7.4m which was determined on the basis of 6% of profit before tax ("PBT").

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, as was Checkatrade, whilst the rest of the New Markets segment was subject to specific audit procedures.

Significant changes in our approach

We no longer consider the Group's acquisition of USP to be a key audit matter as the acquisition took place in the prior year, we concluded the acquisition accounting was performed in accordance with IFRS 3 and the key assumptions used within the fair value assessment were reasonable.

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

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

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed 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 and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- The disclosures on pages 26 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation on page 119 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; or
- The directors' explanation on page 51 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 are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of goodwill

Key audit matter description

The carrying value of goodwill is £386.6m (2017: £301.9m).

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. We focus our key audit matter to the accuracy of the most sensitive assumption which is the weighted average cost of capital ("WACC") used to discount the cash flows within management's impairment assessment.

During the year, the Group has identified four new cash generating units ("CGUs") as a result of its acquisition activity.

Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

Further detail on the key judgements involved is set out within the Audit and Risk Committee report on page 79, significant accounting policies in note 2, the other areas of focus in note 3 and note 13 to the financial statements.

How the scope of our audit responded to the key audit matter

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

We challenged management's WACC using our internal valuations experts to independently recalculate the WACC rate for each CGU.

We challenged management's key assumptions relating to the estimated future cash flows and 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 experts.

We challenged management's assessment of the CGUs identified in the current year by considering whether they are separately identifiable, the interdependency between the cash inflows, the management team and whether goodwill can be reasonably allocated to each of the CGUs.

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.

Key observations

We concluded that the key assumptions used within management's goodwill impairment assessment and WACC calculation 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 concluded that the CGUs identified in the current year are appropriate.

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

Carrying value of the new CRM system

Key audit matter description

The carrying value of the new CRM system is £72.3m (2017: £60.8m).

In order to support the carrying value of the CRM system, management has performed an impairment assessment, which compares the expected value in use of the asset once operational to the current carrying value plus expected costs to complete.

The key judgement in relation to the new CRM system is the expected future cash flows associated with the benefits case, which will begin to be realised once UK customers are transitioned onto the CRM system which is planned to be in FY19.

There is a risk that the management information used to make these judgements are either incomplete or inaccurate. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

Further detail on the key judgements involved is set out within the Audit and Risk Committee report on page 79, significant accounting policies in note 2 and note 14 to the financial statements.

How the scope of our audit responded to the key audit matter

We assessed the design and implementation of controls that the Group has in place to assess the carrying value of the new CRM system, specifically the management review process to assess the accuracy and completeness of key assumptions used to determine the expected future cash flows.

We have assessed these key assumptions including the expected retention rates underpinning the benefits case and alongside our IT specialists assessed the progress of the CRM project through review of Board minutes, Steering Group minutes and by holding discussions with management.

Additionally we have analysed budgeted costs to complete to identify whether any impairment is likely in the future.

Key observations

We concluded that the key assumptions used within management's carrying value assessment were reasonable and therefore no impairment was required.

Cancellation provision and revenue deferrals

Key audit matter 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 2018 in respect of the Group's future claim handing obligations is £86.3m (2017: £76.7m) and the amount of revenue provided in respect of future cancellations is £23.8m (2017: £18.0m).

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 the mid-term cancellation percentages, based on historical experience, and average revenue per policy.

Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

Further detail on the Group's revenue recognition policy is set out within the Audit and Risk Committee report on page 79, 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 key audit matter

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.

As part of our risk assessment, 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 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.

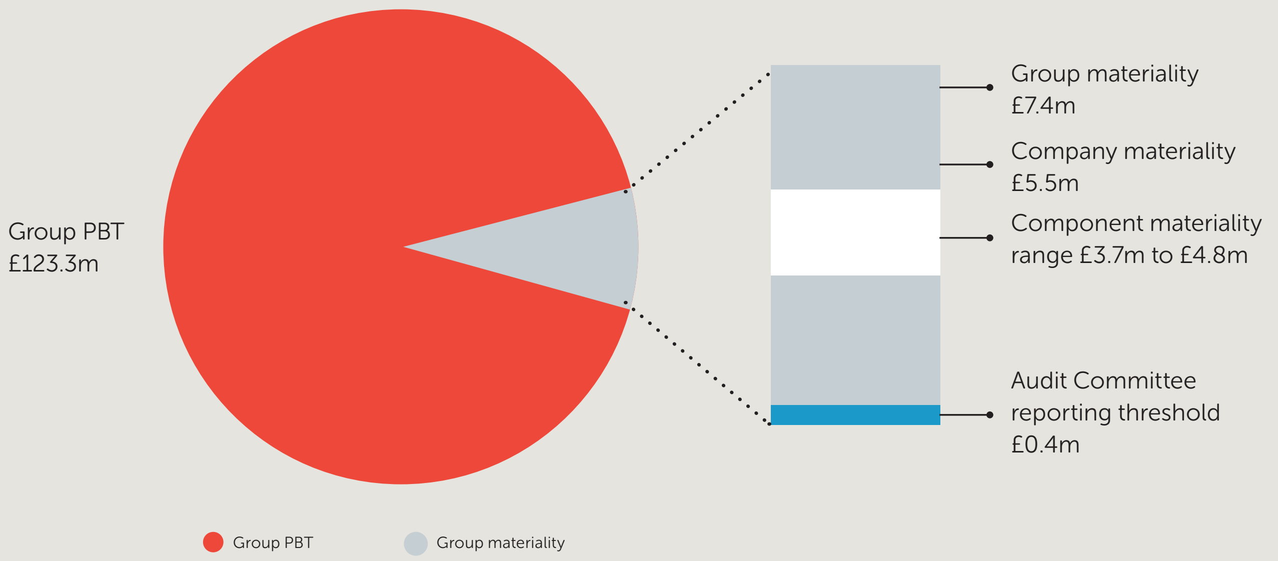
Independent Auditor's report to the members of HomeServe plc continued

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 financial statements	Company financial statements
Materiality	£7.4m (2017: £7.2m)	£5.5m (2017: £5.4m)
Basis for determining materiality	6% (2017: 7.5%) of profit before tax. We have changed the measure from 7.5% in the prior year audit to 6%. The reduced measure was driven by the continued growth and increasing complexity of the Group's operations.	The basis of materiality is the investment in subsidiaries balance, taking into account the Group materiality, the materiality is approximately 2.8% of the investment in subsidiaries.
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. This is because profit based measures are the financial measures most relevant to users of the financial statements.	We determined materiality using the investment in subsidiaries balance, as the Company is not a trading entity we considered this to be the most appropriate measure for the Company.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £370,000 (2017: £360,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

All of these were subject to a full audit, whilst the New Markets segment (excluding Checkatrade which was subject to a full audit) 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 UK, North America, France and Spain components account for 97.9% (2017: 97.9%) of the Group's revenue and 100% (2017: 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, with the exception of Checkatrade). 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 £3.7m to £4.8m (2017: £3.1m to £4.7m).

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 at least one senior member of the Group audit team visits the UK, North America, France and Spain at least twice a year. This included a planning visit where we provided input into the component's planned audit strategy and risk assessment, and a fieldwork visit where we participated in the component's audit close meetings and reviewed documentation of the findings from their work.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of our report

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.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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 Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or

- The 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 in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed by the Board of Directors on 1 August 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 March 2003 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
22 May 2018

El deseo de cumpleaños

Cómo **HomeServe** ayudó a salvar la celebración de cumpleaños.

"Tenía un problema con el lavavajillas que no funcionaba y justo ese día venía a comer toda la familia por el cumpleaños de mi mujer. Se nos avecinaba un gran problema: pensar en tantos comensales en casa y con el lavavajillas estropeado... Pero llamé a HomeServe, me atendió una chica en la primera llamada, diciéndome que se pondría en contacto conmigo un profesional ese mismo día. Me llamaron por la tarde ofreciéndome varios horarios y fueron muy puntuales.

Eran dos profesionales con su furgoneta y cuando subieron a casa ya llevaban todas las herramientas. A partir de ahí, ¡todo sobre la marcha!

Los pasos se ejecutaron perfectamente: desarmaron la parte de atrás del lavavajillas, cambiaron la bomba -que era donde estaba el problema- y tras una hora o un poco más, lo arreglaron todo perfectamente. Limpiaron sin yo decirles nada y luego probaron que funcionase correctamente. Me dijeron que les llamase si había cualquier problema. Y la verdad es que todo perfecto. ¡Mi mujer sopló las velas la mar de contenta!"

Francisco Javier Pérez.
Málaga (Spain)

The birthday wish

How **HomeServe** helped save the birthday party.

"I had a problem with my dishwasher, which broke down on the day of my wife's birthday. Just imagine: a house full of guests and no dishwasher... I called HomeServe. A lady answered on the first ring and told me she could get an engineer out to me the same day. The engineer offered me a choice of appointment times. They arrived on time with all the tools they needed.

They did a great job. They disconnected the dishwasher and changed the pump. After an hour it was working perfectly. And they told me to call back if i had any further problems. I didnt. My wife blew out the candles with a big smile on her face."

Contents

Financial Statements

Group income statement
Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Continuing operations			
Revenue	4	**899.7**	785.0
Operating costs	6	**(765.7)**	(680.5)
Share of results of associates	18	**1.0**	0.2
Operating profit		**135.0**	104.7
Investment income	8	**0.1**	0.3
Finance costs	9	**(11.8)**	(6.7)
Profit before tax and amortisation of acquisition intangibles		**141.7**	112.4
Amortisation of acquisition intangibles	6	**(18.4)**	(14.1)
Profit before tax		**123.3**	98.3
Tax	10	**(27.4)**	(23.9)
Profit for the year		**95.9**	74.4
Attributable to:			
Equity holders of the parent		**96.3**	74.4
Non-controlling interests		**(0.4)**	–
		95.9	74.4
Dividends per share, paid and proposed	11	**19.1p**	15.3p
Earnings per share			
Basic	12	**30.2p**	24.0p
Diluted	12	**29.7p**	23.6p

Group statement of comprehensive income

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Profit for the year		**95.9**	74.4
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	30	**2.1**	(3.4)
Deferred tax (charge)/credit relating to actuarial re-measurements	10	**(0.4)**	0.6
		1.7	(2.8)
Items that may be reclassified subsequently to profit and loss:			
Exchange movements on translation of foreign operations		**(10.2)**	20.8
Fair value losses on cash flow hedges	26	**(0.5)**	–
		(10.7)	20.8
Total other comprehensive (expense)/income		**(9.0)**	18.0
Total comprehensive income for the year		**86.9**	92.4
Attributable to:			
Equity holders of the parent		**87.3**	92.4
Non-controlling interests		**(0.4)**	–
		86.9	92.4

Group balance sheet

31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Goodwill	13	**386.6**	301.9
Other intangible assets	14	**384.8**	288.6
Property, plant and equipment	15	**39.9**	37.0
Interests in associates	18	**5.5**	32.1
Other investments	17	**8.7**	8.5
Deferred tax assets	10	**6.8**	7.6
Retirement benefit assets	30	**4.7**	0.7
		837.0	676.4
Current assets			
Inventories	19	**4.3**	2.7
Trade and other receivables	20	**515.7**	455.1
Cash and cash equivalents	20	**57.8**	46.2
		577.8	504.0
Total assets		**1,414.8**	1,180.4
Current liabilities			
Trade and other payables	21	**(508.5)**	(456.2)
Current tax liabilities		**(10.4)**	(9.2)
Obligations under finance leases	23	**(0.5)**	(0.6)
Bank and other loans	23	**(38.0)**	(35.9)
		(557.4)	(501.9)
Net current assets		**20.4**	2.1
Non-current liabilities			
Bank and other loans	23	**(256.7)**	(270.1)
Other financial liabilities	22	**(23.4)**	(14.4)
Deferred tax liabilities	10	**(25.5)**	(23.0)
Obligations under finance leases	23	**(0.4)**	(1.0)
		(306.0)	(308.5)
Total liabilities		**(863.4)**	(810.4)
Net assets		**551.4**	370.0
Equity			
Share capital	25	**8.9**	8.4
Share premium account	26	**171.8**	45.7
Share incentive reserve	26	**22.1**	18.3
Currency translation reserve	26	**16.1**	26.3
Available for sale reserve	26	**1.8**	1.8
Other reserves	26	**82.2**	72.2
Retained earnings		**248.1**	196.5
Attributable to equity holders of the parent		**551.0**	369.2
Non-controlling interests	27	**0.4**	0.8
Total equity		**551.4**	370.0

The financial statements were approved by the Board of Directors and authorised for issue on 22 May 2018. They were signed on its behalf by:

David Bower
Chief Financial Officer
22 May 2018

Group statement of changes in equity

Year ended 31 March 2018

	Share Capital £m	Share premium account £m	Share incentive reserve £m	Currency translation reserve £m	Available for sale reserve £m	Other reserves £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interest £m	**Total equity £m**
Balance at 1 April 2017	8.4	45.7	18.3	26.3	1.8	72.2	196.5	**369.2**	0.8	**370.0**
Profit for the year	—	—	—	—	—	—	96.3	**96.3**	(0.4)	**95.9**
Other comprehensive (expense)/income for the year	—	—	—	(10.2)	—	(0.5)	1.7	**(9.0)**	—	**(9.0)**
Total comprehensive income	—	—	—	(10.2)	—	(0.5)	98.0	**87.3**	(0.4)	**86.9**
Dividends paid (note 11)	—	—	—	—	—	—	(50.4)	**(50.4)**	—	**(50.4)**
Issue of share capital	0.5	126.1	—	—	—	10.0	—	**136.6**	—	**136.6**
Share-based payments	—	—	8.1	—	—	—	—	**8.1**	—	**8.1**
Share options exercised	—	—	(4.3)	—	—	—	1.0	**(3.3)**	—	**(3.3)**
Basis adjustments on hedged items	—	—	—	—	—	0.5	—	**0.5**	—	**0.5**
Tax on exercised share options (note 10)	—	—	—	—	—	—	2.8	**2.8**	—	**2.8**
Deferred tax on share options (note 10)	—	—	—	—	—	—	0.2	**0.2**	—	**0.2**
Balance at 31 March 2018	**8.9**	**171.8**	**22.1**	**16.1**	**1.8**	**82.2**	**248.1**	**551.0**	**0.4**	**551.4**

Year ended 31 March 2017

	Share Capital £m	Share premium account £m	Share incentive reserve £m	Currency translation reserve £m	Available for sale reserve £m	Other reserves £m	Retained earnings £m	Attributable to equity holders of the parent £m	Non-controlling interest £m	Total equity £m
Balance at 1 April 2016	8.3	41.1	16.0	5.5	1.8	72.1	171.8	316.6	—	316.6
Profit for the year	—	—	—	—	—	—	74.4	74.4	—	74.4
Other comprehensive income/(expense) for the year	—	—	—	20.8	—	—	(2.8)	18.0	—	18.0
Total comprehensive income	—	—	—	20.8	—	—	71.6	92.4	—	92.4
Dividends paid (note 11)	—	—	—	—	—	—	(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 (note 10)	—	—	—	—	—	—	2.0	2.0	—	2.0
Deferred tax on share options (note 10)	—	—	—	—	—	—	0.4	0.4	—	0.4
Balance at 31 March 2017	8.4	45.7	18.3	26.3	1.8	72.2	196.5	369.2	0.8	370.0

Other reserves comprise of the Merger, Own shares, Capital redemption and Hedging reserves. Full details of these reserves are included in Note 26.

Group cash flow statement

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Net cash inflow from operating activities	28	**129.5**	113.2
Investing activities			
Interest received		**0.1**	0.3
Proceeds on disposal of fixed assets		**0.6**	—
Disposal of subsidiary		**—**	(1.7)
Purchases of intangible assets		**(114.3)**	(50.9)
Purchases of property, plant and equipment		**(11.0)**	(7.6)
Acquisition of investment in associate	18	**—**	(24.7)
Dividend received from associate	18	**0.4**	—
Net cash outflow on acquisition of subsidiaries	16	**(50.3)**	(74.2)
Net cash used in investing activities		**(174.5)**	(158.8)
Financing activities			
Dividends paid	11	**(50.4)**	(40.3)
Repayment of finance leases		**(0.6)**	(1.0)
Deferred and contingent consideration paid on acquisition of subsidiaries		**(3.9)**	—
Issue of shares from the employee benefit trust		**—**	0.1
Proceeds on issue of share capital	25	**124.1**	0.8
Costs associated with issue of share capital		**(0.8)**	—
New bank and other loans raised		**221.0**	103.3
Costs associated with new bank and other loans raised		**(3.1)**	—
Decrease in bank and other loans		**(226.5)**	(29.8)
Net cash generated by financing activities		**59.8**	33.1
Net increase/(decrease) in cash and cash equivalents		**14.8**	(12.5)
Cash and cash equivalents at beginning of year		**46.2**	54.2
Effect of foreign exchange rate changes		**(3.2)**	4.5
Cash and cash equivalents at end of year		**57.8**	46.2

Notes to financial statements
Year ended 31 March 2018

1. General information
HomeServe plc (the 'Company') is a public company, limited by shares and 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. Foreign operations are consolidated in accordance with the policies set out in note 2.

There have been no post balance sheet events identified since the year end.

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 24.

Adoption of new or revised standards and accounting policies
The following amendments to accounting standards have been adopted in the year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

None of the amendments 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):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 40	Transfers of Investment Property
Annual Improvements to IFRSs	2014-2016 Cycle – IFRS 1 and IAS 28 Amendments
Annual Improvements to IFRSs	2014-2016 Cycle – IFRS 12 Amendments
Annual Improvements to IFRSs	2015-2017 Cycle
Clarifications to IFRS 15	Revenue from Contracts with Customers
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

Notes to financial statements
Year ended 31 March 2018

2. Significant accounting policies (continued)
Standards in issue but not yet effective (continued)
At 31 March 2018 the status of the Group's analysis as to the impact that IFRSs 9, 15 and 16 will have on the financial statements for the years ended 31 March 2019 (IFRSs 9 and 15) and 31 March 2020 (IFRS 16) has concluded the following:

- IFRS 9 will not have a material effect on the financial statements, with only limited amendments expected to the classification of financial assets, the timing of credit loss recognition under the expected credit loss model for impairment, and disclosures. This is due to the nature of the business model where the majority of customers pay in advance.

  The Group intends to adopt this standard for the year ended 31 March 2019, in line with its mandatory effective date.

- IFRS 15 will not have a material effect on the financial statements. The Group's assessment indicates that, while changes to revenue disclosures will be required, together with the re-categorisation of certain existing intangible assets that represent contract costs under IFRS 15, the impact on existing revenue recognition patterns will be immaterial.

  The Group intends to adopt this standard for the year ended 31 March 2019, in line with its mandatory effective date.

- IFRS 16 will have a significant impact on the Group Balance Sheet through the recognition of 'Right of Use' (RoU) assets and liabilities for lease payments in respect of arrangements previously classified as operating leases under IAS 17. Additional disclosures will also be required. Although the standard is not expected to have a material impact on profit after tax, Group EBITDA will increase due to a reduction in operating rental costs, replaced by higher interest and depreciation charges. Further, while total cash flows will remain consistent, rental outflows will now be presented under financing activities, where they were previously recorded as operational outflows, increasing the Group's cash conversion percentage.

  The Group's operating lease commitments as at 31 March 2018 (see note 31) of £37.8m are the best indicator of the estimated size of the RoU assets and lease liabilities likely to be recognised on balance sheet at transition. The transition values are subject to change due to:

  - Judgements inherent in calculating lease liabilities (e.g. determining the lease term, the discount rate and assessing variable lease payments)

  - The impact of the Group's operational activities on its lease obligations between 31 March 2018 and the date of transition to IFRS 16

  The Group intends to adopt this standard for the year ended 31 March 2020, in line with its mandatory effective date.

  The Group will continue to progress its impact assessment regarding IFRS 16 during the first half of FY19 and will provide a further update in the interim report for the period ending 30 September 2018.

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 2019 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. If the Group's share of losses of the profit or loss exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included in the carrying amount of the investment. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS36 Impairment of Assets as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment.

The Group discontinues the use of the equity method of accounting if the investment in an associate increases to becomes a subsidiary. Upon becoming a subsidiary, the Group accounts for the entity in accordance with the Business combinations policy below. Any fair value gain or loss on re-measurement of an associate on acquisition of control is taken to the profit and loss account at the date of acquisition.

Notes to financial statements
Year ended 31 March 2018

2. Significant accounting policies (continued)
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 consolidated income statement, as incurred, in operating costs.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent or deferred consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values that qualify as measurement period adjustments are adjusted against the cost of acquisition. 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 and recognised immediately in the consolidated income statement. Changes in the fair value of contingent consideration classified as equity are not recognised. Deferred consideration is subsequently measured at amortised cost.

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

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

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 (CGUs) expected to benefit from the synergies of the combination. If the recoverable amount of the CGU 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 CGU 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.

Net policy income
Revenue recorded by the Group includes commissions receivable in the Group's role as an intermediary for the householder in the policy sale, but as principal in the policy administration process. The Group contracts separately with the policy holder to provide these services. 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 for the principal, 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. Revenue deferred for the performance of claims handling services is released over the expected profile of anticipated claims.

To the extent that policies are expected to cancel mid-term, and hence all of the economic benefits associated with those policies are not expected to flow to the Group, a provision is made to ensure that the related revenue is not recognised at the point that the policy incepts.

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

Other revenue
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.

Revenue generated in HomeServe's 'Home Experts' businesses is derived from three principal streams:

- Website subscriptions: recognised evenly over the period of the contract, which is typically 12 months;
- Directory advertising fees: recognised at the point the obligation to the customer is fulfilled; and
- Lead generation revenue (representing commissions received from trades people): recognised at the point of purchase.

Notes to financial statements
Year ended 31 March 2018

2. Significant accounting policies (continued)

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 a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Foreign currencies
Transactions in currencies other than functional currency 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 retranslated 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 retranslated.

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 to presentational currency 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.

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 in the income statement in the period of scheme amendment. 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 along with a small number of provisions in relation to open tax positions. 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.

Notes to financial statements
Year ended 31 March 2018

2. Significant accounting policies (continued)
Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation.

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

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

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

Intangible assets
Acquisition intangible assets

Acquired access rights relate to the contractual agreements entered into with the former owners of businesses acquired as part of a business combination; or where the former owners previously operated a business and the Group has purchased specific access rights from the former owners. 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; or where the former owners previously operated a business and the Group has purchased specific customer databases from the former owners. 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 lives. Acquired customer databases are amortised on a straight-line basis over their estimated useful lives, which are in the range of 3 - 15 years.

Acquired brands are recorded at fair value using the relief from royalty valuation method. The Group's brand asset is amortised over its useful economic life (8 years) on a straight-line basis. This period represents the period over which the acquired brand is reasonably expected to transfer economic benefits to the Group.

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 estimated 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 CGU 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 CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 CGU 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 CGU 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 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.

Notes to financial statements
Year ended 31 March 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

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

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

Borrowings
Interest-bearing loans and overdrafts are stated at amortised cost and are recorded at the notional amount of the proceeds received, net of direct issue costs. Interest-bearing loans are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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 notional amount of 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 the option expires unexercised, the liability will be 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 income statement.

Forward contracts and hedge accounting
The Group enters into derivative transactions with a view to managing currency risks associated with financing acquisitive activities. Forward contracts used by the Group are stated at fair value on initial recognition and at subsequent balance sheet dates. The fair values of forward contracts are calculated by discounting all future cash flows by the applicable market yield curves at the balance sheet date. Cash flow hedges mitigate exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction. Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, it meets the Group's risk management objective strategy for undertaking the hedge and it is expected to be highly effective. The portion of any gains or losses on cash flow hedges which meet the conditions for hedge accounting and are determined to be effective, are recognised directly in the statement of comprehensive income. The gains or losses relating to the ineffective portion are recognised immediately in the income statement. When a firm commitment or highly probable future transaction that is hedged becomes an asset or a liability recognised on the balance sheet, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. Gains or losses arising from changes in the fair value of forward contracts that do not qualify for hedge accounting, are recognised immediately in the income statement.

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 provided 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.

3. 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.

Critical accounting judgements
There are no critical accounting judgements.

Key sources of estimation uncertainty
Claims handling obligations
Regarding revenue recognition, a proportion of revenue is deferred 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 2018 in respect of the Group's future claim handing obligations is £86.3m (FY17: £76.7m). 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 £8.6m.

Valuation of acquisition intangible assets
Acquired access rights and acquired customer databases are 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 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.

Notes to financial statements

Year ended 31 March 2018

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

Valuation of acquisition intangible assets (continued)

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 2018 is £112.9m (FY17: £90.0m). If the retention rate or income per customer was individually higher or lower by 10% the impact to profit in the year would be £11.3m.

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 2018 is £60.3m (FY17: £24.0m), 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 £6.0m.

Other areas of focus

Whilst not considered to be critical accounting judgements or key sources of estimation uncertainty, the following are areas of focus for management.

Policy Cancellations

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, a provision is made to ensure that the related revenue is not recognised at the point that the policy incepts.

The sources 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 deferred at 31 March 2018 in respect of potential future cancellations is £23.8m (FY17: £18.0m) and is recognised as a reduction in the value of trade receivables. The most significant 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 £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 the CGU to which goodwill and acquisition intangibles have been allocated. CGUs are aligned to the lines of business within each geographic territory in which the Group operates. 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 £386.6m (FY17: £301.9m). The carrying value of acquisition intangibles is £186.5m (FY17: £114.0m). 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 (FY17: £nil).

4. Revenue

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

	2018 £m	2017 £m
Net policy income	**638.2**	565.3
Repair services	**202.0**	188.7
Other	**59.5**	31.0
	899.7	785.0

5. Business and geographical segments

Segment revenues and results

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, who is considered to be the Chief Executive, to allocate resources to the segments and to assess their performance. The operating segments are consistent with those set out in the Strategic Report.

Segment operating profit/(loss) represents the result of each segment including allocating costs associated with head office and shared functions, but without 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 note 2. Group cost allocations are deducted in arriving at segmental operating profit. Inter-segment revenue is charged at prevailing market prices.

2018	**UK £m**	**North America £m**	**France £m**	**Spain £m**	**New Markets £m**	**Total £m**
Revenue						
Total revenue	**365.6**	**282.1**	**100.0**	**141.3**	**18.6**	**907.6**
Inter-segment	**(7.9)**	**—**	**—**	**—**	**—**	**(7.9)**
External revenue	**357.7**	**282.1**	**100.0**	**141.3**	**18.6**	**899.7**
Result						
Segment operating profit/(loss) pre amortisation of acquisition intangibles	**61.1**	**48.6**	**31.5**	**16.6**	**(4.4)**	**153.4**
Amortisation of acquisition intangibles	**(1.8)**	**(8.1)**	**(6.4)**	**(0.1)**	**(2.0)**	**(18.4)**
Operating profit/(loss)	**59.3**	**40.5**	**25.1**	**16.5**	**(6.4)**	**135.0**
Investment income						**0.1**
Finance costs						**(11.8)**
Profit before tax						**123.3**
Tax						**(27.4)**
Profit for the year						**95.9**

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
Year ended 31 March 2018

5. Business and geographical segments (continued)
Segment information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
UK	**897.7**	817.8	**472.6**	472.5	**43.0**	36.1	**17.3**	16.1
North America	**352.6**	279.8	**361.5**	317.2	**73.2**	11.7	**16.7**	13.1
France	**219.9**	208.8	**155.0**	153.4	**3.5**	3.9	**8.9**	7.8
Spain	**140.0**	137.0	**104.1**	108.2	**18.2**	17.5	**17.0**	12.3
New Markets	**99.8**	15.6	**65.4**	37.7	**1.6**	0.2	**2.7**	0.2
Inter-segment	**(295.2)**	(278.6)	**(295.2)**	(278.6)	**—**	—	**—**	—
Total	**1,414.8**	1,180.4	**863.4**	810.4	**139.5**	69.4	**62.6**	49.5

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

Revenue from major products and services
The Group's revenue from major products and services is disclosed in note 4.

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

The Group's revenue from external customers (by customer domicile) 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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
UK	**365.9**	319.3	**453.4**	341.0
North America	**282.1**	227.8	**153.3**	113.6
Continental Europe	**248.4**	237.9	**218.8**	213.5
Latin America	**3.3**	—	**—**	—
	899.7	785.0	**825.5**	668.1

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 (FY17: nil).

6. Profit for the year

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

	2018 £m	2017 £m
Included in operating costs:		
Staff remuneration	**267.5**	237.5
Cost of inventories recognised as an expense	**25.3**	17.2
Operating lease payments	**12.7**	11.2
Depreciation of property, plant and equipment	**8.0**	6.9
Amortisation of acquisition intangible assets	**18.4**	14.1
Amortisation of other intangible assets	**36.2**	28.5
Loss on disposal of property, plant and equipment and software	**2.1**	0.4
Gain on re-measurement on disposal of associate	**(0.9)**	—
Profit on disposal of subsidiary	**—**	(0.1)
Bargain purchase on acquisition	**—**	(0.7)
Amounts (recovered)/written off on trade receivables	**(0.2)**	0.5

The analysis of auditor's remuneration is as follows:

	2018 £000	2017 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**71**	69
The audit of the Company's subsidiaries pursuant to legislation	**785**	587
Total audit fees	**856**	656
Audit-related assurance services	**45**	48
Other assurance services	**9**	—
Tax compliance services	**—**	243
Tax advisory services	**—**	123
Total non-audit fees	**54**	414
Total auditor's remuneration	**910**	1,070

Fees payable to Deloitte LLP and their member firms 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 and Risk 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 £45,000 (FY17: £48,000). Other assurance services relate to sundry services provided directly as a result of being the auditor to the Group.

Notes to financial statements
Year ended 31 March 2018

7. Staff remuneration
The average monthly number of employees (including Executive Directors) was:

	2018 number	2017 number
UK (including head office)	**3,489**	2,940
Continental Europe	**1,472**	1,258
North America	**894**	810
	5,855	5,008

	2018 £m	2017 £m
Their aggregate remuneration comprised:		
Wages and salaries	**230.2**	204.9
Social security costs	**32.4**	28.6
Other pension costs (note 30)	**4.9**	4.0
	267.5	237.5

8. Investment income

	2018 £m	2017 £m
Interest on bank deposits	**0.1**	0.3

9. Finance costs

	2018 £m	2017 £m
Interest on bank and other loans	**9.7**	7.0
Unwinding of discount on deferred and contingent consideration	**0.8**	0.5
Unwinding of discount on obligation under put option	**0.9**	–
Exchange movements	**0.4**	(0.8)
	11.8	6.7

10. Taxation

	2018 £m	2017 £m
Current tax		
Current year charge	**30.9**	23.6
Adjustments in respect of prior years	**(0.1)**	1.3
Total current tax charge	**30.8**	24.9
Deferred tax credit	**(3.4)**	(1.0)
Total tax charge	**27.4**	23.9

UK corporation tax is calculated at 19% (FY17: 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 a blended (Federal/State) rate of 38% in the US (FY17: 40%) as a result of the US enacting new tax legislation in December 2017 effective from 1 January 2018, 33% in France (FY17: 33%) and 25% in Spain (FY17: 25%), which explains the 'Overseas tax rate differences' overleaf.

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

	2018 £m	2017 £m
Profit before tax on continuing operations	**123.3**	98.3
Tax at the UK corporation tax rate of 19% (FY17: 20%)	**23.4**	19.7
Tax effect of items that are not taxable in determining taxable profit	**(0.5)**	(0.2)
Adjustments in respect of prior years – current tax	**(0.1)**	1.3
Overseas tax rate differences	**4.6**	2.7
Movement in deferred tax liabilities	**—**	0.4
Tax expense for the year	**27.4**	23.9

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

As the proportion of the Group's profits earned overseas continues to grow, the effective tax rate of 22% (FY17: 24%) is expected to increase slightly in future years.

A retirement benefit tax charge amounting to £0.4m (FY17: £0.6m credit) 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:

	2018 £m	2017 £m
Current tax		
Excess tax deductions related to share-based payments on exercised options	**2.8**	2.0
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**0.2**	0.4
Total tax recognised directly in equity	**3.0**	2.4

Notes to financial statements

Year ended 31 March 2018

10. Taxation (continued)

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 £m	Elected goodwill deductions £m	Retirement benefit obligations £m	Share schemes £m	Acquired intangible assets £m	Unutilised losses £m	Available sale reserve £m	Acquired property £m	**Total £m**
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 1 April 2017	2.6	(0.1)	(0.2)	4.7	(35.0)	13.3	(0.7)	—	**(15.4)**
(Charge)/credit to Income	(3.3)	—	(0.3)	0.6	10.8	(4.4)	—	—	**3.4**
Credit to equity	—	—	—	0.2	—	—	—	—	**0.2**
Charge to Comprehensive Income	—	—	(0.4)	—	—	—	—	—	**(0.4)**
Acquisition of subsidiaries	(0.1)	—	—	—	(5.6)	—	—	—	**(5.7)**
Exchange movements	(0.4)	—	—	(0.1)	0.9	(1.2)	—	—	**(0.8)**
At 31 March 2018	**(1.2)**	**(0.1)**	**(0.9)**	**5.4**	**(28.9)**	**7.7**	**(0.7)**	—	**(18.7)**

The majority of unutilised losses are expected to be utilised within five years.

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 £m	France £m	Spain £m	North America £m	**2018 £m**	2017 £m
Deferred tax assets	—	—	3.6	3.2	**6.8**	7.6
Deferred tax liabilities	(12.8)	(12.7)	—	—	**(25.5)**	(23.0)
Net deferred tax (liability)/asset	(12.8)	(12.7)	3.6	3.2	**(18.7)**	(15.4)

At the balance sheet date, the Group made appropriate (charges)/credits to timing differences, share schemes, acquired intangible assets and unutilised losses to recognise the enacted tax reductions in the USA and France, whereby the blended (Federal/State) tax rate in the USA has reduced to 38% in FY18 (FY17: 40%) and will go down to 27% in FY19 onwards, and in France the current rate of 33% (FY17: 33%) is set to reduce to 25% as of FY23. The overall deferred tax effect as a result of recognising the reducing tax rates in the USA and France is a credit of £1.7m (FY17: £nil). Deferred tax has not been recognised on £0.9m (FY17: £1.1m) of unused losses due to the uncertainty over the timing of future recovery. There were no expiry dates in respect of the unrecognised tax losses in either year.

11. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2017 of 11.2p (2016: 8.9p) per share	**35.0**	27.6
Interim dividend for the year ended 31 March 2018 of 4.7p (2017: 4.1p) per share	**15.4**	12.7
	50.4	40.3

The proposed final dividend for the year ended 31 March 2018 is 14.4p per share amounting to £47.5m (FY17: 11.2p per share amounting to £35.0m). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12. Earnings per share

	2018 pence	2017 pence
Basic	**30.2**	24.0
Diluted	**29.7**	23.6
Adjusted basic	**33.6**	27.0
Adjusted diluted	**33.1**	26.5

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

Number of shares	2018 m	2017 m
Weighted average number of shares		
Basic	**318.9**	309.9
Dilutive impact of share options	**5.0**	5.4
Diluted	**323.9**	315.3

Earnings	2018 £m	2017 £m
Profit for the year attributable to equity holders of the parent	**96.3**	74.4
Amortisation of acquisition intangibles	**18.4**	14.1
Tax impact arising on amortisation of acquisition intangibles	**(5.7)**	(4.9)
One-off impacts to tax arising on amortisation of acquisition intangibles due to tax reforms – USA and France	**(1.7)**	–
Adjusted profit for the year attributable to equity holders of the parent	**107.3**	83.6

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 attributable to the equity holders of the parent by the weighted average number of ordinary shares in issue during the year. Adjusted earnings per share is calculated excluding amortisation of acquisition intangibles and the associated tax impact. In FY18 adjustment has also been made for the one-off impact of tax reforms in the USA and France (see note 10). 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 (FY18: £18.4m, FY17: £14.1m) and the associated tax effects (FY18: (£7.4m), FY17: (£4.9m)). 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.

Notes to financial statements

Year ended 31 March 2018

13. Goodwill

	£m
Cost	
At 1 April 2016	247.7
Recognised on acquisition of subsidiaries	44.1
Exchange movements	10.1
At 1 April 2017	301.9
Recognised on acquisition of subsidiaries	87.3
Exchange movements	(2.6)
At 31 March 2018	**386.6**

Carrying amount	
At 31 March 2018	**386.6**
At 31 March 2017	301.9

In addition to the amount held at 31 March 2017 stated above, there was goodwill of £25.7m included in interests in associates in relation to the Group's investment in Sherrington Mews Limited, the holding company of the Checkatrade Group (Checkatrade). On 17 November 2017 HomeServe Assistance Limited increased, a Group company, its investment in Checkatrade, by 60%, taking its total holding up to 100% resulting in the disposal of the Group's previous associate interest in Checkatrade and the acquisition of Checkatrade as a 100% owned subsidiary (see notes 16 and 18).

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The Group's CGUs are defined as the lines of business within each geographic territory in which the Group operates, 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 growth rates, discount rates and expected changes to selling prices and direct costs during the period. 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 flows using estimated, long-term growth rates. The growth rates are based on detailed business plans and although long-term growth rate forecasts may be higher in certain territories, the lowest rate across the Group has been applied to ensure value in use calculations are prudent. The long-term growth rate utilised is 2% (FY17: 2%). Changes in selling prices and direct costs are based on expectations of future changes in the market.

Management estimates the discount rates using pre-tax rates that reflect current market assessments of the time value of money. The pre-tax cost of capital rates used to discount the forecast pre-tax cash flows are different for each CGU and are detailed overleaf:

Segment	CGUs	2018	2017
UK	Membership, HVAC (Heating, Ventilation and Air Conditioning)	**8.5%**	8.7%
North America	North America	**9.9%**	12.2%
France	Membership, HVAC	**9.3%**	10.4%
Spain	Spain	**9.9%**	10.0%
New Markets	Checkatrade	**8.5%**	—
New Markets	Habitissimo	**9.9%**	—

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 IAS36.

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

	2018 £m	2017 £m
UK – Membership	**160.7**	159.3
UK – HVAC	**23.4**	—
North America	**36.2**	40.8
France – Membership	**79.0**	77.3
France – HVAC	**3.7**	—
Spain	**13.8**	13.6
New Markets – Checkatrade	**58.6**	—
New Markets – Habitissimo	**11.2**	10.9
	386.6	301.9

In the FY17 Annual Report, the 'Spain' CGU included £10.9m of goodwill associated with Habitissimo. This has been reclassified into the New Markets – Habitissimo CGU in FY18.

The Group's CGUs do not contain any intangible assets with indefinite useful economic lives.

Notes to financial statements

Year ended 31 March 2018

14. Other intangible assets

Acquisition intangibles include acquired access rights, acquired customer databases and acquired brands. Other intangibles include trademarks, access rights, customer databases and software.

	Acquired access rights £m	Acquired customer databases £m	Acquired brands £m	**Total acquisition intangibles £m**	Trademarks & access rights £m	Customer databases £m	Software £m	**Total intangibles £**
Cost								
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 1 April 2017	47.5	159.1	–	**206.6**	33.2	76.6	174.4	**490.8**
Additions	45.1	20.1	–	**65.2**	3.0	16.0	44.3	**128.5**
Acquisition of subsidiaries	–	17.0	13.9	**30.9**	–	–	0.9	**31.8**
Disposals	–	–	–	**–**	(0.9)	–	(4.4)	**(5.3)**
Exchange movements	(4.9)	(4.7)	–	**(9.6)**	(1.2)	1.5	(3.5)	**(12.8)**
At 31 March 2018	**87.7**	**191.5**	**13.9**	**293.1**	**34.1**	**94.1**	**211.7**	**633.0**
Accumulated amortisation								
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 1 April 2017	23.5	69.1	–	**92.6**	24.6	31.8	53.2	**202.2**
Charge for the year	4.8	13.0	0.6	**18.4**	3.5	16.8	15.9	**54.6**
Disposals	–	–	–	**–**	(0.3)	–	(2.5)	**(2.8)**
Exchange movements	(0.9)	(3.5)	–	**(4.4)**	(0.8)	0.5	(1.1)	**(5.8)**
At 31 March 2018	**27.4**	**78.6**	**0.6**	**106.6**	**27.0**	**49.1**	**65.5**	**248.2**
Carrying amount								
At 31 March 2018	**60.3**	**112.9**	**13.3**	**186.5**	**7.1**	**45.0**	**146.2**	**384.8**
At 31 March 2017	24.0	90.0	–	114.0	8.6	44.8	121.2	288.6

Software includes £72.3m (FY17: £60.8m) in respect of the new Customer Relationship Management (CRM) system which will be rolled out in the UK business during FY19. The asset will be amortised over 10 years on a straight-line basis from the point at which it is available for use.

On 18 December 2017 HomeServe US Repair Management Corporation acquired certain intangible assets of the home assistance policy business of Dominion Products and Services, Inc. ("DPS"), a wholly owned subsidiary of Dominion Energy, Inc. At 31 March 2018 acquired access rights included £35.4m and acquired customer databases included £19.7m in respect of the marketing agreement and policy book acquired as part of this transaction. These assets will be amortised over 13 and 9 years respectively, on a straight-line basis.

At the balance sheet date, there are no contractual commitments for the purchase of intangible assets (FY17: £nil).

15. Property, plant and equipment

	Land & buildings £m	Furniture, fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	**Total £m**
Cost					
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 1 April 2017	32.9	9.8	22.0	5.7	**70.4**
Additions	2.7	2.2	5.7	0.4	**11.0**
Disposals	(0.3)	(0.2)	(0.2)	—	**(0.7)**
Acquisition of subsidiaries	0.2	0.5	0.1	—	**0.8**
Exchange movements	(0.1)	(0.2)	(0.8)	(0.6)	**(1.7)**
At 31 March 2018	**35.4**	**12.1**	**26.8**	**5.5**	**79.8**
Accumulated depreciation					
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 1 April 2017	12.1	6.3	11.8	3.2	**33.4**
Charge for the year	1.7	1.7	3.7	0.9	**8.0**
Disposals	—	(0.2)	(0.3)	—	**(0.5)**
Exchange movements	(0.1)	—	(0.5)	(0.4)	**(1.0)**
At 31 March 2018	**13.7**	**7.8**	**14.7**	**3.7**	**39.9**
Carrying amount					
At 31 March 2018	**21.7**	**4.3**	**12.1**	**1.8**	**39.9**
At 31 March 2017	20.8	3.5	10.2	2.5	37.0

Notes to financial statements
Year ended 31 March 2018

15. Property, plant and equipment (continued)
The carrying amount of the Group's property, plant and equipment includes an amount of £1.8m (FY17: £2.3m) 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 (FY17: £nil).

16. Business combinations
The Group has incurred a net cash outflow in respect of business combinations of £54.2m in the year (FY17: £74.2m).

There were two material acquisitions in the year ended 31 March 2018.

On 2 August 2017 HomeServe Assistance Limited, acquired 100% of the issued share capital and obtained control of Help-Link UK Limited (Help-Link). The acquisition of Help-Link enhances the scale and scope of the UK business' heating installation capability and increases the opportunity for future growth related to new heating system installations.

On 17 November 2017 HomeServe Assistance Limited, increased its investment in Sherrington Mews Limited, the holding company of the Checkatrade Group (Checkatrade), by 60%, taking its total holding up to 100% and thereby obtaining control of Checkatrade and allowing the Group to progress its growth strategy in the Home Experts market. The initial investment made on 13 December 2016 included an option for HomeServe to purchase a further 35% in mid 2019 and this agreement superseded that option as well as securing the remaining equity of the business.

Additionally there were two immaterial acquisitions in the year ended 31 March 2018.

On 30 November 2017 HomeServe Membership Limited, a Group company, acquired 100% of the issued share capital of Energy Insurance Services Limited (EISL) for a total cash consideration of £1.7m. EISL provides boiler, central heating and control system insurance policies to approximately 19,000 domestic customers. EISL has developed significant knowledge, experience and systems related to the self-fix of boilers, which will bring customer experience improvements and synergies to HomeServe's growing UK heating business.

On 29 December 2017 HomeServe France Holdings SAS, a Group company, acquired 100% of PXB Invest SAS, the holding company of the Electrogaz Group for a total cash consideration of €5.6m (£5.0m). Electrogaz provides customers end-to-end home heating services, combining the provision of boiler installations, servicing and repair, complimenting HomeServe's strategic objective to grow and develop the Group's heating capabilities internationally.

The provisional fair values of identifiable assets acquired and liabilities assumed are set out in the table below:

At fair value	Checkatrade £m	Help-Link £m	Other £m	Total £m
Property, plant and equipment	0.4	0.3	0.1	**0.8**
Intangible assets	0.8	—	0.1	**0.9**
Cash and cash equivalents	1.8	(1.7)	1.5	**1.6**
Inventories	—	0.1	0.3	**0.4**
Trade and other receivables	9.2	1.4	0.9	**11.5**
Trade and other payables	(3.3)	(5.8)	(1.2)	**(10.3)**
Bank and other loans	—	—	(0.1)	**(0.1)**
Deferred income	(10.5)	—	(1.0)	**(11.5)**
Intangible assets identified on acquisition	28.0	1.5	1.4	**30.9**
Deferred tax on acquisition intangibles	(4.9)	(0.3)	(0.4)	**(5.6)**
Net assets/(liabilities) acquired	**21.5**	**(4.5)**	**1.6**	**18.6**
Goodwill	58.6	23.6	5.1	**87.3**
Total	**80.1**	**19.1**	**6.7**	**105.9**
Satisfied by:				
Cash	40.2	5.0	6.7	51.9
Contingent consideration at fair value	—	14.1	—	14.1
Ordinary shares in HomeServe plc	10.0	—	—	10.0
Fair value of associate interest previously owned (note 18)	29.9	—	—	29.9
	80.1	**19.1**	**6.7**	**105.9**
Net cash outflow arising on acquisition				
Cash consideration	40.2	5.0	6.7	51.9
Cash and cash equivalent balances acquired	(1.8)	1.7	(1.5)	(1.6)
	38.4	**6.7**	**5.2**	**50.3**

The goodwill arising on the excess of consideration over the fair value of the assets and liabilities acquired represents the expectation of synergy benefits 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.

Notes to financial statements

Year ended 31 March 2018

16. Business combinations (continued)

The provisional fair values for Help-Link disclosed as part of the Group's interim results as at 30 September 2017 have been updated, resulting in an increase to goodwill of £0.2m at 31 March 2018. The undiscounted range of outcomes associated with the contingent consideration payments, conditional on the number of boiler installations Help-Link complete during the period of contingency, remains from £nil to £15.5m.

The post-acquisition revenue, operating profit and acquisition-related costs (included in operating costs) from these acquisitions in the year ended 31 March 2018 were as follows:

	Checkatrade £m	Help-Link £m	Other £m	**Total £m**
Revenue	8.2	22.4	1.2	**31.8**
Operating (loss)/profit	(0.1)	(0.4)	–	**(0.5)**
Acquisition-related costs	0.3	0.5	0.3	**1.1**

If all of the acquisitions had been completed on the first day of the financial year, Group revenues for the period would have been £925.2m and Group profit before taxation would have been £124.1m.

In addition to the net cash outflow on the acquisitions above of £50.3m, deferred and contingent consideration was paid relating to previous business combinations of £3.9m (FY17: £3.1m).

17. Other investments

Available for sale investments carried at fair value	**£m**
At 1 April 2016	7.8
Exchange movements	0.7
At 1 April 2017	8.5
Exchange movements	0.2
At 31 March 2018	**8.7**

On 4 July 2014, HomeServe entered into an agreement with a manufacturer of smart thermostat connected home technology. The fair value of this equity investment has been assessed at 31 March 2018 by analysing the future outlook for the business as well as reviewing valuations associated with recent comparable market transactions.

18. Interests in associates

A list of the investments in associates, including the name, address, country of incorporation, and proportion of ownership is given in note 46 to the Company's separate financial statements. The following amounts relate to the results of associates:

	2018		2017		
	Assistenza Casa Srl £m	**Total £m**	Sherrington Mews Limited £m	Assistenza Casa Srl £m	Total £m
Current assets	19.8	**19.8**	9.4	21.4	30.8
Non-current assets	5.0	**5.0**	2.2	4.2	6.4
Current liabilities	(12.6)	**(12.6)**	(13.6)	(15.4)	(29.0)
Non-current liabilities	(1.1)	**(1.1)**	(0.7)	—	(0.7)
Equity attributable to the owners of the company	11.1	**11.1**	(2.7)	10.2	7.5
Controlling interest	(5.6)	**(5.6)**	1.6	(5.5)	(3.9)
Proportion of the Group's ownership interests in associates	**5.5**	**5.5**	(1.1)	4.7	3.6
Summary Statement of Comprehensive Income	**£m**	**£m**	£m	£m	£m
Revenue	15.2	**15.2**	4.7	1.2	5.9
Profit after tax	2.1	**2.1**	—	0.4	0.4
Total comprehensive income	2.1	**2.1**	—	0.4	0.4
Amounts recognisable	**1.0**	**1.0**	—	0.2	0.2

On 28 March 2018 HomeServe International Limited received a €0.5m (£0.4m) dividend payment from its associate, Assistenza Casa Srl (FY17 €/£nil). The receipt has been accounted for as a reduction in the carrying value of the Group's investment in Assistenza Casa Srl.

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

	2018		2017		
	Assistenza Casa Srl £m	**Total £m**	Sherrington Mews Limited £m	Assistenza Casa Srl £m	Total £m
Proportion of the Group's ownership interests in associates	5.5	**5.5**	(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 interests in associates	**5.5**	**5.5**	27.4	4.7	32.1

On 17 November 2017 HomeServe Assistance Limited increased its investment in its associate, Sherrington Mews Limited, the holding company of the Checkatrade Group, by 60%, taking its total holding up to 100% and thereby obtaining control of Checkatrade.

Notes to financial statements
Year ended 31 March 2018

18. Interests in associates (continued)
The initial investment made on 13 December 2016 included a call option for HomeServe to purchase a further 35% in mid 2019 and a put option for Sherrington Mews Limited to require the Group to acquire a further 35% shareholding. The subsequent agreement to acquire the additional 60% of Checkatrade's ordinary share capital superseded these options, which were consequently extinguished and had no material fair value at 17 November 2017.

Upon obtaining control of Checkatrade, the Group assessed the fair value of the associate interest disposed of as part of the total consideration for the business combination (see note 16). Based on a total business valuation of 100% of the share capital of Sherrington Mews Limited, the fair value of the Group's existing 40% interest was assessed to be £29.9m.

The gain on re-measurement of the existing associate interest on obtaining control was therefore calculated as follows:

	Total £m
Fair value of associate interest previously owned	**29.9**
Carrying value of associate interest held by the Group at 17 November 2017	**(27.3)**
Acceleration of discount unwind on contingent consideration payment associated with purchase of initial 40% shareholding	**(1.3)**
Acquisition related costs	**(0.4)**
Gain on re-measurement of associate on acquisition of control	**0.9**

19. Inventories

	2018 £m	2017 £m
Consumables	**4.3**	2.7

20. Other financial assets
Trade and other receivables

	2018 £m	2017 £m
Amounts receivable for the provision of services	**354.6**	292.3
Other receivables	**143.5**	143.0
Accrued income	**9.6**	9.2
Prepayments	**8.0**	10.6
	515.7	455.1

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 receivables balance are debtors with a carrying amount of £14.5m (FY17: £12.1m) 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 24 days (FY17: 21 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:

	2018 £m	2017 £m
1 - 30 days	**9.8**	8.6
31 - 60 days	**2.7**	3.0
61 - 90 days	**1.2**	0.2
91 days +	**0.8**	0.3
Balance at 31 March past due but not impaired	**14.5**	12.1
Current	**340.1**	280.2
Balance at 31 March	**354.6**	292.3

Movement in the allowance for doubtful debts:

	2018 £m	2017 £m
At 1 April	**1.9**	2.5
Impairment losses recognised	**0.4**	0.7
Reclassification to cancellation provision	**(0.4)**	(1.6)
Amounts recovered during the year	**(0.6)**	(0.2)
Acquisition of subsidiaries	**0.3**	0.5
Exchange movements	**(0.1)**	—
Balance at 31 March	**1.5**	1.9

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:

	2018 £m	2017 £m
1 - 30 days	**—**	—
31 - 60 days	**—**	—
61 - 90 days	**0.2**	0.2
91 days +	**0.4**	1.3
Current/not yet due	**0.9**	0.4
	1.5	1.9

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

Notes to financial statements
Year ended 31 March 2018

20. Other financial assets (continued)
Other receivables
The Group serves as an intermediary, whereby it is responsible for the collection of cash on behalf of third parties. Other receivables mainly represent those amounts to be collected from policyholders and are 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 and cash equivalents
Cash and cash equivalents of £57.8m (FY17: £46.2m) 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. Current liabilities

	2018 £m	2017 £m
Trade creditors and accruals	**114.6**	118.9
Contingent consideration	**15.9**	—
Deferred consideration	**5.2**	2.6
Deferred income	**86.3**	76.7
Taxes and social security, excluding current tax	**13.2**	12.0
Other creditors	**273.3**	246.0
	508.5	456.2

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days (FY17: 70 days).

Contingent and deferred consideration relates to future amounts payable on business combinations and asset purchases.

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 creditors, accruals, deferred consideration and other creditors meeting the definition of financial instruments approximates to their fair values. Contingent consideration is held at fair value.

22. Other financial liabilities

	2018 £m	2017 £m
Contingent consideration	**4.7**	4.7
Deferred consideration	**4.9**	0.4
Obligation under put option	**10.3**	9.3
Trade and other creditors	**3.5**	–
	23.4	14.4

Contingent and deferred consideration relates to future amounts payable on business combinations and asset purchases.

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 was initially recognised at the present value of the gross obligation of £9.3m with the corresponding charge being recognised in retained earnings. The option is 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 Directors consider that the carrying amount of deferred consideration, the obligation under put option and other creditors meeting the definition of financial instruments approximates to their fair values. Contingent consideration is held at fair value.

23. Borrowings

Bank and other loans

	2018 £m	2017 £m
Sterling denominated	**26.7**	25.0
Euro denominated	**11.3**	10.9
Due within one year	**38.0**	35.9
US dollar denominated	**48.7**	59.0
Euro denominated	**21.8**	32.1
Sterling denominated	**186.2**	179.0
Due after one year	**256.7**	270.1
Total bank and other loans	**294.7**	306.0

Notes to financial statements
Year ended 31 March 2018

23. Borrowings (continued)

Bank and other loans (continued)

The US Dollar and Euro denominated borrowings are used to provide debt funding to the North America and Continental Europe operations 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.

The weighted average interest rates paid on bank and other loans were as follows:

	2018			2017		
	£ %	€ %	$ %	£ %	€ %	$ %
Fixed	**2.9**	**—**	**—**	3.4	—	—
Floating	**1.4**	**0.9**	**2.4**	1.4	0.9	1.8

All of 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 £400m revolving credit facility with eight banks. This facility was taken out on 1 August 2017 and has an initial term of five years with the option to extend the term twice, by one year, up to maximum of seven years. The new facility replaces the £300m facility (the 'FY17 RCF') taken out with five banks on 31 July 2014. The financial covenants associated with the new facility are 'net debt to EBITDA of less than 3.0 times' (FY17 RCF: 3.0 times) and 'interest cover greater than 4.0 times EBITDA' (FY17 RCF: 4.0 times). Interest is charged at floating rates at margins of between 1.15% and 1.25% (FY17 RCF: 1.05% and 1.25%) above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk. At 31 March 2018, the Group had available £273.6m (FY17 RCF: £174.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

- The Group has £110m of US Private Placements (FY17: £110m) consisting of a £60m placement taken out on 6 March 2017 at a fixed interest rate of 2.59% and a £50m placement taken out on 7 October 2015 at a fixed interest rate of 3.44%. Both facilities have a term of seven years and the financial covenants associated with both are the same as the £400m revolving credit facility.

- The Group maintains additional funding through a €37.5m 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 £400m 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 31 January 2018 which has a term of six months. The financial covenants associated with this facility are the same as the £400m 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/£1.6m (FY17: $2.3m/£1.9m) was drawn at 31 March 2018. The weighted average interest rate was 1.5% (FY17: 2.0%).

The Group has complied with all covenant requirements in the current and prior year. Information about liquidity risk is presented in note 24.

Obligations under finance leases

	2018 £m	2017 £m
Amounts payable under finance leases:		
Amounts due for settlement within 12 months	**0.5**	0.6
Amounts due for settlement after 12 months: in the second to fifth years inclusive	**0.4**	1.0
Present value of lease obligations	**0.9**	1.6

Minimum lease payments		
Within 12 months	**0.5**	0.6
In the second to fifth years inclusive	**0.4**	1.0
Present value of lease obligations	**0.9**	1.6

Certain motor vehicles are held under finance leases. The average lease term is 6 years (FY17: 5 years). For the year ended 31 March 2018, the average effective borrowing rate was 2.5% (FY17: 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.

Reconciliation of movements in liabilities arising from financing

	Current liabilities			Non-current liabilities			
	Deferred and Contingent consideration £m	Finance leases £m	Bank and other loans £m	Deferred and Contingent consideration £m	Finance leases £m	Bank and other loans £m	**Total £m**
At 1 April 2017	2.6	0.6	35.9	5.1	1.0	270.1	**315.3**
Proceeds from new loans and borrowings	—	—	—	—	—	221.0	**221.0**
Repayment of borrowings	—	—	(10.7)	—	—	(215.8)	**(226.5)**
Payments associated with acquisitions	(3.9)	—	—	—	—	—	**(3.9)**
Payment of finance leases	—	(0.6)	—	—	—	—	**(0.6)**
Interest paid	—	—	(0.2)	—	—	(7.3)	**(7.5)**
Capitalised borrowing costs	—	—	(0.1)	—	—	(3.0)	**(3.1)**
Total changes from cash flows	(3.9)	(0.6)	(11.0)	—	—	(5.1)	**(20.6)**
Other changes							
Foreign exchange	(0.1)	—	0.4	(0.1)	(0.1)	(5.3)	**(5.2)**
Interest expense	0.7	—	2.0	0.1	—	7.7	**10.5**
Additions	13.6	—	—	9.3	—	—	**22.9**
Exstinguishment	—	—	—	(2.7)	—	—	**(2.7)**
Transfers to/(from)	2.1	0.5	10.7	(2.1)	(0.5)	(10.7)	**—**
At 31 March 2018	**15.0**	**0.5**	**38.0**	**9.6**	**0.4**	**256.7**	**320.2**

Notes to financial statements
Year ended 31 March 2018

23. Borrowings (continued)
Reconciliation of movements in liabilities arising from financing (continued)

Deferred and contingent consideration balances in the balance sheet also include a total of £6.1m (FY17: £nil) in relation to the purchase of the AA's Home emergency services policy book. Cash flows associated with these balances will be classified as investing when they are incurred because they do not include a significant financing component due to the anticipated timing of the payment.

24. Financial instruments
The tables below set out the classification of financial instruments in the statement of financial position:

Financial assets	2018 £m	2017 £m
Loans and receivables	**555.9**	481.5
Available for sale investments	**8.7**	8.5

Financial liabilities	2018 £m	2017 £m
Fair value through profit and loss	**20.6**	4.7
Other financial liabilities at amortised cost	**706.5**	683.2

Principal financial instruments

The principal financial instruments used by the Group from which 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
- other investments

All principal financial instruments are stated at amortised cost, with the exception of contingent consideration which is held at fair value and other investments which are held as available for sale.

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 equal to quoted and unadjusted market 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 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 2 and 3 financial instruments at fair value:

	2018 £m	2017 £m
Level 2		
Assets classified as available for sale		
Other investments (note 17)	**8.7**	8.5
Level 3		
Contingent consideration at fair value through profit and loss		
Current liabilities	**(15.9)**	—
Non-current liabilities	**(4.7)**	(4.7)

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

Contingent consideration liabilities are calculated using forecasts of future performance of acquisitions discounted to present value. Forecasts and discount rates are reviewed at least annually by the Directors as part of the valuation process. If discount rates were higher/lower than the Group's historical experience by 10%, the carrying amount would decrease/increase by £0.1m. Contingent consideration relating to business combinations and asset purchases are the only financial liabilities subsequently measured at fair value using Level 3 valuation techniques. No gain or loss for the year relating to this contingent consideration has been recognised in the income statement (FY17: £nil). Additional contingent consideration incurred during the year totalled £19.7m (FY17: £2.7m), extinguishment of contingent consideration relating to associates totalled £2.7m (FY17: £nil), payments during the year amounted to £1.9m (FY17: £0.2m) and unwind of interest amounted to £0.7m (FY17: £0.2m).

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 23, cash and cash equivalents in note 20 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 25, 26 and the Group Statement of Changes in Equity.

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

	2018 £m	2017 £m
Attributable to equity holders of the parent	**551.0**	369.2
Cash and cash equivalents	**57.8**	46.2
Bank and other loans	**294.7**	306.0

The amount disclosed for bank and other loans in the above table has been updated to include balances due within one year, as the Directors believe that this presentation best reflects the Group's approach to capital management.

Notes to financial statements

Year ended 31 March 2018

24. Financial instruments (continued)

Capital risk management (continued)

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

Financial risk management objectives

The Group principally utilises cash and cash equivalents and bank and other loans for the purpose of raising finance for its 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

The Group's financial assets and liabilities are disclosed in notes 20 to 23. The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Foreign currency risk is minimised by the treasury borrowing approach set out in note 23.

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 rate risk 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 increase of 10% 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).

	2018	2017
Increase in cost of borrowing	**10%**	10%
Reduction in profit before tax (£m)	**0.3**	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 cash and cash equivalents, the Group's exposure arises from the probability of 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.

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 23 are details of the undrawn facilities that are available to the Group to reduce liquidity risk further, along with the weighted average interest rates paid on bank and other loans.

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.

Notes to financial statements

Year ended 31 March 2018

24. Financial instruments (continued)

Liquidity risk (continued)

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. All cash flows are presented on an undiscounted basis.

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Obligation under put option £m	**Total £m**
2018						
Under 2 months	2.1	73.3	96.3	4.2	–	**175.9**
Between 2 and 6 months	37.4	27.2	93.3	8.1	–	**166.0**
Between 6 and 12 months	3.4	14.1	83.7	9.4	–	**110.6**
Between 1 and 2 years	17.4	1.5	1.9	5.8	–	**26.6**
Between 2 and 3 years	17.3	–	0.1	0.8	12.3	**30.5**
Between 3 and 4 years	6.3	–	–	0.8	–	**7.1**
Between 4 and 5 years	181.0	–	–	0.8	–	**181.8**
After 5 years	62.9	–	–	3.9	–	**66.8**
Total	**327.8**	**116.1**	**275.3**	**33.8**	**12.3**	**765.3**

	Bank and other loans £m	Trade payables £m	Other creditors £m	Deferred and contingent consideration £m	Obligation under put option £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	9.1	12.1	720.2

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

Forward contracts

On 21 November 2017 the Company entered into two forward contracts to purchase a combined total of US$73m on 11 December 2017. This transaction was executed to mitigate a specific US dollar currency translation risk identified by the Board in relation to the acquisition of tranche one of the DPS policy book (see note 14).

Upon purchase, the forward contracts were placed in a cash flow hedge relationship to hedge a highly probable future outflow of US dollars. Upon maturity, at 11 December 2017, the effective portion of fair value movement on the derivative (a debit of £0.5m) was reclassified from the hedging reserve against the hedged item at its initial recognition on 18 December 2017. Ineffectiveness recorded within finance costs in the income statement was £nil (FY17: £nil).

25. Share capital

	2018 £m	2017 £m
Issued and fully paid 329,776,766 ordinary shares of 2 9/13p each (FY17: 310,689,548)	**8.9**	8.4

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, or amounts, based on fair value of the consideration for acquired entities. The nominal value was 2 9/13p per share on all issued and fully paid shares.

On 19 October 2017, the Company placed 15,243,903 new ordinary shares at a price of 820 pence per share, raising gross proceeds of approximately £125.0m. The Placing Shares issued represented, in aggregate, approximately 4.9 per cent of HomeServe's issued ordinary share capital prior to the Placing. Transaction costs associated with the Placing of £3.4m were accounted for as a deduction from equity (FY17: £nil).

During the period from 1 April 2017 to 31 March 2018 the Company issued a further 3,843,315 shares with a nominal value of 2 9/13p creating share capital of £103,474 and share premium of £4,907,972. Of this total, 1,193,317 shares, issued at 838 pence per share represented £10.0m of the fair value of the consideration for the acquisition of Sherrington Mews Limited on 17 November 2017 (see note 16).

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.

26. Reserves

Share premium

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 (FY17: 2 9/13p).

Share incentive reserve

The share incentive reserve represents the cumulative charges to income under IFRS2 'Share-based payments' on all share options and schemes granted, net of share option exercises.

Currency translation reserve

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.

Available for sale reserve

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

Notes to financial statements

Year ended 31 March 2018

26. Reserves (continued)

Other reserves

The movement on other reserves during the current and preceding years is set out in the table below:

	Capital redemption reserve £m	Merger reserve £m	Own shares reserve £m	Hedging reserve £m	**Total other reserves £m**
At 1 April 2016	1.2	71.0	(0.1)	–	**72.1**
Issue of trust shares	–	–	0.1	–	**0.1**
At 1 April 2017	1.2	71.0	–	–	**72.2**
Increase in merger reserve	–	10.0	–	–	**10.0**
Other comprehensive income – fair value loss on cash flow hedges	–	–	–	(0.5)	**(0.5)**
Basis adjustments on hedged items	–	–	–	0.5	**0.5**
At 31 March 2018	**1.2**	**81.0**	**–**	**–**	**82.2**

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

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; and

- the issue on 17 November 2017 of 1.2m new shares relating to the acquisition of Checkatrade. The reserve reflects the difference between the nominal value of shares at the date of issue of 2 9/13p and the share price immediately preceding the issue of 838p per share.

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.

The hedging reserve records movements for effective cash flow hedges measured at fair value.

27. Non-controlling interests

Summarised financial information in respect of the non-controlling interest in Habitissimo S.L. is set out below. The proportion of ownership interests held by non-controlling interests is 30%. The summarised financial information below represents amounts before intra-group eliminations.

	2018 £m	2017 £m
Current assets	**0.8**	1.1
Non-current assets	**3.5**	3.2
Current liabilities	**(3.1)**	(1.3)
Non-current liabilities	**–**	(0.3)
Equity attributable to owners of the Company	**1.2**	2.7
Non-controlling interests	**0.4**	0.8

28. Notes to the cash flow statement

	2018 £m	2017 £m
Operating profit	**135.0**	104.7
Adjustments for:		
Depreciation of property, plant and equipment	**8.0**	6.9
Amortisation of intangible assets	**54.6**	42.6
Share-based payments expense	**9.1**	7.4
Share of profit of associates	**(1.0)**	(0.2)
Loss on disposal of property and plant and equipment and software	**2.1**	0.4
Gain on re-measurement of associate on acquisition of control	**(0.9)**	—
Decrease in other financial liabilities	**(0.3)**	—
Bargain purchase on acquisition	**—**	(0.7)
Profit on disposal of subsidiary	**—**	(0.1)
Operating cash flows before movements in working capital	**206.6**	161.0
(Increase)/decrease in inventories	**(1.4)**	0.4
Increase in receivables	**(60.7)**	(75.5)
Increase in payables	**19.7**	54.0
Movements in working capital	**(42.4)**	(21.1)
Cash generated by operations	**164.2**	139.9
Income taxes paid	**(27.2)**	(20.0)
Interest paid	**(7.5)**	(6.7)
Net cash inflow from operating activities	**129.5**	113.2

29. Share-based payments

During the year ended 31 March 2018, the Group had three (FY17: three) 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 2014 was dependent upon comparative Total Shareholder Return performance. For performance and matching awards granted from 2015 onwards, 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 (FY17: nil) as the scheme is now closed.

Notes to financial statements
Year ended 31 March 2018

29. Share-based payments (continued)
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.

	LTIP	SAYE	One plan
2018			
Number			
Outstanding at 1 April 2017	6,190,933	1,481,214	33,811
Granted	1,600,485	–	52,298
Forfeited	(104,100)	(81,285)	(9,544)
Exercised	(1,973,487)	(670,735)	(1,448)
Outstanding at 31 March 2018	**5,713,831**	**729,194**	**75,117**
Exercisable at 31 March 2018	19,454	76,220	–
Weighted average exercise price (£)			
Outstanding at 1 April 2017	–	2.88	–
Granted	–	–	–
Forfeited	–	3.12	–
Exercised	–	2.53	–
Outstanding at 31 March 2018	**–**	**3.18**	**–**
Exercisable at 31 March 2018	–	2.57	–
Range of exercise price of options outstanding at 31 March 2018			
£1.00 to £1.99	–	50,310	–
£2.00 to £2.99	–	73,159	–
£3.00 to £3.99	–	605,725	–
Weighted average remaining contractual life	2	1	2
Weighted average fair value of options granted in 2018	£6.30	–	£7.56

	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			
£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 granted in 2017	£4.81	—	£5.96

The weighted average share price at the date of exercise for share options exercised during the year was £7.38 (FY17: £5.28).

Notes to financial statements

Year ended 31 March 2018

29. Share-based payments (continued)

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	22% – 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.

In FY18 the Group recognised an IFRS 2 charge of £9.1m (FY17: £7.4m) related to equity-settled share-based payment transactions.

30. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all UK employees. The assets of the schemes 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 American employees.

The total cost charged to income of £4.7m (FY17: £3.8m) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. At 31 March 2018, contributions of £227,000 (FY17: £323,000) 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 2017 were updated to the accounting date by a qualified independent actuary in accordance with IAS19. Remeasurements are recognised immediately through other comprehensive income.

	Valuation at	
	2018	2017
Key assumptions used:		
Discount rate at 31 March	**2.7%**	2.6%
Consumer price inflation	**2.4%**	2.4%
Retail price inflation	**3.4%**	3.4%
Expected rate of salary increases	**2.4%**	2.4%
Future pension increases	**2.4%**	2.4%
Life expectancy of female aged 60 at balance sheet date	**29.5yrs**	29.8yrs
Life expectancy of male aged 60 at balance sheet date	**28.2yrs**	27.9yrs

Pensions accounting entries are subject to judgement and volatility, as the majority of the assets are held within instruments with quoted market prices in an active 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:

- a reasonably possible increase in the discount rate of 0.5% would lead to a reduction in the value placed on the obligations of the Section of approximately £3.1m
- a reasonably possible increase in the inflation assumption rate of 0.5% would lead to an increase in the value placed on the obligations of the Section of approximately £3.2m
- 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.

Notes to financial statements

Year ended 31 March 2018

30. Retirement benefit schemes (continued)

Defined benefit scheme (continued)

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

	2018 £m	2017 £m
Current service cost	**0.2**	0.2
Interest income	**—**	(0.1)
Recognised in operating costs	**0.2**	0.1

The actual return on scheme assets was a gain of £0.3m (FY17: gain of £4.4m). The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement scheme is as follows:

	2018 £m	2017 £m
Present value of defined benefit obligations	**(33.3)**	(35.2)
Fair value of scheme assets	**38.0**	35.9
Surplus in scheme recognised in the balance sheet in non-current assets	**4.7**	0.7

The net asset recognised in the balance sheet has not been limited as the Group believes that a refund of the surplus assets would be available to it following the final payment to the last beneficiary of the pension scheme.

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

	2018 £m	2017 £m
At 1 April	**35.2**	26.6
Employer's part of the current service cost	**0.2**	0.2
Interest cost	**0.9**	0.9
Actuarial (gains) / losses due to:		
Changes in financial assumptions	**(1.2)**	7.8
Changes in demographic assumptions	**(0.9)**	—
Experience adjustments on benefit obligations	**0.3**	—
Benefits paid	**(1.2)**	(0.3)
At 31 March	**33.3**	35.2

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

	2018 £m	2017 £m
At 1 April	**35.9**	28.7
Interest on Section assets	**0.9**	1.0
Actual return less interest on Section assets	**0.3**	4.4
Contributions from the employer	**2.1**	2.1
Benefits paid	**(1.2)**	(0.3)
At 31 March	**38.0**	35.9

The amount recognised outside the income statement in the statement of comprehensive income for FY18 is a gain of £2.1m (FY17: loss of £3.4m). The cumulative amount recognised outside the income statement at 31 March 2018 is a loss of £5.2m (FY17: loss of £7.3m).

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

	2018 £m	2017 £m
Equity instruments	**14.6**	14.0
Diversified growth funds	**3.4**	3.3
Liability driven investment funds	**15.5**	14.4
Other	**4.5**	4.2
	38.0	35.9

The majority of the assets are held within instruments with quoted market prices in an active market.

The estimated amounts of contributions expected to be paid to the scheme during the forthcoming financial year is £2.3m (FY18: actual £2.1m) plus any Pension Protection Fund levy payable.

Notes to financial statements

Year ended 31 March 2018

31. Operating lease commitments

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:

	2018 £m	2017 £m
Within 12 months	**12.0**	12.4
In the second to fifth years inclusive	**20.5**	21.4
After five years	**5.3**	3.0
	37.8	36.8

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.

32. Related party transactions

The Group consists of a parent Company, HomeServe plc, incorporated in the UK and a number of subsidiaries and associates held directly and indirectly by HomeServe plc, which operate and are incorporated internationally. Note 46 to the Company's separate financial statements lists details of the interests in subsidiaries and related undertakings. 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 46).

Transactions with associates

	2018 £m	2017 £m
Sales to associates	**0.5**	–

Other related party transactions

Group companies purchased services of £0.3m (FY17: £0.3m) from Harpin Limited, £nil (FY17: £0.1m) from Pilot Services (GB) Limited and £0.2m (FY17: £0.1m) from Flairjet Ltd, none of which are members of the Group. These companies are related parties because they are controlled by or connected to Richard Harpin, Chief Executive of the Group and Director of the parent company of the Group. Amounts outstanding to all of these companies on 31 March 2018 amounted to £0.2m (FY17: £0.1m).

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

Remuneration of key management personnel

The remuneration of the Directors 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.

	2018 £m	2017 £m
Short-term employee benefits	6.2	5.9
Post-employment benefits	0.4	0.3
Share-based payments expense	7.2	5.6
	13.8	11.8

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

Company statement of comprehensive income

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Profit for the year		**49.1**	33.4
Items that will not be reclassified subsequently to the profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	30	**2.1**	(3.4)
Deferred tax (charge)/credit relating to components of other comprehensive income		**(0.4)**	0.6
Total other comprehensive income/(expense)		**1.7**	(2.8)
Total comprehensive income for the year		**50.8**	30.6

Company balance sheet

31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Other intangible assets	35	**4.3**	4.8
Property, plant and equipment	36	**0.1**	0.3
Investment in subsidiaries	37	**194.6**	194.6
Deferred tax assets	40	**0.4**	0.8
Retirement benefit assets	30	**4.7**	0.7
		204.1	201.2
Current assets			
Trade and other receivables	38	**417.7**	371.3
Cash and cash equivalents	38	**75.6**	—
		493.3	371.3
Total assets		**697.4**	572.5
Current liabilities			
Trade and other payables	39	**(11.6)**	(12.5)
Current tax liabilities		**(4.0)**	(5.4)
Bank and other loans	41	**(37.6)**	(40.1)
		(53.2)	(58.0)
Net current assets		**440.1**	313.3
Non-current liabilities			
Bank and other loans	41	**(255.2)**	(268.2)
		(255.2)	(268.2)
Total liabilities		**(308.4)**	(326.2)
Net assets		**389.0**	246.3
Equity			
Share capital	25	**8.9**	8.4
Share premium account	26	**171.8**	45.7
Merger reserve	26	**81.0**	71.0
Share incentive reserve	43	**20.0**	16.2
Capital redemption reserve	26	**1.2**	1.2
Retained earnings		**106.1**	103.8
Total equity		**389.0**	246.3

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 £49.1m (FY17: £33.4m).

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 22 May 2018. They were signed on its behalf by:

David Bower
Chief Financial Officer
22 May 2018

Registered in England No. 2648297

Company statement of changes in equity

Year ended 31 March 2018

	Share Capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption eserve £m	Retained earning £m	**Total equity £m**
Balance at 1 April 2017	8.4	45.7	71.0	16.2	1.2	103.8	**246.3**
Profit for the year	—	—	—	—	—	49.1	**49.1**
Other comprehensive income	—	—	—	—	—	1.7	**1.7**
Total comprehensive income	—	—	—	—	—	50.8	**50.8**
Dividends paid (note 11)	—	—	—	—	—	(50.4)	**(50.4)**
Issue of share capital	0.5	126.1	10.0	—	—	—	**136.6**
Share-based payments	—	—	—	8.1	—	—	**8.1**
Share options exercised	—	—	—	(4.3)	—	1.0	**(3.3)**
Tax on exercised share options	—	—	—	—	—	0.9	**0.9**
Balance at 31 March 2018	**8.9**	**171.8**	**81.0**	**20.0**	**1.2**	**106.1**	**389.0**

Year ended 31 March 2017

	Share Capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption eserve £m	Retained earning £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)
Total comprehensive income	—	—	—	—	—	30.6	30.6
Dividends paid (note 11)	—	—	—	—	—	(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

Company cash flow statement

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Net cash outflow from operating activities	44	**(57.5)**	(145.8)
Investing activities			
Interest received		**—**	0.1
Dividends received from subsidiary undertakings		**75.0**	48.3
Purchases of intangible assets		**(2.2)**	(3.7)
Purchases of tangible assets		**—**	(0.2)
Net cash from investing activities		**72.8**	44.5
Financing activities			
Dividends paid		**(50.4)**	(40.3)
Proceeds on issue of share capital		**124.1**	0.8
Costs associated with issue of share capital		**(0.8)**	—
New bank and other loans raised		**221.0**	103.3
Costs associated with new bank and other loans raised		**(3.1)**	—
Reduction in bank and other loans		**(226.1)**	(29.8)
Net cash generated by financing activities		**64.7**	34.0
Net movement in cash and cash equivalents		**80.0**	(67.3)
Cash and cash equivalents at beginning of year		**(4.4)**	62.1
Effect of foreign currency exchange rate changes		**—**	0.8
Cash and cash equivalents at end of year	38	**75.6**	(4.4)

'Amounts received from subsidiary undertakings for share incentive schemes and other items' previously disclosed in investing activities are now disclosed in note 44.

Notes to financial statements

Year ended 31 March 2018

Company only

The following notes 33 to 46 relate to the Company only position and performance for the year ended 31 March 2018.

33. 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 £49.1m (FY17: £33.4m).

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. None of the critical accounting judgements and key sources of estimation uncertainty disclosed in note 3 apply to the Company.

34. Other information

	2018 £000	2017 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**71**	69
Total audit fees	**71**	69

35. Other intangible assets

	Trademarks & access rights £m	Software £m	**Total intangibles £m**
Cost			
At 1 April 2016	1.8	2.3	**4.1**
Additions	—	3.1	**3.1**
At 1 April 2017	1.8	5.4	**7.2**
Additions	—	1.9	**1.9**
At 31 March 2018	**1.8**	**7.3**	**9.1**
Accumulated amortisation			
At 1 April 2016	0.6	0.2	**0.8**
Charge for the year	0.1	1.5	**1.6**
At 1 April 2017	0.7	1.7	**2.4**
Charge for the year	0.1	2.3	**2.4**
At 31 March 2018	**0.8**	**4.0**	**4.8**
Carrying amount			
At 31 March 2018	**1.0**	**3.3**	**4.3**
At 31 March 2017	1.1	3.7	4.8

Notes to financial statements
Year ended 31 March 2018

36. Property, plant and equipment

	Leasehold Improvements £m	Computer equipment £m	**Total tangible assets £m**
Cost			
At 1 April 2016	0.2	0.1	**0.3**
Additions	0.1	0.1	**0.2**
At 1 April 2017 and 31 March 2018	**0.3**	**0.2**	**0.5**
Accumulated depreciation			
At 1 April 2016	0.1	–	**0.1**
Charge for the year	–	0.1	**0.1**
At 1 April 2017	0.1	0.1	**0.2**
Charge for the year	0.1	0.1	**0.2**
At 31 March 2018	**0.2**	**0.2**	**0.4**
Carrying amount			
At 31 March 2018	**0.1**	**–**	**0.1**
At 31 March 2017	0.2	0.1	0.3

37. Subsidiaries

Details of the Company's subsidiaries at 31 March 2018, including the name, address, country of incorporation and proportion of ownership interest is given in note 46.

	£m
Cost and net book value	
At 1 April 2016, 1 April 2017 and 31 March 2018	**194.6**

38. Financial assets

Trade and other receivables

	2018 £m	2017 £m
Amounts receivable from Group companies	**417.0**	368.3
Other receivables	**0.5**	0.9
Prepayments and accrued income	**0.2**	2.1
	417.7	371.3

38. Financial assets (continued)

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:

	2018 £m	2017 £m
Current	**417.0**	368.3
Balance at 31 March	**417.0**	368.3

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 £75.6m (FY17: £nil) 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.

39. Financial liabilities

Trade and other payables

	2018 £m	2017 £m
Trade creditors and accruals	**9.7**	9.4
Taxes and social security, excluding corporation tax	**1.9**	3.1
	11.6	12.5

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 11 days (FY17: 12 days).

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

Notes to financial statements
Year ended 31 March 2018

40. Deferred tax
The following are the major deferred tax assets/(liabilities) recognised by the Company and movements thereon:

	Retirement benefit obligations £m	Share schemes £m	Timing differences £m	**Total £m**
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 1 April 2017	(0.2)	1.5	(0.5)	**0.8**
(Charge)/credit to income	(0.3)	0.4	(0.1)	**–**
Charge to comprehensive income	(0.4)	–	–	**(0.4)**
At 31 March 2018	**(0.9)**	**1.9**	**(0.6)**	**0.4**

41. Bank and other loans

	2018 £m	2017 £m
Bank overdraft	**–**	4.4
Bank loans	**37.6**	35.7
Due within one year	**37.6**	40.1
Bank and other loans	**255.2**	268.2
Due after one year	**255.2**	268.2
Total bank and other loans	**292.8**	308.3

The bank overdraft of £nil (FY17: £4.4m) is part of the Group's cash pooling arrangements. 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 £37.6m (FY17: £35.7m) include the short term loan and £10.9m of the €37.5m amortising loan. The principal features of these loans are set out in note 23.

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 €37.5m amortising loan. The principal features of these loans are set out in note 23.

The weighted average of interest rates paid are set out in note 23.

Reconciliation of movements in liabilities arising from financing

	Current liabilities Bank and other loans £m	Non-current liabilities Bank and other loans £m	Total £m
At 1 April 2017	40.1	268.2	**308.3**
Proceeds from new loans and borrowings	—	221.0	**221.0**
Repayment of borrowings	(10.7)	(215.4)	**(226.1)**
Repayment of overdraft	(4.4)	—	**(4.4)**
Interest paid	(0.2)	(6.8)	**(7.0)**
Capitalised borrowing costs	(0.1)	(3.0)	**(3.1)**
Total changes from cash flows	(15.4)	(4.2)	**(19.6)**
Other changes			
Foreign exchange	0.2	(5.3)	**(5.1)**
Interest expense	2.0	7.2	**9.2**
Transfers to/(from)	10.7	(10.7)	**—**
At 31 March 2018	**37.6**	**255.2**	**292.8**

42. Financial instruments

The tables below set out the classification of financial instruments in the statement of financial position:

Financial assets	2018 £m	2017 £m
Loans and receivables	**493.1**	369.2

Financial liabilities	2018 £m	2017 £m
Other financial liabilities at amortised cost	**302.5**	317.7

Notes to financial statements

Year ended 31 March 2018

42. Financial instruments (continued)

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 41, cash and cash equivalents disclosed in note 38 and equity comprising issued capital, reserves and retained earnings as disclosed in this note and notes 25, 26 and the Company Statement of Changes in Equity.

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

	2018 £m	2017 £m
Shareholders' funds	**389.0**	246.3
Cash and cash equivalents	**75.6**	—
Bank and other loans	**292.8**	308.3

The amount disclosed for bank and other loans in the above table has been updated to include balances due within one year, as the Directors believe that this presentation best reflects the Company's approach to capital management.

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. The Company's exposure to interest rate risk is closely aligned to that of the Group, more details of which can be found in note 24.

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 set out in the table below. The prior year asset amounts have been restated to better reflect the foreign assets held by the company.

	Assets		Liabilities	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Euro	**—**	16.7	**(33.1)**	(43.0)
US dollar	**122.1**	131.4	**(48.4)**	(57.0)

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 after tax and equity. In the prior year the amounts disclosed were for profit before tax, however the Directors' opinion is that profit after tax is a better representation of the sensitivity.

	2018	2017
Increase in £:$ exchange rate:	**10%**	10%
Effect on profit after tax (£m)	**(5.4)**	(5.4)
Effect on equity (£m)	**(5.4)**	(5.4)
Increase in £:€ exchange rate:	**10%**	10%
Effect on profit after tax (£m)	**2.4**	1.9
Effect on equity (£m)	**2.4**	1.9

Notes to financial statements
Year ended 31 March 2018

42. Financial instruments (continued)
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 23 are details of the undrawn facilities that are available to the Company and the Group to further reduce liquidity risk.

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. All cash flows are presented on an undiscounted basis.

	Bank and other loans £m	Trade, other and group payables £m	**Total £m**
2018			
Under 2 months	2.1	2.1	**4.2**
Between 2 and 6 months	37.1	6.2	**43.3**
Between 6 and 12 months	3.1	1.4	**4.5**
Between 1 and 2 years	17.2	–	**17.2**
Between 2 and 3 years	17.1	–	**17.1**
Between 3 and 4 years	6.1	–	**6.1**
Between 4 and 5 years	180.8	–	**180.8**
Over 5 years	62.6	–	**62.6**
Total	**326.1**	**9.7**	**335.8**

	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

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).

	2018	2017
Increase in the cost of borrowing	**10%**	10%
Reduction in profit before tax (£m)	**0.3**	0.2

43. Share incentive reserve

	£m
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 1 April 2017	16.2
Share-based payment charges in the year	8.1
Share options exercised in year	(4.3)
Balance at 31 March 2018	**20.0**

Notes to financial statements

Year ended 31 March 2018

44. Notes to the cash flow statement

	2018 £m	2017 £m
Operating loss	**(21.5)**	(20.2)
Adjustments for:		
Amortisation of intangible assets	**2.4**	1.6
Depreciation of property, plant and equipment	**0.2**	0.1
Amounts received from subsidiary undertakings for share incentive schemes and other items	**16.1**	4.4
Share-based payment expense	**3.0**	3.1
Operating cash flows before movements in working capital	**0.2**	(11.0)
Increase in receivables	**(53.8)**	(112.6)
Decrease in payables	**(2.1)**	(17.4)
Movements in working capital	**(55.9)**	(130.0)
Cash used in operations	**(55.7)**	(141.0)
Income taxes received	**5.2**	1.5
Interest paid	**(7.0)**	(6.3)
Net cash outflow from operating activities	**(57.5)**	(145.8)

45. Share-based payments

During the year ended 31 March 2018, the Company had three (FY17: three) share-based payment arrangements, which are described in note 29.

	LTIP	SAYE	One Plan
2018			
Number			
Outstanding at 1 April 2017	2,473,627	76,368	2,302
Granted	549,657	—	3,572
Transfer	5,846	—	170
Forfeited	(34,295)	(2,686)	(93)
Exercised	(877,657)	(49,433)	(561)
Outstanding at 31 March 2018	**2,117,178**	**24,249**	**5,390**
Exercisable at 31 March 2018	—	3,461	—
Weighted average exercise price (£)			
Outstanding at 1 April 2017	—	2.82	—
Transfer	—	—	—
Forfeited	—	3.35	—
Exercised	—	2.58	—
Outstanding at 31 March 2018	**—**	**3.24**	**—**
Exercisable at 31 March 2018	—	2.60	—
Range of exercise price of options outstanding at 31 March 2018			
£2.00 to £2.99	—	3,461	—
£3.00 to £3.99	—	20,788	—
Weighted average remaining contractual life	2	1	2
Weighted average fair value of options granted in 2018	£6.70	—	£7.56

Notes to financial statements

Year ended 31 March 2018

45. Share-based payments (continued)

	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			
£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 granted in 2017	£4.83	—	£5.95

The weighted average share price at the date of exercise for share options exercised during the year was £7.46 (FY17: £5.22).

The estimated fair values are calculated by applying a Black-Scholes option pricing model for One Plan and SAYE and Monte Carlo simulations for the LTIP. The assumptions used in the models are set out in note 29.

In FY18 the Company recognised an IFRS 2 charge of £3.0m (FY17: £3.1m) related to equity-settled share-based payment transactions.

46. Related party transactions

Group companies purchased services of £0.3m (FY17: £0.3m) from Harpin Limited, £nil (FY17:£0.1m) from Pilot Services (GB) Limited and £0.2m (FY17:£0.1m) from Flairjet Limited, none of which are members of the Group. These companies are related parties because they are controlled by or connected to Richard Harpin, Chief Executive of the Group and Director of the parent company of the Group. Amounts outstanding to all of these companies on 31 March 2018 amounted to £0.2m (FY17:£0.1m).

The Company also provided goods of £nil (FY17: £nil), provided services of £5.6m (FY17: £5.5m), lent monies to of £54.5m (FY17: £44.5m) and borrowed monies from of £nil (FY17: £10.6m) with subsidiary companies of the Group. Amounts due to subsidiary companies total £nil (FY17: £nil). Amounts owed by subsidiary companies total £417.0m (FY17: £368.3m). The Company provided services of £0.3m (FY17: £nil) to associates during the year. There were no other transactions with associates or amounts outstanding in either year.

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.

	2018 £m	2017 £m
Short-term employee benefits	**3.7**	3.0
Post-employment benefits	**0.3**	0.2
Share-based payments expense	**3.7**	3.1
	7.7	6.3

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

Notes to financial statements

Year ended 31 March 2018

46. Related party transactions (continued)

Interests held in related companies

All interests in the companies listed below are owned by HomeServe Plc and all interests held are in the ordinary share capital. All companies operate principally in their country of incorporation.

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
Directly held entities 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
HomeServe GB Limited (No. 5536994) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe France Holding SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 LYON Cedex 7
HomeServe Energy Services SAS (formerly PXB Invest SAS) [5]	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 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 [4]	Trading	England	100	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) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Vetted Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade National Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade.com Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkaprofessional.com Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkagroup Holdings Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
Checkatrade Installers Limited [4]	Trading	England	100	5-6 Sherrington Mews, Ellis Square, Selsey, W. Sussex, PO20 0FJ
247999 Limited (No. 7183505) [1]	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) [1]	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

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
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) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Home Service (GB) Limited (No. 3546370) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Fastfix Plumbing and Heating Limited (No. 3120932) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Care Solutions Limited (No. 3228902) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Warranties Limited (No. 3156861) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Multimaster Limited (No. 3670180) [1]	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
AskDad Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Labs Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Help-Link UK Limited (No. 03527087) [5]	Trading	England	100	3310 Century Way, Thorpe Park, Cotton, Leeds, LS15 8ZB
Energy Insurance Services Limited (No. 04792484) [6]	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Continental Europe				
HomeServe SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 LYON Cedex 7
Deltatherm (SARL) [7]	Trading	France	100	17, rue Bavastro, 06300, NICE
Electro Gaz Service SA [7]	Trading	France	100	17, rue Bavastro, 06300, NICE
Electro Maintenance Chauffage (SARL) [7]	Trading	France	100	17, rue Bavastro, 06300, NICE
Ad Services Gaz SAS [7]	Trading	France	100	2040 Chemin de Saint-Bernard Lotissment Fogliani, 06220, VALLAURIS
HomeServe Assistencia Spain SAU [2]	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
HomeServe Spain SLU [2]	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
Seguragua SAU [2]	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
Habitissimo S.L. [2]	Trading	Spain	70	c/Blaise Pascal Edifici W, 1º Piso Parc Bit CP 07121, Palma de Mallorca, Baleares
Bit Advanced Marketing S.L. [2]	Trading	Spain	70	Passeig Mallorca 17C, 07011 Palma de Mallorca
Assistenza Casa Srl [3]	Trading	Italy	49	Via Giovanni Battista Cassinis, 7, 20139 Milan
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
Leakguard Inc	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
Leakguard 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

Notes to financial statements

Year ended 31 March 2018

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
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
SJESP Plumbing Services LLC	Trading	USA	90	420 N. 2nd Road, Unit 1, Hammonton NJ 08037
USP Holding 1 LLC	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
USP Holdings 2 LLC	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Utility Service Partners Inc.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Utility Service Partners Private Label, Inc	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
USP Water Heater Rentals LLC	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Utility Service Partners Private Label of Virginia, Inc	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners Inc	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of America, Inc - Delaware.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of America, Inc- California.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of Canada Holdings, Inc.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of Pennsylvania, Inc	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of Kentucky, Inc.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of Ohio, Inc.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Columbia Service Partners of West Virginia, Inc.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Service Line Warranties of Canada Inc.	Trading	USA	100	11 Grandview Circle, Canonsburg, PA 15317
Australia				
Home Service Direct Pty Limited	Non-trading	Austrailia	100	50 Queen Street, Melbourne, VIC 3000

[1] 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.
[2] These companies have a 31 December year end due to the statutory reporting requirements in Spain.
[3] These companies have a 31 December year end due to the statutory reporting requirements in Italy.
[4] During the year the Group increased its investment in Sherrington Mews Limited, the holding company of the 'Checkatrade' Group, from 40% to 100%.
[5] On 2 August 2017 HomeServe Assistance Limited, a Group company, acquired 100% of the issued share capital and obtained control of Help-Link UK Limited (Help-Link).
[6] On 30 November 2017 HomeServe Membership Limited, a Group company, acquired 100% of the issued share capital of Energy Insurance Services Limited (EISL)
[7] On 29 December 2017 HomeServe France Holdings SAS, a Group company, acquired 100% of PXB Invest SAS, the holding company of the Electro Gaz Group

Glossary

HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in this annual report address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group.

Definitions of APMs and the rationale for their usage are included below with a reconciliation, where applicable, back to the equivalent statutory measure.

Profitability

The Group uses adjusted operating profit, EBITDA, adjusted profit before tax and adjusted earnings per share as its primary profit performance measures. These are non-IFRS measures which exclude the impact of the amortisation of acquisition intangible assets. 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.

In FY18 the adjusted earnings per share measure also removes the one-off effect of a deferred tax benefit arising as a result of US and French tax reform. This is considered a more accurate indicator of the underlying operational and financial performance and a better guide to future performance.

Total Group

£million	2018	2017
Operating profit (statutory)	**135.0**	104.7
Amortisation of acquisition intangibles	**18.4**	14.1
Adjusted operating profit	**153.4**	118.8
Operating profit (statutory)	**135.0**	104.7
Depreciation	**8.0**	6.9
Amortisation of other intangibles	**36.2**	28.5
Amortisation of acquisition intangibles	**18.4**	14.1
EBITDA	**197.6**	154.2
Profit before tax (statutory)	**123.3**	98.3
Amortisation of acquisition intangibles	**18.4**	14.1
Adjusted profit before tax	**141.7**	112.4
Pence per share		
Earnings per share (statutory)	**30.2**	24.0
Amortisation of acquisition intangibles	**3.9**	3.0
One-off deferred tax impact of US & French tax reform	**(0.5)**	–
Adjusted earnings per share	**33.6**	27.0

Glossary

Segmental

2018

£million	UK	North America	France	Spain	New Markets
Revenue	**365.6**	**282.1**	**100.0**	**141.3**	**18.6**
Statutory operating profit/(loss)	**59.3**	**40.5**	**25.1**	**16.5**	**(6.4)**
Operating Margin %	*16%*	*14%*	*25%*	*12%*	—
Add back					
Amortisation of Acquisition Intangibles	**1.8**	**8.1**	**6.4**	**0.1**	**2.0**
Effect on operating margin %	*1%*	*3%*	*7%*	—	—
Adjusted operating profit/(loss)	**61.1**	**48.6**	**31.5**	**16.6**	**(4.4)**
Adjusted operating margin %	*17%*	*17%*	*32%*	*12%*	—

2017

£million	UK	North America	France	Spain	New Markets
Revenue	326.5	227.8	91.1	130.2	16.6
Statutory operating profit/(loss)	62.0	14.7	21.1	13.0	(6.1)
Operating Margin %	*19%*	*6%*	*23%*	*10%*	—
Add back					
Amortisation of Acquisition Intangibles	1.2	6.5	6.0	0.3	0.1
Effect on operating margin %	—	*3%*	*7%*	—	—
Adjusted operating profit/(loss)	63.2	21.2	27.1	13.3	(6.0)
Adjusted operating margin %	*19%*	*9%*	*30%*	*10%*	—

2018

Local currency million	UK £	North America $	France €	Spain €	New Markets £
Revenue	**365.6**	**375.2**	**113.2**	**160.1**	**18.6**
Statutory operating profit/(loss)	**59.3**	**53.6**	**28.5**	**18.8**	**(6.4)**
Operating Margin %	*16%*	*14%*	*25%*	*12%*	—
Add back					
Amortisation of Acquisition Intangibles	**1.8**	**10.8**	**7.2**	**0.1**	**2.0**
Effect on operating margin %	*1%*	*3%*	*7%*	—	—
Adjusted operating profit/(loss)	**61.1**	**64.4**	**35.7**	**18.9**	**(4.4)**
Adjusted operating margin %	*17%*	*17%*	*32%*	*12%*	—

2017

Local currency million	UK £	North America $	France €	Spain €	New Markets £
Revenue	326.5	293.0	107.4	154.3	16.6
Statutory operating profit/(loss)	62.0	17.8	24.4	15.4	(6.1)
Operating Margin %	*19%*	*6%*	*23%*	*10%*	—
Add back					
Amortisation of Acquisition Intangibles	1.2	8.4	7.1	0.4	0.1
Effect on operating margin %	-	*3%*	*7%*	—	—
Adjusted operating profit/(loss)	63.2	26.2	31.5	15.8	(6.0)
Adjusted operating margin %	*19%*	*9%*	*30%*	*10%*	—

Glossary

Leverage

In FY18 the Group targeted net debt in the range of 1.0 to 1.5x EBITDA measured at the year end. Following the growth of the Group since the last review of the capital structure policy, the Board has determined that the Group can now support a leverage policy range of 1.0 to 2.0x Net Debt: EBITDA at March year ends.

The range reflects HomeServe's relatively low risk appetite. Due to the seasonality of the business and depending on M&A opportunities, HomeServe is able to operate outside 1.0 to 2.0x for periods of time but with a highly cash generative business model HomeServe will seek to return to its target range. The leverage ratio is also important as it factors into the Group's banking covenants and the rolling 12 month rate at the half year influences the forward interest rates payable on the Group's Revolving Credit Facility.

Certain of the Group's segmental bonus measures relate to net cash. Net cash is defined and calculated in the same way as net debt but returns a positive closing balance.

Note 23 provides a full reconciliation of the movements in liabilities arising from borrowings and finance leases. The closing balances at 31 March were as follows:

£million	2018	2017
Current liabilities from borrowings and finance leases		
Finance leases	**0.5**	0.6
Bank and other loans	**38.0**	35.9
	38.5	36.5
Non-current liabilities from borrowings and finance leases		
Finance leases	**0.4**	1.0
Bank and other loans	**256.7**	270.1
	257.1	271.1
Total liabilities from borrowings and finance leases	**295.6**	307.6
Cash and cash equivalents	**(57.8)**	(46.2)
Net Debt	**237.8**	261.4
EBITDA	**197.6**	154.2
Leverage	**1.2x**	1.7x

Liquidity

Cash conversion % is defined as cash generated by operations divided by adjusted operating profit. The measure demonstrates the cash generative nature of the ordinary trading operations of HomeServe's business model and the ability to produce positive cashflows that can be invested for future growth initiatives or in capital projects to maintain customer service initiatives, digital enhancements or efficiencies that benefit the long-term health of the business.

Free cash flow is stated after capital expenditure, tax and interest obligations and is an indication of the strength of the business to generate funds to meet its liabilities and repay borrowings. It also shows the funds that might be made available to pursue M&A activities and to pay dividends.

£million	2018	2017
Adjusted operating profit	**153.4**	118.8
Amortisation of acquisition intangibles	**(18.4)**	(14.1)
Operating profit	**135.0**	104.7
Depreciation and amortisation	**62.6**	49.5
Non-cash items	**9.0**	6.8
Increase in working capital	**(42.4)**	(21.1)
Cash generated by operations	**164.2**	139.9
Net interest	**(10.5)**	(6.4)
Taxation	**(27.2)**	(20.0)
Capital expenditure – Ordinary	**(54.6)**	(44.4)
Capital expenditure – Partner Payments	**(16.5)**	(14.1)
Repayment of finance leases	**(0.6)**	(1.0)
Free cash flow	**54.8**	54.0

£million	2018	2017
Adjusted operating profit	**153.4**	118.8
Cash generated by operations	**164.2**	139.9
Cash Conversion	**107%**	118%

Glossary

KPIs

The Group uses a number of operational key performance indicators that provide insight into past performance and are an indicator of the future prospects of the Group as a whole and its individual segments.

Affinity partner households tracks the growth in our addressable market delivered through existing and new partnerships with utilities and municipals.

Customers tracks our success in converting our addressable market into revenue-generating customers, by delivering great products and service.

Retention rate reflects our ability to deliver fit-for-purpose product and great service to our customers.

Policies illustrates our ability to grow our product line through customer focus and innovation.

Income per customer measures our ability to design and market increasingly valuable products, and sell them efficiently. Due to currency differences, we track this measure at a geographic level. Income per customer is calculated as the last 12 months' net policy income divided by customers.

Tradespeople are our customers in our Home Experts business. Growing our network of vetted and reviewed tradespeople will enable us to meet customer needs and grow our business.

Adjusted profit before tax is our key profit measure, by which we monitor business growth, efficiency and sustainability.

Net debt to EBITDA is our key cash ratio, which we use to monitor usage of our financial resources within agreed risk parameters.

Five year summary
Continuing operations

Unaudited	**2018 £m**	2017 £m	2016 £m	2015 £m	2014 £m
External revenue					
UK	**357.7**	319.3	286.0	279.6	283.1
North America	**282.1**	227.8	152.6	125.3	110.9
France	**100.0**	91.1	77.4	74.9	77.3
Spain	**141.3**	130.2	97.5	90.9	82.6
New Markets	**18.6**	16.6	19.7	13.5	14.4
External sales	**899.7**	785.0	633.2	584.2	568.3
Profit/(loss)					
UK	**61.1**	63.2	58.0	56.4	53.4
North America	**48.6**	21.2	12.1	6.4	12.9
France	**31.5**	27.1	23.2	23.4	22.3
Spain	**16.6**	13.3	9.9	7.5	4.0
New Markets	**(4.4)**	(6.0)	(5.9)	(5.9)	(5.7)
	153.4	118.8	97.3	87.8	86.9
Amortisation of acquisition intangibles	**(18.4)**	(14.1)	(10.4)	(10.4)	(13.0)
Exceptional items	**—**	—	—	1.7	(46.7)
Operating profit	**135.0**	104.7	86.9	79.1	27.2
Net interest	**(11.7)**	(6.4)	(4.3)	(2.4)	(2.8)
Profit before tax	**123.3**	98.3	82.6	76.7	24.4

Shareholder information

Financial calendar

2018

20 July	Annual General Meeting
2 August	Final dividend for the year ended 31 March 2018
20 November	Interim results for the six months ending 30 September 2018

2019

January	Interim dividend for the year ending 31 March 2019
May	Preliminary results for the year ending 31 March 2019
June	2019 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-uk.computershare.com/investor

Website

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