

**HomeServe plc**  
**Results for the year ended 31 March 2009**

**HIGHLIGHTS OF THE YEAR**

	2009	Group 2008	Change%	Core Membership Operations		
				2009	2008	Change%
Revenue	£517.4m	£554.9m	-7%	£283.8m	£263.2m	8%
Operating profit*	£100.3m	£91.0m	10%	£92.3m	£75.8m	22%
Profit before tax*	£96.1m	£85.3m	13%	£88.7m	£70.6m	26%
Profit/(Loss) before tax	£(21.7)m	£71.8m	-130%	£80.8m	£65.2m	24%
Earnings per share <sup>^</sup>	106.4p	93.0p	14%	96.9p	80.6p	20%
Earnings/(Loss) per share	(56.2)p	79.0p	-171%	89.8p	75.7p	19%
Dividend per share	35.5p	31.25p	14%			

"Group" includes both core and non-core operations

"Core membership operations" includes the policy membership businesses: UK Membership, Europe and USA

"Non-core operations" is the Emergency Services division

- Worldwide core membership operations:
  - 8% revenue growth to £284m
  - 22% growth in operating profit\* to £92.3m
  - 9.2m policies (2008: 8.1m) and 4.3m customers (2008: 4.0m)
  - access to 56m households
- Resilient UK Membership business with 1.83m gross new policy sales, 83% retention rate and 18% growth in income per customer
- International operating profit\* of £5.1m (2008: loss of £0.5m)
- 14% growth in both earnings per share<sup>^</sup> and dividend
- Highly cash generative with strong cash conversion of 98%
- Strong balance sheet with low levels of net debt and significant headroom on lending facilities
- Decision to exit Emergency Services following successful reorganisation of UK networks resulting in an impairment charge of £97m and a statutory loss before tax of £21.7m

**REPORTED RESULTS EXPLANATORY NOTE**

The reported results and the results contained within this statement reflect the new structure of the Group after the transfer of the claims management and policy repair networks from UK Emergency Services into UK Membership. The financial impact of this new structure on both divisions is set out in the Financial Review section of this statement to enable a full comparison of these results to the previous Group structure. Within this new structure the UK Emergency Services division is shown as a non-core operation following the Board's decision to exit this business.

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

<sup>^</sup>Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

Brian Whitty, Chairman, commented:

“This has been another successful year for our core membership businesses having achieved our targets for new policy sales and retention whilst generating 22% operating profit\* growth. These results underpin our strategy of building a worldwide membership business and demonstrate the resilience of the HomeServe business model. We have 4.3m customers with 9.2m policies of which 23% now come from Continental Europe and the US.

Following the successful transfer of our claims management and policy repair networks into UK Membership and as a result of ongoing difficult market conditions impacting the performance of UK Emergency Services, we have decided to exit this business and we are progressing a number of approaches. Our decision reflects a commitment to focus exclusively on developing our three policy membership businesses.

In addition, in light of the challenges that continue to impact the performance of Emergency Services, we have taken the difficult but necessary decision to write down the value of these assets.

With a clear plan in place for Emergency Services, our three membership businesses continuing to deliver impressive growth and an exciting pipeline of business development opportunities we are well placed to deliver growth this financial year and into the future.”

**19 May 2009**

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## **CHAIRMAN'S STATEMENT**

### **Introduction**

HomeServe's core policy membership operations have delivered another strong performance. Across the UK, Continental Europe and US we have seen 14% policy growth to 9.2m, 8% growth in customers and 22% operating profit\* growth to £92.3m.

During the year, we transferred those parts of our claims handling and network operations that support our UK policy customers into UK Membership from Emergency Services. Our original intention for Emergency Services was to develop a unique, national, multi-trade network in the UK to support our growing policy membership base and to provide an integrated claims fulfilment solution for household insurers.

Whilst we have validated the benefit to insurers of such an integrated hub proposition, we have not progressed strategic partnerships of this type at a rate consistent with our original objectives. On the back of this and ongoing challenges within the insurance sector, we have decided to reposition the Group to focus on our membership businesses which we believe is in the best long-term interest of our shareholders. Accordingly, we have decided to exit UK Emergency Services and are currently progressing a number of approaches.

The decision to exit this business is one we have considered very carefully in light of our dedicated employees, customer relationships and investment of time and resources in building the business since 2002. In addition, as a result of ongoing trading challenges and deteriorating financial performance, we have taken the difficult but necessary decision to write down the value of UK Emergency Services assets resulting in an impairment charge of £97m and a statutory pre-tax loss for the year for the Group of £21.7m.

### **Core Membership Operations - Business Development**

We are very pleased with the strong performance of all our membership businesses. Our UK Membership business has delivered another year of strong growth with gross new policy sales of 1.83m (2008: 1.68m) and our retention rate for the year remained high at 83% (2008: 85%). Our decision to focus on driving value per customer has been successful through continued conversion of existing members to Combined Policies and income per customer growing by 18% to £59.

The reorganisation of our UK operations has created a fully integrated membership business including claims management and policy repair networks resulting in improved customer service and more focused and efficient service delivery with one division taking ownership for the entire customer journey.

We have also reached a significant milestone in our international operations which delivered an operating profit\* for the year of £5.1m compared with a loss of £0.5m last year.

Our European business has trebled operating profit\* to £5.3m (2008: £1.8m) with Doméo, our French joint venture with Veolia, having another very successful year and doubling total (100%) profits\* to £14.0m (2008: £6.8m). In Spain, Reparalia continues to progress well, growing revenue and helping to facilitate agreements with new affinity partners. Our Spanish policy business ended the year with 47,700 policies on the back of an encouraging start to full-scale marketing with Endesa. We have also expanded geographically through the acquisition of SPT, Belgium's leading claims handling and repair network business.

In addition, the USA has made excellent progress, generating a profit in the second half and is now profitable on an ongoing basis. During the year the business increased customer numbers by 50% and the retention rate to 80% (2008: 78%). We are also pleased to announce the signing of a 10-year marketing agreement with SEMCO Energy Gas Company, a gas utility based in Michigan, which will provide us with access to an additional 250,000 households and includes the acquisition of 26,300 policies.

## **Results**

Revenue for the Group declined 7% to £517.4m (2008: £554.9m) as a result of a fall in volumes within UK Emergency Services and the change in underwriting arrangements in the UK and operating profit\* increased by 10% to £100.3m. Group profit before tax\* increased by 13% to £96.1m and earnings per share^ increased by 14%.

Revenue for our three membership businesses increased by 8% to £284m, or 25% excluding the impact from the change in underwriting. Operating profit\* increased by 22% to £92.3m.

Revenue within UK Emergency Services decreased by 20% to £233.6m (2008: £291.7m) and operating profit\* by 47% to £8.0m (2008: £15.1m).

As reported in our interim results, we incurred £1.5m of costs in relation to the aborted second hub deal and £5m of costs have arisen from the reorganisation of our UK businesses (of which £2.7m relates to non-core operations). The total exceptional costs of £6.5m together with the write down of UK Emergency Services assets of £97m result in a statutory loss before tax of £21.7m and loss per share of 56.2p.

HomeServe continues to have a strong balance sheet, ending the year with net debt of £34m and with significant headroom on lending facilities.

## **Dividend**

Continuing our policy of increasing dividends in line with earnings^ growth, the Board is proposing a final dividend of 25p per share to be paid on 4 August 2009 to shareholders on the register on 3 July 2009. This brings the total dividend for the year to 35.5p, a year on year increase of 14%.

## **Employees**

We now have approximately 3,000 employees in our core operations and 5,500 employees in the total Group. Our employees remain committed and dedicated and have once again contributed significantly to another excellent year and I should like to thank them for their hard work.

## **Organisational changes**

We are also announcing today that our Chief Financial Officer, Jonathan Simpson-Dent has decided to leave the business to pursue other opportunities. Jonathan is being replaced as CFO by Martin Bennett, currently Finance Director of our UK Membership division, who has been with HomeServe for 6 years. I would like to thank Jonathan for the significant contribution he has made to HomeServe over the last two years and congratulate Martin on his appointment.

## **Prospects**

We are delighted with the continued strong performance of our membership businesses.

Our UK Membership business continues to perform well and has demonstrated its resilience with high levels of gross new policy sales and increasing value per customer. Our focus on targeting new customers through initiatives like One Contact, new product development and broadening our relationships with affinity partners will help to maintain strong growth in UK Membership going forward.

Our International operations are becoming increasingly significant contributors to Group performance with comparatively low household penetration in these countries providing further growth potential. We have a firm foundation in Spain through the strong performance of Reparalia and 47,700 live policies and, with the acquisition of SPT, we now have a platform to develop a policy business in Belgium and the Netherlands.

HomeServe is focused on delivering long term growth and continues to explore selective investment opportunities to support the development of the three membership businesses. The performance of our policy businesses has demonstrated the resilience of the business model and attractiveness of our products to our customers.

Overall, HomeServe is well positioned for future growth and we are committed to a membership-focused strategy.

**Brian Whitty**  
**Chairman**  
**19 May 2009**

## CHIEF EXECUTIVE'S REVIEW

Our vision is to be the first place people turn to when it comes to fixing, maintaining and looking after the home, recognising the problem that homeowners have throughout the world in finding a reliable tradesman and paying the repair bill in the event of a home emergency.

Our strategy is to be the leading provider of home assistance and appliance warranties to homeowners in the UK, Europe and US by offering customers annual membership.

We deliver this strategy through leveraging our product development knowledge, direct consumer marketing expertise, network management and service delivery capabilities combined with long-term relationships with business partners including utilities, appliance manufacturers, retailers and financial services companies.

The results we are announcing today show strong progress in our worldwide membership businesses and reinforce our strategy to focus exclusively on policy membership.

### Our Businesses

We now have access to 56m households globally, of which 32m are outside the UK. We sold 2.7m gross new policies in the year and increased total policies by 14% to 9.2m (2008: 8.1m).

	UK	Europe	USA	Total
<b>Affinity Partner Households (m)</b>	23.4	22.7	9.4	55.5
<b>Customers (m)</b>	3.2	0.7	0.4	4.3
<b>Policies (m)</b>	7.1	1.6	0.5	9.2

### UK MEMBERSHIP

Our UK business now provides cover for anything that goes wrong in the home that is not covered by household insurance such as pipes and wires, furniture and appliances. As at 31 March 2009, the policy, customer and market performance metrics of our UK Membership business were:

	Mar 09	Mar 08
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	4,100	4,198
- Electrical	767	753
- Gas and gas supply pipe	845	607
- Manufacturer warranties	331	226
- Other, including housebuilder	1,011	782
<b>Total policies</b>	<b>7,055</b>	<b>6,566</b>
Retention rate	83%	85%
Total number of households (m)	25.9	24.4
Affinity partner households (m)	23.4	22.0
Total customers (m)	3.2	3.2
Penetration of affinity partner households	13.5%	14.3%
Policies per customer	2.23	2.08

Revenue decreased by 3% to £228.2m (2008: £236.5m) and operating profit\* increased by 14% to £87.2m (2008: £76.3m). We signed a new underwriting agreement in September 2007 with Inter Partner Assistance whereby from 1 October 2007 they took the full risk on new policy sales and we ceased reinsuring 49% of the risk through our captive insurer. The change in underwriting arrangements has reduced the reported revenue for UK Membership in the year and the phasing of profits between the first and second halves of the year. Excluding the impact of changes in underwriting arrangements, revenue in UK Membership grew by 14%.

The business achieved gross new policy sales of 1.83m (2008: 1.68m) with retention rates remaining high at 83% (2008: 85%). We continued our successful strategy of increasing value per customer through the continued success of Combined Policies which now represents 14% (2008: 8%) of our customers with income per customer growing 18% to £59.

During the year, we reorganised our businesses in the UK with those areas of the network dedicated to servicing our UK policy members moving from Emergency Services into UK Membership. The transfer of our plumbing, electrics, gas and other subcontract networks that support our policy customers, as well as our network of directly employed plumbers, has enabled us to deliver an improved end-to-end service for our UK policy customers, thereby replicating the highly successful integrated model we deploy in our international operations.

We have continued to develop the network that supports our policy business by increasing the proportion of jobs carried out by our own plumbers, from 32% to 47% in the year. We have also completed the rollout of franchising across our Electrics network and introduced new technology to improve the efficiency and performance of our directly employed engineers in the field.

Our Manufacturer Warranties business has had another successful year with total policies growing 47% to 331,000. We also signed up new partners including Aqualisa, Lec, Maytag, Sanyo and Smeg taking the total number of partners to 18 across the boiler, shower, white and brown goods sectors. This business not only provides a significant and growing contribution to Group performance but also an excellent opportunity to cross-sell our core utility products to these customers.

As announced at our interim results, the difficult retail environment has impacted our retail warranties business with revenue falling by £6m year-on-year. Warranties sold on behalf of retailers are not recognised in our customer or policy numbers and represent a relatively small contribution to UK Membership profit, with limited exposure to further changes in the retail sector.

In October 2008, we launched a pilot in the West Midlands of a new range of 'One Contact' services aimed at attracting new customers through offering access, via our UK Membership network, to a range of home repair trades on a 'pay-on-use' basis. The response to the pilot has been encouraging and the next phase of One Contact is to prove that we can successfully convert a one off job customer into an annual member with a number of tests in progress.

In March, we launched two new products. Firstly, home assistance cover for landlords providing access to an additional 12% of the UK housing market. Secondly, cover for flats ranging from entry-level plumbing cover through to a combined package including an annual boiler service and central heating inspection.

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\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

## CONTINENTAL EUROPE

Our European business has had another very good year with operating profit\* increasing by 204% to £5.3m (2008: £1.8m), 143% in local currency. We now have access to 23.4m households in Europe and 1.6m policies with a combined penetration of 5%. Doméo, our French joint venture with Veolia, has grown total (100%) operating profit\* by 106% to £14.0m (2008: £6.8m). The operating profit\* result of £5.3m comprises £4.8m contribution from our share in the French joint venture, a £0.1m contribution from Spain, with profits from Reparalia being used to invest in building our Spanish policy business and £0.4m contribution from Belgium.

Our focus this financial year is to continue European development through broadening our product range and building on the success we have had in the UK in our Manufacturer Warranties business by expanding this important part of our membership model alongside our utility-branded policies. We will also continue to explore opportunities and identify potential partners to expand our membership model into new European territories.

### France

As at 31 March 2009, the policy, customer and market performance metrics of our French business were as follows:

	Mar 09	Mar 08
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	876	703
- Electrical	174	116
- Other, including waterloss and gas products	517	362
<b>Total policies</b>	<b>1,566</b>	<b>1,181</b>
Retention rate	88%	89%
Total number of households (excl apartments) (m)	18.6	15.4
Affinity partner households (excl apartments) (m)	13.5	12.5
Total customers (m)	0.7	0.6
Penetration of affinity partner households	5.1%	4.4%
Policies per customer	2.29	2.14

The total number of policies in our French joint venture, Doméo, has increased by 33% in the year to 1.57m (2008: 1.18m). Gross new policy sales in the year have increased to 0.55m (2008: 0.44m) and the retention rate has remained high at 88% (2008: 89%). During the year we have also increased the number of affinity partner households (excluding apartments) by 1.0m to 13.5m.

The principal policies offered by Doméo include plumbing and drains, water supply pipe, water loss, electrics cover, gas supply pipe and boiler cover. Doméo has grown its policy book across all categories through a combination of customer growth and the sale of additional policies to existing customers with policies per customer increasing from 2.1 to 2.3. This, combined with a more attractive underwriting deal completed in the year, resulted in a 55% increase in revenue (82% in GBP) and 65% increase in operating profit\* in local currency (106% in GBP).

In the year, we recruited a new Managing Director to lead our French business whose focus, along with the expanded business development team, will be on developing new products and affinity partnerships as the business moves into the next stage of its development. We successfully tested the sale of policies via new channels including email and the internet and we signed agreements with new affinity partners Vialis and Gaz Electricité de Grenoble.

## **Spain**

We are pleased with the strong performance of Reparalia which continues to meet our expectations from when we acquired the business in August 2007 and is an integral part of our plans to build a policy business in Spain. Reparalia has been instrumental in signing agreements with our Spanish affinity partners and we firmly believe that this acquisition provides the preferred entry model into new markets.

We have made progress in establishing a policy business which now has 47,700 policies following an encouraging start to full scale marketing with Endesa. We recently signed twelve month test marketing agreements with two water companies, Agbar and Acciona and results from the initial tests have been positive.

In the year we launched a franchise offering to Reparalia subcontractors in Madrid and Barcelona. We believe this is an effective and cost efficient way of raising awareness of the Reparalia brand, reinforcing our relationships with our subcontractor network and helping support the development of the Spanish policy business.

With an encouraging start to full scale marketing, scope to increase penetration of Endesa customers and the potential to sign up long-term agreements with other partners, Spain is well positioned for future growth.

## **Belgium**

In December 2008 we acquired SPT, Belgium's leading claims handling and subcontract repair network business. Our focus this year will be to develop a membership business by using SPT as a platform to secure long-term affinity partnerships with utilities in Belgium and the Netherlands.

## **UNITED STATES OF AMERICA**

The US has had another strong year generating an increase in revenue in local currency of 58% (GBP 96%) and an operating profit\* in the second half. The total number of policies has increased by 0.19m to 0.55m, an increase of 52% driven by continued high levels of gross new policy sales of 0.25m (2008: 0.18m) and an increase in customer numbers of 50%. The retention rate has also increased to 80% (2008: 78%) as a result of improved retention initiatives and moving a greater proportion of customers to pay for their membership via their utility bill.

As at 31 March 2009 the policy, customer and market performance metrics of our US Membership business were:

	<b>Mar 09</b>	<b>Mar 08</b>
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	419	295
- Electrical	60	44
- Other	70	23
<b>Total policies</b>	<b>549</b>	<b>362</b>
Retention rate	80%	78%
Total number of households (m)	103	103
Affinity partner households (m)	9.4	8.6
Total customers (m)	0.4	0.3
Penetration of affinity partner households	4.7%	3.4%
Policies per customer	1.24	1.23

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

Policy growth in the US has been driven by strong take-up rates with our water company partners in particular California Water and Louisville Water and with Progress Energy. Initial results from marketing our Exterior Electrics policy to First Energy customers, which covers repairs to the section of external electric line or underground cable for which the customer has legal responsibility, have also been encouraging.

We are also pleased to announce the signing of a 10-year marketing agreement with SEMCO Energy Gas Company, a gas utility based in Michigan, which will provide access to an additional 250,000 households and includes the acquisition of 26,300 policies which, together with the agreement with Utilities Inc announced in January and the opening up of additional territories with existing affinity partners, has increased US marketable households in the year by 0.8m to 9.4m.

We continue to develop our pipeline of affinity partner prospects and remain focused on expanding our footprint in the US to reach our goal of more than 20m marketable households in the medium term.

With the US now profitable on an ongoing basis we look forward to delivering another year of profit growth this financial year and increasing the contribution of the US to the business overall.

## **UK EMERGENCY SERVICES**

As previously announced, it has been a difficult year for our UK Emergency Services business which continues to operate in challenging market conditions, with lower volumes and pricing pressure. The lower volumes together with £41m of flood-related work in the prior year have resulted in revenue falling by 20% to £233.6m (2008: £291.7m). The completion of a significant proportion of larger, more complex, lower margin jobs, particularly within our Buildings business has also impacted margin progression in the year with operating margin\* falling from 5.2% to 3.4% and operating profit\* by 47% to £8.0m (2008: £15.1m).

On the back of the ongoing tough operating environment we have taken the difficult but necessary decision to exit the business and write-down the value of these assets resulting in an impairment charge of £97m.

## **Summary**

We are pleased to report a year of significant progress for HomeServe and another set of strong results for our membership businesses. The market opportunities for our three membership businesses are very exciting and we are confident that each of them will continue to deliver strong growth over the coming years. The decision to exit our UK Emergency Services business will significantly simplify the Group and allow us to focus exclusively on maximising the potential of our membership businesses, both in existing markets and through further international expansion.

**Richard Harpin**  
**Chief Executive**  
**19 May 2009**

## FINANCIAL REVIEW

The presentation of this year's results and comparisons with last year are impacted by both the reorganisation of our UK businesses during the second half of the year and the decision to exit Emergency Services. In this section, we are therefore providing additional analysis in order to show the impact of these organisational changes to assist with comparison of the Group's performance in prior years and to present the results of the business as it will look going forward following the disposal of the Emergency Services division.

### Group reported results

The headline statutory financial results are presented below for the Group as a whole and further split between core and non-core operations:

	Core operations		Non-core operations		Group	
	2009	2008	2009	2008	2009	2008
<b>£million</b>						
Revenue	283.8	263.2	233.6	291.7	517.4	554.9
Operating profit/(loss)	84.4	70.4	(101.9)	7.1	(17.5)	77.5
Profit before tax*	88.7	70.6	7.4	14.7	96.1	85.3
Amortisation of acquisition intangibles	(3.7)	(2.3)	(8.4)	(8.1)	(12.1)	(10.3)
Exceptional operating costs	(2.3)	(2.2)	(4.2)	0.0	(6.5)	(2.2)
Impairment charge	0.0	0.0	(97.2)	0.0	(97.2)	0.0
Tax on JV	(1.9)	(1.0)	0.0	0.0	(1.9)	(1.0)
Statutory Profit/(loss) before tax	80.8	65.2	(102.5)	6.7	(21.7)	71.8
Tax	(24.4)	(17.9)	10.8	(4.6)	(13.6)	(22.6)
<b>Profit/(loss) for the period</b>	<b>56.4</b>	<b>47.2</b>	<b>(91.7)</b>	<b>2.1</b>	<b>(35.3)</b>	<b>49.3</b>

In accordance with IFRS, statutory operating profit for the Group, which has decreased by 123% to a loss of £17.5m (2008: profit of £77.5m), includes an impairment charge of £97m, amortisation of acquisition intangibles, £6.5m of exceptional costs from the aborted second hub deal and reorganisation of businesses in the UK and our share of the operating result of our joint venture in France. The amortisation of acquisition intangibles amounts to £12.1m (2008: £10.3m) and principally relates to customer and other contracts held by the acquired entities at the date of acquisition. The year on year increase principally reflects the full year impact of the Anglia, California Water and Reparalia acquisitions. For our French joint venture, the operating result is defined as profit after tax and hence £1.9m (2008: £1.0m) of taxation is reported within operating profit and profit before tax.

Statutory operating profit, after deducting the impairment charge, amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs, were: UK Membership £83.9m (2008: £73.4m); Continental Europe £2.2m (2008: £0.1m); and USA an operating loss of £1.7m (2008: loss of £3.1m) resulting in a statutory operating profit for the core operations of £84.4m. The non-core UK Emergency Services business reported a statutory operating loss of £101.9m (2008: operating profit £7.1m).

The Group's net interest charge decreased in the year to £4.2m (2008: £5.7m) due to continued strong cash conversion, a lower spend in the year on acquisitions of £23.4m (2008: £46.1m) and no expenditure on share purchases (2008: £7.3m). The interest charge was covered 24 times by operating profit\*.

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

The effective rate of corporation tax, prior to the impact of the impairment of UK Emergency Services assets, is 29.9% (2008: 31.4%). The reduction in rate is primarily due to a decrease in the UK tax rate to 28% which came into effect on 1 April 2008. The effective rate applicable to our core operations is consistent with the rate for the Group overall.

The tax rate was impacted by continuing investment in our Spanish business, partly offset by our US business reaching profitability, allowing us to start to utilise previously non recognised tax losses in that jurisdiction. Based on current corporate tax rates applicable to our core businesses, we expect a similar core rate for 2010.

Earnings per share<sup>^</sup> in the period has increased by 14% from 93.0p to 106.4p with the Group making a statutory loss per share of 56.2p. The full year dividend has increased by 14% to 35.5p continuing our policy of growing dividends in line with earnings<sup>^</sup>.

## Cash flow and financing

<b>£million</b>	<b>FY 2009</b>	<b>FY 2008</b>
Operating profit*	100.3	91.0
Exceptional costs	(6.5)	(2.2)
Operating profit* less exceptional costs	93.8	88.8
Non cash items**	9.2	10.1
(Increase)/decrease in working capital	(10.8)	(1.6)
Cash generated by continuing operations	92.2	97.4
Net interest	(4.4)	(5.2)
Taxation	(21.0)	(24.1)
Capital expenditure	(16.9)	(17.6)
Acquisitions	(23.4)	(46.1)
Equity dividends	(20.4)	(16.9)
Financing and purchase of own shares	3.0	(3.5)
Net movement in cash and bank borrowings	9.1	(16.0)
Net (debt)/cash	(34.0)	(43.1)

\*\* Non cash items are depreciation, amortisation of other intangibles, share based payments expense, share of results of joint venture (before tax) and loss/(gain) on disposal of property, plant and equipment and software licenses

We have continued to achieve strong cash conversion (defined as cash generated from operations as a proportion of operating profit\* after exceptional costs), with cash generated from operations amounting to £92.2m (2007: £97.4m), representing a cash conversion ratio of 98% (2008: 110%).

During the year, we incurred net capital expenditure of £16.9m (2008: £17.6m) principally in respect of information systems to support our growing business.

Overall, net debt in the year decreased by £9.1m to £34.0m (2008: £43.1m), including the impact of acquisitions and disposals of £23.4m (2008: £46.1m). There was a net cash inflow of £29.5m (2008: £33.6m) before acquisitions and disposals, share purchases and financing, demonstrating the strong cash generative nature of the Group. We continue to have a low level of financial gearing. Our priority is to use our financial leverage to fund strategic acquisitions which accelerate the development of our UK and international membership businesses.

In the year we had a working capital outflow of £10.8m which reflects growth in our UK Membership business with a greater proportion of customers moving to combined policies and the success we have had transferring more customers from paying annually to monthly via direct debit.

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

<sup>^</sup>Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

## UK reorganisation – pro forma impact

In October 2008, we reorganised our businesses in the UK with those components of the previously enlarged Emergency Services division that service our UK policy customers (claims management and policy repair networks) transferring from UK Emergency Services into UK Membership. The results for these businesses are included in UK Membership's reported results for the full year, with the prior year divisional reported results also adjusted for consistency. The table below shows this year's and last year's results both pre and post re-organisation to assist in the analysis of the performance of UK Membership and UK Emergency Services on a like-for-like basis.

£million	Pre-reorganisation		Post reorganisation	
	Mar 09	Mar 08	Mar 09	Mar 08
<b>Revenue</b>				
UK Membership	198.5	210.8	228.2	236.5
UK Emergency Services	277.6	325.8	233.6	291.7
Europe	63.4	31.7	63.4	31.7
USA	15.9	8.1	15.9	8.1
JV Revenues	(23.2)	(12.7)	(23.2)	(12.7)
Inter-company	(14.8)	(8.8)	(0.5)	(0.3)
<b>Total</b>	<b>517.4</b>	<b>554.9</b>	<b>517.4</b>	<b>554.9</b>
<b>Operating profit*</b>				
UK Membership	81.9	73.9	87.2	76.3
<i>Operating margin %</i>	<i>41.3%</i>	<i>35.1%</i>	<i>38.2%</i>	<i>32.3%</i>
UK Emergency Services	13.3	17.5	8.0	15.1
<i>Operating margin %</i>	<i>4.8%</i>	<i>5.4%</i>	<i>3.4%</i>	<i>5.2%</i>
Europe	5.3	1.8	5.3	1.8
USA	(0.3)	(2.2)	(0.3)	(2.2)
<b>Operating profit*</b>	<b>100.3</b>	<b>91.0</b>	<b>100.3</b>	<b>91.0</b>
Interest	(4.2)	(5.7)	(4.2)	(5.7)
<b>Profit before tax*</b>	<b>96.1</b>	<b>85.3</b>	<b>96.1</b>	<b>85.3</b>

In the year to 31 March 2009, the reorganisation has resulted in £29.6m of revenue and £5.3m of operating profit moving into UK Membership and £44.0m revenue and £5.3m of operating profit moving out of UK Emergency Services with the elimination of £14.3m of inter-company revenue. The UK Emergency Services margin pre-reorganisation has fallen by 0.6ppts from 5.4% to 4.8%.

In UK Emergency Services we have not been able to achieve our margin progression targets due to reduced volumes and closing out a significant proportion of larger, complex, lower margin jobs in our Buildings business. The margin decline is accentuated by the transfer of claims management and policy repair networks into UK Membership. Margins in these transferred businesses have improved through operational efficiencies as a result of one division, UK Membership, now being responsible for the entire customer journey.

## Core and non-core operations

We continue to consider that profit before the amortisation of acquisition intangibles and tax on our joint venture in France represents an important performance measure for monitoring the business. In addition, in the current year the impairment charge of £97m and exceptional operating costs of £6.5m are excluded in calculating these pro-forma managerial measures. The revenue and operating profit of our four operating businesses is set out below:

\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

<b>£million</b>	<b>Mar 09</b>	<b>Mar 08</b>	<b>Growth %</b>
<b>Revenue</b>			
- UK Membership	228.2	236.5	-3.5%
- Europe	63.4	31.7	100.3%
- USA	15.9	8.1	96.4%
- JV/inter-division	(23.7)	(13.0)	-82.1%
Total core operations	283.8	263.2	7.8%
- Emergency Services	233.6	291.7	-19.9%
<b>Group</b>	<b>517.4</b>	<b>554.9</b>	<b>-6.7%</b>
<b>Operating profit *</b>			
- UK Membership	87.2	76.3	14.3%
- Europe	5.3	1.8	204.5%
- USA	(0.3)	(2.2)	86.9%
Total Core operations	92.3	75.8	21.7%
- Emergency Services	8.0	15.1	-47.1%
<b>Group operating profit*</b>	<b>100.3</b>	<b>91.0</b>	<b>10.3%</b>
Interest	(4.2)	(5.7)	25.4%
<b>Profit before tax*</b>	<b>96.1</b>	<b>85.3</b>	<b>12.6%</b>

Revenue for the Group, including non-core operations, has decreased by 7% to £517m (2008: £555m). Operating profit\* has increased by 10% to £100.3m (2008: £91.0m). The acquisition of SPT completed in the year has increased operating profits\* by £0.4m, representing 0.4% of the year on year growth.

Revenue for core operations has increased by 8% to £284m (2008: £263m) and operating profit\* has increased by 22% to £92.3m (2008: £75.8m). Excluding the impact of acquisitions, revenue increased by 7% and operating profit\* increased by 21%.

The operating profit\* improvement reported for the Group and core operations principally relates to the strong performance in our three policy membership businesses.

Our UK Membership business has delivered another strong year of growth with operating profit\* up 14%, policy growth of 7%, a retention rate of 83% and improved efficiency in handling customer claims and service delivery.

The contribution from our European business has trebled in the year with operating profit\* increasing to £5.3m (2008: £1.8m) and revenue growing by 100% to £63.4m (2008: £31.7m). Revenue of Doméo, our French joint venture with Veolia, has increased 55% in local currency and 82% in GBP as a result of continued strong policy growth and an improved underwriting deal. The total operating profit\* of Doméo increased by 106% to £14.0m (2008: £6.8m).

Policy growth of 52% in the US on the back of successful marketing and high take up rates with our utility partners has resulted in a reduced operating loss\* to £0.3m (2008: loss\* of £2.2m). Our US business made a profit in the second half and is now profitable on an ongoing basis. The completion of agreements with Utilities Inc. and SEMCO and the opening up of additional territories with existing affinity partners has contributed to an increase in affinity partner households in the US of 0.8m.

UK Emergency Services has seen revenue decline by 20% to £234m (2008: £292m) and operating profit\* decrease by 47% to £8.0m (2008: £15.1m). The decline in revenue is due to an underlying fall in volumes from increasingly competitive market conditions and last year's volumes including £41m of work relating to the summer floods. The fall in volumes, increasing pricing pressure combined with the completion of a higher proportion of larger, more complex jobs in the year has resulted in margins\* falling to 3.4% (2008: 5.2%).

### **Impairment charges and exceptional costs**

During the year we incurred exceptional costs of £1.5m relating to the aborted second hub deal and £5m relating to the reorganisation of our UK businesses, of which £2.7m related to UK Emergency Services, making the total exceptional cost for the year £6.5m. The reorganisation has resulted in approximately £7m of ongoing annual benefits which is enabling us to respond to the challenging conditions in Emergency Services and to increase our focus this year on customer growth in UK Membership.

A review of the carrying value of Emergency Services assets at the year-end resulted in the write down of these assets by £97m. This impairment charge comprises: £59.2m of goodwill; £17m of acquisition intangibles; £8.7m of software assets; £5.1m of property, plant and equipment and £7.2m of other net current assets.

### **Acquisitions**

HomeServe continues to add to its organic growth through the completion of carefully selected acquisitions. Acquisition spend during the year totalled £15.8m, with a further £7.6m of deferred consideration paid in relation to acquisitions completed in prior years.

During the year, two significant acquisitions have been completed for cash consideration of £5.7m including the acquisition of 100% of the relevant share capital of SPT, Belgium's leading claims handling and subcontract repair network business, and home assistance policies from Endesa Hogar. Including acquisitions completed in prior years, potential further deferred consideration payments of £14.4m could be due over the next 10 years, of which £5.0m is due within the coming year.

In addition, a number of smaller acquisitions have been completed relating to certain Plumbing & Drainage premier contractors. The total cash consideration, including directly attributable costs, amounted to £12.4m. There are no further payments due in respect of these acquisitions.

The carrying value of goodwill and intangible assets identified on acquisitions completed in the current and previous years has been reviewed for impairment based on the current budgets and operating plans of the businesses. As a result, an impairment charge of £97m has been incurred against the carrying value of Emergency Services. No impairment is considered necessary for the three membership divisions.

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\*Excluding amortisation of acquisition intangibles, impairment charge, joint venture taxation and exceptional operating costs, see Financial Review and notes 2 and 5.

^Excluding amortisation of acquisition intangibles, impairment charge and exceptional operating costs, see Financial Review and notes 2 and 5.

## Key Performance Indicators

In order to assist in the management of the business and to provide evidence of achieving its strategic priorities, the Board regularly reviews a number of key performance indicators as follows:

	FY 2009	FY 2008
<b>UK Membership</b>		
Policies	7.1m	6.6m
Customers	3.2m	3.2m
Retention rate	83%	85%
<b>France</b>		
Policies	1.6m	1.2m
Retention rate %	88%	89%
<b>Spain</b>		
Affinity partner households	9.2m	9.2m
Policies	48k	-
<b>United States of America</b>		
Affinity partner households	9.4m	8.6m
Policies	0.55m	0.36m
Retention rate %	80%	78%

## Risks and uncertainties

### Financial Risk

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

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

Foreign exchange rate risk is not considered to represent a significant risk at this time due to the absence of significant foreign currency transactions. However, this risk is kept under constant review and policies exist to mitigate this risk should it increase in significance.

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

## **Commercial relationships**

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

## **Competitors**

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

## **Acquisitions**

As part of our overall risk management, all potential acquisitions are subjected to a rigorous review, commencing with a detailed assessment of the target's position in the market. We have a dedicated acquisitions team which involves and coordinates managers from our existing businesses and draws on the services of independent advisers when necessary. The ability to integrate the acquisitions into our existing businesses is considered at the outset. Immediately post acquisition, a full internal controls benchmarking assessment is undertaken and the Group's internal control standards are implemented as soon as practicable. The performance of acquisitions is reported and reviewed by the Board on a monthly basis.

## **Going concern**

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

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

## **Summary**

Despite the impairment of Emergency Services assets resulting in a statutory loss before tax in the period, I am pleased to report another very good underlying financial performance for HomeServe with continued strong profit\* growth and margin\* progression.

Our membership businesses have once again driven this growth, with our international operations now into profit and action being taken to exit the higher risk, lower margin UK Emergency Services business. The business continues to generate strong levels of cash conversion and this, combined with low financial gearing enables us to access the funds required for strategic acquisitions that accelerate the development of our membership-focused business.

The business is well positioned for continued future growth with a strong finance team in place to help drive the business forward.

**Jonathan Simpson-Dent**  
**Chief Financial Officer**  
**19 May 2009**

**GROUP INCOME STATEMENT**  
year ended 31 March 2009

		2009	2009	2009	2008	2008	2008
		£000	£000	£000	£000	£000	£000
Continuing operations	Note	Core <sup>2</sup>	Non-core <sup>2</sup>	Total	Core	Non-core	Total
Revenue	2	283,840	233,601	517,441	263,215	291,660	554,875
Operating costs:							
Amortisation of acquisition intangibles		(3,664)	(8,441)	(12,105)	(2,251)	(8,069)	(10,320)
Exceptional operating costs <sup>1</sup>	3	(2,317)	(4,232)	(6,549)	(2,154)	—	(2,154)
Impairment of UK Emergency Services assets	3	—	(97,184)	(97,184)	—	—	—
Other operating costs		(196,951)	(225,595)	(422,546)	(190,151)	(276,516)	(466,667)
Operating costs		(202,932)	(335,452)	(538,384)	(194,556)	(284,585)	(479,141)
Share of results of joint ventures		3,451	—	3,451	1,755	—	1,755
<b>Operating profit/(loss)</b>		<b>84,359</b>	<b>(101,851)</b>	<b>(17,492)</b>	70,414	7,075	77,489
Investment income		1,237	116	1,353	929	173	1,102
Finance costs		(4,808)	(763)	(5,571)	(6,179)	(574)	(6,753)
<b>Profit before tax, amortisation of acquisition intangibles, exceptional operating costs and tax on joint ventures</b>		<b>88,710</b>	<b>7,359</b>	<b>96,069</b>	70,560	14,743	85,303
Amortisation of acquisition intangibles		(3,664)	(8,441)	(12,105)	(2,251)	(8,069)	(10,320)
Exceptional operating costs <sup>1</sup>	3	(2,317)	(4,232)	(6,549)	(2,154)	—	(2,154)
Impairment	3	—	(97,184)	(97,184)	—	—	—
Tax on joint ventures		(1,941)	—	(1,941)	(991)	—	(991)
<b>Profit/(loss) before tax</b>		<b>80,788</b>	<b>(102,498)</b>	<b>(21,710)</b>	65,164	6,674	71,838
Tax	4	(24,352)	10,756	(13,596)	(17,945)	(4,617)	(22,562)
<b>Profit/(loss) for the year, being attributable to equity holders of the parent</b>		<b>56,436</b>	<b>(91,742)</b>	<b>(35,306)</b>	47,219	2,057	49,276
<b>Dividends per share, paid and proposed</b>	6			<b>35.50p</b>			31.25p
<b>(Loss)/earnings per share</b>							
Basic	5			<b>(56.2p)</b>			79.0p
Diluted	5			<b>(56.2p)</b>			76.0p

<sup>1</sup> The exceptional operating costs of £6,549,000 comprise £1,535,000 relating to the cessation of discussions with our second hub partner and £5,014,000 relating to the reorganisation of our UK businesses. In the prior year, exceptional operating costs related to the aborted acquisition of Domestic & General Group plc.

<sup>2</sup> 'Core' operations include the policy membership businesses: UK Membership, Europe and USA. 'Non-core' operations are the UK Emergency Services division.

**GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**year ended 31 March 2009**

Note	2009 £000	2008 £000
Exchange differences on translation of foreign operations	4,173	46
Actuarial (losses)/gains on defined benefit pension scheme	(2,049)	714
Loss on cash flow hedge	(1,947)	—
Tax on items taken directly to equity	(4,240)	427
<b>Net (expense)/income recognised directly in equity</b>	<b>(4,063)</b>	<b>1,187</b>
(Loss)/profit for the year	(35,306)	49,276
<b>Total recognised income and expense for the year attributable to equity holders of the parent</b>	<b>(39,369)</b>	<b>50,463</b>

## GROUP BALANCE SHEET

31 March 2009

	Note	2009 £000	Restated (note 9) 2008 £000
<b>Non-current assets</b>			
Goodwill		175,667	218,070
Other intangible assets		43,814	62,365
Property, plant and equipment		34,518	42,804
Interests in joint ventures		5,224	3,502
Deferred tax assets		4,189	—
		<b>263,412</b>	<b>326,741</b>
<b>Current assets</b>			
Inventories		9,495	7,913
Trade and other receivables		206,132	193,915
Cash and cash equivalents		21,345	47,198
		<b>236,972</b>	<b>249,026</b>
		<b>500,384</b>	<b>575,767</b>
<b>Current liabilities</b>			
Trade and other payables		(206,033)	(201,235)
Current tax liabilities		(11,790)	(10,633)
Derivative financial instruments		(1,947)	—
Bank overdrafts and loans		(55,300)	(90,304)
		<b>(275,070)</b>	<b>(302,172)</b>
<b>Net current liabilities</b>		<b>(38,098)</b>	<b>(53,146)</b>
<b>Non-current liabilities</b>			
Other financial liabilities		(10,411)	(7,488)
Retirement benefit obligation		(1,919)	—
Deferred tax liabilities		—	(694)
		<b>(12,330)</b>	<b>(8,182)</b>
<b>Total liabilities</b>		<b>(287,400)</b>	<b>(310,354)</b>
<b>Net assets</b>		<b>212,984</b>	<b>265,413</b>
<b>Equity</b>			
Share capital		8,167	8,147
Share premium account		33,486	32,507
Merger reserve		70,992	70,992
Own shares reserve		(27,523)	(29,586)
Share incentive reserve		8,381	6,550
Capital redemption reserve		1,200	1,200
Hedging and currency translation reserve		2,336	110
Retained earnings		115,945	175,493
<b>Total equity</b>	<b>8</b>	<b>212,984</b>	<b>265,413</b>

**GROUP CASH FLOW STATEMENT**  
**year ended 31 March 2009**

	Note	2009 £000	2008 £000
<b>Operating (loss)/profit</b>		<b>(17,492)</b>	77,489
Adjustments for:			
Depreciation of property, plant and equipment		6,706	6,391
Amortisation of acquisition intangibles		12,105	10,320
Amortisation of other intangible assets		4,217	2,402
Impairment of UK Emergency Services assets		97,184	-
Share based payments expense		3,217	4,131
Share of results of joint ventures		(3,451)	(1,755)
Loss/(profit) on disposal of property, plant and equipment		527	(52)
<b>Operating cash flows before movements in working capital</b>		<b>103,013</b>	98,926
(Increase)/decrease in inventories		(1,547)	1,592
Increase in receivables		(14,435)	(28,148)
Increase in payables		5,199	24,990
<b>Net movement in working capital</b>		<b>(10,783)</b>	(1,566)
<b>Cash generated by operations</b>		<b>92,230</b>	97,360
Income taxes paid		(21,009)	(24,118)
Interest paid		(5,739)	(6,269)
<b>Net cash flow from continuing operating activities</b>		<b>65,482</b>	66,973
<b>Investing activities</b>			
Interest received		1,353	1,102
Proceeds on disposal of property, plant and equipment		1,104	2,585
Purchases of intangible assets		(13,210)	(10,104)
Purchases of property, plant and equipment		(4,065)	(10,063)
Net cash outflow on acquisitions	9	(23,380)	(46,096)
Acquisition of investment in joint venture		(731)	—
<b>Net cash used in investing activities</b>		<b>(38,929)</b>	(62,576)
<b>Financing activities</b>			
Dividends paid		(20,415)	(16,893)
Purchase of own shares		-	(7,331)
Issue of shares from the employee benefit trust		2,010	2,523
Proceeds on issue of share capital		999	1,156
(Decrease)/increase in bank overdrafts and revolving credit facilities		(35,000)	48,461
<b>Net cash (used in)/from financing activities</b>		<b>(52,406)</b>	27,916
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(25,853)</b>	32,313
<b>Cash and cash equivalents at beginning of year</b>		<b>47,198</b>	14,885
<b>Cash and cash equivalents at end of year</b>		<b>21,345</b>	47,198

## 1. General information

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company will publish full financial statements that comply with IFRSs in June 2009.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 March 2009 or 31 March 2008, but is derived from those financial statements. Statutory financial statements for 2008 prepared under IFRSs have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's annual general meeting. The auditors have reported on those financial statements; their reports were unqualified and did not contain statements under s237 (2) or (3) Companies Act 1985. These financial statements were approved by the Board of Directors on 19 May 2009.

## 2. Segmental analysis

### Segment revenues and results

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

The Group is managed around four operating divisions – UK Membership, Continental Europe, United States of America and UK Emergency Services, which has been shown as non-core.

During the year, the claims management and policy repair networks were moved from UK Emergency Services to UK Membership. To ensure a consistent comparison to the new structure, the prior year segmental information (taking account of segment eliminations) has been restated.

2009	UK Membership £000	Continental Europe £000	United States of America £000	Core £000	Non core £000	Consolidated £000
<b>Revenue</b>						
Total Revenue	228,183	63,404	15,904	307,491	233,601	541,092
Eliminations	—	—	—	(497)	—	(497)
Joint venture revenues, not recognisable for statutory reporting	—	—	—	(23,154)	—	(23,154)
External sales	228,183	63,404	15,904	283,840	233,601	517,441

Inter-segment sales are charged at prevailing market prices.

### Result

Segment operating profit/(loss), pre amortisation of acquisition intangibles, impairment, exceptional operating costs and tax on joint ventures	87,228	5,347	(294)	92,281	8,006	100,287
Impairment	-	-	-	-	(97,184)	(97,184)
Amortisation of acquisition intangibles	(984)	(1,244)	(1,436)	(3,664)	(8,441)	(12,105)
Tax on joint ventures	—	(1,941)	—	(1,941)	—	(1,941)
Exceptional operating costs	(2,317)	—	—	(2,317)	(4,232)	(6,549)
Operating profit/(loss)	83,927	2,162	(1,730)	84,359	(101,851)	(17,492)
Investment income				1,237	116	1,353
Finance costs				(4,808)	(763)	(5,571)
Profit/(loss) before tax				80,788	(102,498)	(21,710)
Tax				(24,352)	10,756	(13,596)
Profit/(loss) after tax				56,436	(91,742)	(35,306)

## 2. Segmental analysis (continued)

2008	UK Membership £000	Continental Europe £000	United States of America £000	Core £000	Non core £000	Consolidated £000
<b>Revenue</b>						
Total Revenue	236,452	31,654	8,097	276,203	291,660	567,863
Eliminations	—	—	—	(295)	—	(295)
Joint venture revenues, not recognisable for statutory reporting	—	—	—	(12,693)	—	(12,693)
External sales	236,452	31,654	8,097	263,215	291,660	554,875
Segment operating profit, before amortisation of acquisition intangibles, exceptional operating costs and tax on joint ventures	76,302	1,756	(2,248)	75,810	15,144	90,954
Amortisation of acquisition intangibles	(714)	(709)	(828)	(2,251)	(8,069)	(10,320)
Tax on joint ventures	—	(991)	—	(991)	—	(991)
Exceptional operating costs	(2,154)	—	—	(2,154)	—	(2,154)
Operating profit/(loss)	73,434	56	(3,076)	70,414	7,075	77,489
Investment income				929	173	1,102
Finance costs				(6,179)	(574)	(6,753)
Profit before tax				65,164	6,674	71,838
Tax				(17,945)	(4,617)	(22,562)
Profit after tax				47,219	2,057	49,276

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies, except that revenues attributable to our share of the French joint venture are included in revenues within 'Continental Europe' for segmental reporting, but are not recognised for statutory reporting.

Segment profit represents the operating profit earned by each segment including allocating costs associated with head office and shared functions, but before allocating investment income, finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

## 3. Exceptional operating costs / Impairment of UK Emergency Services assets

### *Exceptional operating costs*

The exceptional operating costs of £6,549,000 comprise £1,535,000 relating to the cessation of discussions with our second hub partner and £5,014,000 relating to the reorganisation of our UK businesses. In the prior year, exceptional operating costs related to the aborted acquisition of Domestic & General Group plc.

### *Impairment of UK Emergency Services assets*

It has been a difficult year for our UK Emergency Services division, which continues to operate in challenging market conditions, with lower volumes and margin pressure. Following the transfer of the claims management and policy repair networks from UK Emergency Services into UK Membership, the Board has commenced a disposal process of the UK Emergency Services division. For this reason, the division has been shown as non-core.

As part of our annual impairment review we have reviewed the carrying value of goodwill and other assets within the UK Emergency Services division to assess the recoverable value of each cash generating unit within this division. Given the Board's decision to seek a disposal of the businesses within this division, our assessment of value in use is closely aligned with the estimated fair value less costs to sell these businesses. As value is expected to be realised principally through a disposal process, fair value less costs to sell has been based on a price-earnings methodology. This has been compared to external sources of information such as indicative preliminary valuations of the businesses, taking account of usual commercial negotiations to obtain an agreed sales consideration for the businesses. The resulting estimated fair value has not been discounted due to the current expectation of a disposal within the next 12 months.

Costs have been estimated with reference to disposal proceeds, and estimates of professional fees to be incurred on the transaction, supported by indicative fees from advisers.

Based on the impairment review, the recoverable value suggests an impairment of £97,184,000. This has been allocated to the cash generating units of the Emergency Services division, initially to goodwill, then to other non-current assets. A further £7,152,000 has been allocated to trade receivables, representing a surplus of the impairment over the non current assets for certain of the cash generating units within the division.

In light of the challenging market conditions facing the division, a reasonably possible change in the judgements around sales margins and volume of work could result in an increase or decrease in the recoverable value.

#### 4. Taxation

The rate of tax for the Group, including deferred tax, based on pre-impairment profit before tax, was 29.9% (2008: 31.4%). After impairment, the rate is 62.6% due to the impairment of goodwill which is not deductible for tax purposes.

#### 5. (Loss)/earnings per share

Basic and diluted earnings per ordinary share have been calculated in accordance with IAS 33 'Earnings Per Share'. Basic earnings per share is calculated by dividing the profit or loss in the financial year by the weighted average number of ordinary shares in issue during the period. Adjusted earnings per share is calculated excluding amortisation of acquisition intangibles, impairment and exceptional operating costs. Diluted earnings per share includes the impact of dilutive share options in issue throughout the period.

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

	Core 2009 £000	Total 2009 £000	Core 2008 £000	Total 2008 £000
Profit/(loss) for the year	<b>56,436</b>	<b>(35,306)</b>	47,219	49,276
Amortisation of acquisition intangibles	<b>3,664</b>	<b>12,105</b>	2,251	10,320
Exceptional operating costs (note 3)	<b>2,317</b>	<b>6,549</b>	2,154	2,154
Impairment of UK Emergency Services assets (note 3)	-	<b>97,184</b>	-	-
Tax impact arising on amortisation of acquisition intangibles, impairment and exceptional operating costs	<b>(1,477)</b>	<b>(13,611)</b>	(1,309)	(3,706)
Adjusted profit for the year	<b>60,940</b>	<b>66,921</b>	50,315	58,044
Weighted average number of shares (000)				
Basic		<b>62,878</b>		62,412
Dilutive impact of share options		<b>2,003</b>		2,456
Diluted		<b>64,881</b>		64,868

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles, exceptional operating costs and impairment. This is considered to be a better indicator of the performance of the Group. As (loss)/profit for the year and adjusted profit for the year are stated after tax, it is not considered necessary to include in the reconciliation below the impact of the adjustment for the tax on joint ventures of £1,941,000 (2008: £991,000).

	Core 2009 pence	Total 2009 pence	Core 2008 pence	Total 2008 pence
Adjusted Basic	<b>96.9</b>	<b>106.4</b>	80.6	93.0
Adjusted Diluted	<b>93.9</b>	<b>103.1</b>	77.6	89.5
Basic	<b>89.8</b>	<b>(56.2)</b>	75.7	79.0
Diluted	<b>87.0</b>	<b>(56.2)</b>	72.8	76.0

For 2009, due to the statutory loss, the effect of share options is anti-dilutive. Consequently, diluted earnings per share has been stated as consistent with basic earnings per share for the total Group.

## 6. Dividends per share

A final dividend of 25.0p per share amounting to £15,795,000 (2008: 21.85p per share amounting to £13,700,000) is proposed and will be paid on 4 August 2009 to shareholders on the register at the close of business on 3 July 2009. The ex dividend date is 1 July 2009. An interim dividend of 10.5p per share amounting to £6,643,000 (2008: 9.4p per share amounting to £5,900,000) was paid during the year.

## 7. Analysis of total net debt

	2009 £000	2008 £000
Revolving credit facilities, net of cash at bank and cash equivalents	33,655	42,802
Loan notes	300	304
<b>Net debt</b>	<b>33,955</b>	<b>43,106</b>

## 8. Reconciliation of movements in equity

	Share capital £000	Share premium £000	Merger reserve £000	Own shares reserve £000	Share incentive reserve £000	Capital redemption reserve £000	Hedging and Currency translation reserve £000	Retained earnings £000	Total equity £000
At 1 April 2008	8,147	32,507	70,992	(29,586)	6,550	1,200	110	175,493	265,413
Total statement of recognised income and expense	—	—	—	—	—	—	2,226	(41,595)	(39,369)
Dividends paid	—	—	—	—	—	—	—	(20,415)	(20,415)
Issue of share capital	20	979	—	—	—	—	—	1,386	2,385
Issue of trust shares	—	—	—	2,063	—	—	—	(53)	2,010
Share based payments	—	—	—	—	3,217	—	—	—	3,217
Share options exercised	—	—	—	—	(1,386)	—	—	—	(1,386)
Tax on exercised share options	—	—	—	—	—	—	—	1,129	1,129
<b>At 31 March 2009</b>	<b>8,167</b>	<b>33,486</b>	<b>70,992</b>	<b>(27,523)</b>	<b>8,381</b>	<b>1,200</b>	<b>2,336</b>	<b>115,945</b>	<b>212,984</b>

## 9. Acquisitions

On 15 December 2008, the Group acquired 100% of the share capital of SPT Consult GCV, Belgium's leading claims handling and subcontractor repair network.

On 17 March 2009, the Group acquired 27,000 household contracts from Endesa Energia S.A. one of Spain's leading providers of electricity and gas supply services, and signed a marketing agreement with Endesa providing access of up to 9.2m households.

There were a number of other acquisitions in the year which individually were not significant. These related to acquisitions of plumbing and drainage contractors.

All these transactions have been accounted for by the purchase method of accounting. Fair values are reported as provisional for a period of 12 months following acquisition to allow the incorporation of any subsequent amendments to completion accounts, contingent consideration or directly attributable costs. The acquisition of the Endesa household contract policies has been accounted for using the purchase method of accounting as the Directors consider that the number of policies acquired, combined with the extended and exclusive access to the customer database represent the purchase of a significant business activity.

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

- SPT – Acquired book value of net assets of £801,000, reduced by £133,000 for provision against certain receivables and to recognise additional liabilities
- Other – Acquired book value of net assets of £1,618,000, reduced by £386,000 principally to recognise impairment against redundant fixed assets.

## 9. Acquisitions (continued)

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

	SPT £000	Endesa policies £000	Other £000	Total £000
Net assets acquired:				
Property, plant and equipment	502	—	301	803
Intangible assets	8	—	—	8
Inventories	—	—	35	35
Trade and other receivables	594	—	1,536	2,130
Cash and cash equivalents	1,587	—	769	2,356
Trade and other payables	(1,255)	—	(1,471)	(2,726)
Deferred tax (liabilities)/assets	(768)	—	62	(706)
	668	—	1,232	1,900
Intangible assets identified on acquisition	2,742	4,026	—	6,768
Goodwill	5,606	—	11,170	16,776
<b>Total consideration</b>	<b>9,016</b>	<b>4,026</b>	<b>12,402</b>	<b>25,444</b>
Satisfied by:				
Cash	4,893	539	11,963	17,395
Contingent consideration	3,869	—	—	3,869
Deferred consideration	—	3,387	—	3,387
Directly attributable costs	254	100	439	793
	9,016	4,026	12,402	25,444
Net cash outflow arising on acquisition:				
Cash consideration	5,147	639	12,402	18,188
Cash and cash equivalents acquired	(1,587)	—	(769)	(2,356)
	3,560	639	11,633	15,832

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

If all the acquisitions had been completed on the first day of the financial year, the Group revenues for the year and Group loss before tax attributable to equity holders of the parent would have been £522,310,000 and £19,776,000.

In addition to the net cash outflow arising on the acquisition above of £15,832,000, contingent and deferred consideration of £7,548,000 was paid relating to the prior acquisitions of Recommend Limited (trading as Improveline), FirstEnergy and California Water policies and Anglia (NW) Limited.

The amount paid in respect of Anglia (NW) Limited was £3,088,000 lower than that previously provided and accordingly, the cost of the business combination has been adjusted. As a result, goodwill at 31 March 2008, together with the related contingent consideration liability, have been restated.

The post acquisition operating profit from these acquisitions in the year ended 31 March 2009 was as follows:

	SPT £000	Endesa policies £000	Other £000	Total £000
Operating profit	404	—	312	716

## 10. Other information

An analyst's presentation will be held at 9.00am on Tuesday 19 May 2009 at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP. The Annual Report and Accounts for the year ended 31 March 2009 were approved by the Board on 19 May 2009 and will be posted to shareholders in June 2009. Further copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.