

## Homeserve plc Results for the year ended 31 March 2008

### HIGHLIGHTS OF THE YEAR

	2008	2007	Increase
Revenue	£555m	£477m	16%
Operating profit *	£91.0m	£70.2m	29%
Profit before tax *	£85.3m	£67.7m	26%
Profit before tax	£71.8m	£61.1m	18%
Earnings per share <sup>^</sup>	93.0p	74.7p	25%
Earnings per share	79.0p	67.3p	17%

### Financial highlights

- Revenue increased by 16% to £555m
- Operating profit\* increased by 29% to £91m
- Operating margin\* up by 1.7pp to 16.4%
- Profit before tax\* increased by 26% to £85.3m
- Profit before tax up 18% to £71.8m
- Earnings per share<sup>^</sup> increased by 25% to 93p
- Full year dividend increased by 25% to 31.25p

### Operational highlights

- 8.1m policies and access to 53m households worldwide
- 30% growth in UK Membership profits:
  - 1.6m gross new utility policy sales and 85% retention rate
  - Warranties recovery to substantial profits
  - Revised underwriting arrangements
- UK Emergency Services operating profits\* up 10% with margins held back due to volatility of insurer lead volumes
- Expansion of International continues in France, Spain and USA:
  - 10 year marketing agreement with Endesa in Spain

Brian Whitty, Chairman, commented;

*"We are delighted to report another set of strong results. Our policy membership businesses have had an excellent year and with the signing of our agreement with Endesa, Spain's leading energy utility, 58% of our affinity partner households are now outside the UK.*

*Homeserve remains focused on delivering sustainable growth through the economic cycle and is ideally positioned to make selective investments in the UK and internationally. Whilst we are carefully monitoring the potential impacts of the current economic climate, our policy businesses continue to show resilience through stable take-up rates from our direct marketing and retention rates remaining high. Overall Homeserve is well positioned for future growth."*

### 19 May 2008

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## CHAIRMAN'S STATEMENT

Homeserve has delivered another strong set of results with earnings per share<sup>^</sup> growth of 25% and operating margins\* increasing by 1.7 percentage points to 16.4%. All our Policy businesses have made significant progress with the expansion of our International businesses in France and USA and continued growth in our UK Membership business. We are also announcing a ten year marketing agreement with Endesa Energia S.A. in Spain, who supply 9.2m households and takes our affinity partner household coverage to over 50m.

Our UK Emergency Services business has grown revenues and operating profit\* by 10%, though has had a more challenging year, with operating margins\* remaining unchanged predominantly due to the volatile level of lead volumes from the UK insurers. We have implemented plans for improved margins over the coming year.

### Results

Revenues from continuing operations increased 16% to £555m (2007: £477m). Profit before tax\* increased by 26% to £85.3m (2007: £67.7m) and earnings per share<sup>^</sup> increased by 25% to 93.0p (2007: 74.7p).

As reported in our interim results, we incurred £2.2m of one-off exceptional costs resulting from the aborted acquisition of Domestic & General Group plc. On a statutory basis, profit before tax increased by 18% to £71.8m (2007: £61.1m) and total basic earnings per share increased by 17% to 79.0p (2007: 67.3p).

### Dividend

Continuing our policy of increasing dividends in line with earnings growth, the Board is proposing a final dividend of 21.85p per share to be paid on 1 August 2008 to shareholders on the register on 30 May 2008. This brings the total dividend for the year to 31.25p, a year on year increase of 25%.

### Business Developments

In the UK, our Membership business continues its strong organic growth. We have achieved our target of selling 1.6m gross new utility policies in the year and our retention rate remains high at 85% (2007: 86%). Revenues increased by 12% to £211m (2007: £188m) and operating profit\* increased by 30% to £73.9m (2007: £56.7m). The improvement in operating margin\* results from the continuing recovery in our warranties operation and improved underwriting arrangements with IPA.

Our international operations are now approaching profitability, with a £2m improvement compared to last year. Domeo, our French joint venture, has had another very successful year, increasing its total number of policies by 37% to 1.2m and trebling its contribution to our operating profit to £1.8m.

Our entry into the Spanish market is progressing well and we are delighted to announce a ten year marketing agreement with Endesa Energia S.A.. This deal is also combined with an agreement to purchase 28,000 home assistance policies and was accelerated by the acquisition of the Reparalia repair network. Endesa is a major power company supplying over 9m households and will provide us with an excellent platform to develop our policy business in Spain. We plan to undertake significant marketing in the second half of the year.

The USA has made significant progress increasing the number of affinity partner households available to us by 90% from 4.9m to 9.3m, and achieving very good results from the initial mailings to the customers of our new water company partners.

Our UK Emergency Services business has increased revenues by 10% from £297m to £326m and operating profit\* to £17.5m (2007: £16.0m). Whilst our subcontract and franchised networks responded well to the summer floods, the volatility of insurance claims over the last 12 months has impacted our higher margin directly employed networks. As a result margins have not progressed during the year, but we have robust plans underway to develop margins in this business over the coming year.

## **Employees**

We now have over 5,200 employees, which includes 1,200 directly employed engineers. Our employees remain committed and dedicated and have once again contributed significantly to another excellent year and I should like to thank them for this hard work.

## **Prospects**

Our International operations continue to represent a significant opportunity for future earnings growth. Policy and profit performance in France evidences our ability to replicate our UK membership model overseas. Our continued progress in the USA and Spain demonstrates the potential for further development of our affinity partner household reach.

With the signing of our agreement with Endesa, 58% of our affinity partner households are now outside the UK. The penetration of policies in these markets is significantly below the levels we have achieved in the UK which provides a significant growth opportunity.

Our UK Membership business continues to perform well, with gross new policy sales and retention rates remaining at high levels. We are examining new ways of leveraging our unique multi-trade networks to support the continuing success of our UK Membership business. We are taking the action required to ensure we achieve margin progression in our repair networks over the coming year.

Homeserve remains focused on delivering long term growth and is exploring selective investment opportunities in new business areas to maximise growth in the UK and internationally. Whilst we are carefully monitoring the potential impacts of the current economic climate, our policy businesses continue to show resilience through stable take-up rates from our direct marketing and retention rates remaining high. Overall Homeserve is well positioned for future growth.

**Brian Whitty**  
**Executive Chairman**  
**19 May 2008**

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

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

## CHIEF EXECUTIVE'S REVIEW

Homeserve continues to build a successful international membership business. Through our affinity partner relationships we now have access to 53m households globally (2007: 38m), of which 31m are outside the UK (2007: 16m). We sold 2.3m gross new policies in the year and increased total policies to 8.1m policies (2007: 7.1m) and we carried out over 1.4m domestic emergency repairs last year.

Our Membership businesses provide homeowners with peace of mind in the UK, France, Spain and the USA and are supported by repair networks in each country that deliver a high quality service to our members when they experience an emergency. In the UK and Spain, we have also developed partnerships with household insurers, providing them and their customers with access to a complete range of repair trades covering all emergencies covered by a household insurance policy as part of an outsourced emergency repair solution.

### Our Businesses

Homeserve is managed in four operating divisions – UK Membership, UK Emergency Services, Continental Europe and the United States of America.

### UK Membership

Our UK affinity branded and warranties business provides cover for utility services, furniture and appliances in the home.

During the year, the business achieved gross new utility policy sales of 1.6m for the third consecutive year with retention rates remaining high at 85% (2007: 86%). On average our customers now hold more than two policies each following the launch of Combined Policies in the year. The integration of our utility branded and warranties businesses is consistent with our goal of providing whole home assistance cover.

As at 31 March 2008, the policy, customer and market performance metrics of our UK Membership business were:

	Mar 08	Mar 07
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	4,198	3,933
- Electrical	753	766
- Gas and gas supply pipe	607	560
- Manufacturer warranties	226	190
- Other, including housebuilder	782	530
<b>Total policies</b>	<b>6,566</b>	<b>5,979</b>
Retention rate	85%	86%
Total number of households (m)	24.4	24.4
Affinity partner households (m)	22.0	22.0
Total customers (m)	3.2	3.1
Penetration of affinity partner households	14.3%	14.1%
Policies per customer	2.08	1.92

Customer satisfaction remains a key priority to the business. Satisfaction levels, as measured by our 48 hour call backs, have remained high with overall satisfaction at 95% (2007: 95%). The proportion of customers rating our service as outstanding continues at high levels, increasing to 27% (2007: 26%).

We believe that offering a product range that covers the whole home is an attractive proposition to consumers and differentiates Homeserve from its competitors by linking utility services and appliance cover. We have integrated our Utility branded and Warranties businesses during the year under a single management structure covering all aspects of our UK Membership business. This provides us with an integrated approach to our UK customers, enabling us to operate more efficiently and target our sales activity more effectively.

We have focused our marketing activities during the year on expanding our relationship with existing customers. The launch of Combined Policies during last September now enables customers to consolidate their multiple policies into a single policy document and has been particularly successful during the year. Not only has this simplification been positively received by customers, but many have also taken the opportunity to increase the number of products purchased from us. 264,000 customers, representing 8% of our customer base, have now signed up for Combined Policies. On average, these customers have doubled the number of product combinations they hold.

Whilst direct mailing through utility partners continues to be our principal customer contact method, we have been developing new channels, including the internet. Our website, [www.homeserve.com](http://www.homeserve.com), now provides customers the option to purchase policies online, while also booking repair and maintenance jobs through our repair networks.

During the year we introduced 'digital mail packs' enabling event driven marketing messages to be efficiently delivered to both existing and potential customers. These provide a more personalised direct mailing, tailored to the specific circumstances of the customer, resulting in improved response rates. In addition, we are working with Experian, which provides database management services, in order to obtain greater insight into our existing and potential customers.

We continue to invest in new products and channels to broaden our customer base and will be running a number of test programmes during the coming year to assess the most attractive opportunities.

## **Continental Europe**

### ***France***

Domeo, our 49% owned joint venture in France with Veolia, has had an excellent year, trebling its contribution to our profits, selling 0.44m gross new policies and increasing its total policy base by 37% to 1.18m (2007: 0.86m), while maintaining retention rates at the high level of 89% (2007: 88%).

Domeo operates under the Generale des Eaux Services brand across France and has also been successful in securing additional households into which it can market under this brand. In addition, the company has continued to develop affinity relationships with other partners and now has access to households under the brands of Proxitherm, Gaz de Bordeaux, Societe des Eaux de Marseille, Butagaz and administers programmes for Direct Energie. Overall, Domeo has increased the number of affinity partner households to 12.5m from 10.6m.

The principal policies offered by Domeo include plumbing and drains, water supply pipe, water loss, electrics cover, gas supply pipe and boiler cover.

As at 31 March 2008, the policy, customer and market performance metrics of our French membership business were:

	<b>Mar 08</b>	<b>Mar 07</b>
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	703	549
- Electrical	116	58
- Other, including waterloss and gas products	361	256
<b>Total policies</b>	<b>1,180</b>	<b>863</b>
Retention rate	89%	88%
Total number of households (excl apartments) (m)	15.4	15.4
Affinity partner households (excl apartments) (m)	12.5	10.6
Total customers (m)	0.6	0.4
Penetration of affinity partner households	4.4%	4.1%
Policies per customer	2.14	2.00

A key objective of the business is to identify new channels and products so as to maintain the growth rates achieved in recent years. A dedicated business development team has been established and is currently working on a number of new products and testing with potential partners. Initial activity in this area is currently planned with two new partners for September 2008.

Bringing claims handling and the management of our subcontract repair network in-house has improved the credibility of our operations and delivered high customer service, with overall satisfaction levels at 93% (2007: 94%). We have also achieved a reduction in the average cost of carrying out repairs, thereby improving our operating margins.

### **Spain**

We are delighted to report that following successful testing, we have signed a ten year marketing agreement with Endesa Energia SA, the leading Spanish power provider, supplying 9.2m households, within a total market of 21m. The agreement provides for the marketing of repair, maintenance and assistance products. It also includes an agreement to purchase Endesa's existing 28,000 home assistance policies. The initial product offer will be for electrical wiring with water products offered as a cross sell.

The acquisition of Reparalia in August 2007, one of Spain's leading national home repair networks, gives us scale and credibility in Spain and has accelerated the development of our relationship with Endesa. It operates a repair network of 3,400 self employed engineers through six regional offices and provides the skills and capability required to deliver a quality service. Through its relationships with some of Spain's fastest growing household insurers, including BBVA Seguros, Reparalia provides an outsourced repair solution, handling 201,000 claims per annum.

The signing of the marketing agreement with Endesa provides an exciting investment opportunity and the potential to further develop a new market alongside the UK, France and USA. We are planning to commence marketing in autumn 2008, with an additional net investment of at least £2m this year.

## United States of America

We have made excellent progress during the year with the signing of four new marketing agreements covering an additional 4.4m households and an increase in our total policies to 362,000 (2007: 263,000).

We now have access to 9.3m households, representing 9% of US households, which compares to the 22m affinity partner households in the UK. We trebled policies in our first year with FirstEnergy and within two years at United Water. There is still significant potential for growth given that our average penetration with partners is 3.2%, compared to 14.3% in the UK.

As at 31 March 2008, the policy, customer and market performance metrics of our US Membership business were:

	Mar 08	Mar 07
<b>Number of policies (000):</b>		
- Plumbing & drains and water supply pipe	295	202
- Electrical	44	38
- Other	23	23
<b>Total policies</b>	<b>362</b>	<b>263</b>
Retention rate	78%	79%
Total number of households (m)	103	103
Affinity partner households (m)	9.3	4.9
Total customers (m)	0.3	0.2
Penetration of affinity partner households	3.2%	4.4%
Policies per customer	1.23	1.23

Customer satisfaction has remained high with overall satisfaction levels at 96% (2007: 95%). The proportion of customers rating our service as outstanding has increased to 41% (2007: 40%).

Our first mailings under the Louisville and California Water brands were highly successful, with Louisville Water giving us a record new customer take up rate and California Water now giving us our best cross sell rate with existing customers. These results demonstrate the continued importance of both smaller water companies and large energy companies to our future growth plans. Household penetration has temporarily fallen because we have not yet commenced marketing of water heater policies to Progress Energy customers, which starts in June 2008.

We continue to develop our pipeline of prospects covering both power and water companies after the successful completion of four new partnerships during the last year, although there is often a prolonged period to agree the contractual terms of our agreements with partners.

As in France, we brought claims handling in-house during 2006 and have been successful in achieving greater control of the subcontract network, managing to reduce average job values and enhancing the levels of service provided to our policyholders.

## UK Emergency Services

Our repair network, which includes directly employed, subcontract and franchised engineers, is unrivalled in its geographic coverage combined with the range of repair trades that it offers. We have the capability to undertake all aspects of repair and replacement for homeowners through their household insurers as well as for our own members.

During the year, our networks completed 1.4m jobs (2007 1.2m), growing revenues by 10% to £326m. The summer floods generated 20,000 jobs, representing £41m of revenue, which we completed through our predominantly subcontract and franchise networks.

Excluding the floods, there has been a gradual reduction in household claims over recent years resulting in lower underlying volumes in our core trades, including our higher margin directly employed networks. As a consequence of this changing workload mix, operating margins are flat year on year at 5.4%.

We do not intend to replace the unique floods workload by chasing low margin job volumes, but instead, are focusing on driving more value from less activity. We have taken a number of actions to improve operating margins, including increasing the level of directly employed where volumes are stable and delivering more value from our franchise and subcontractor relationships. We are also driving efficiencies from our operational support teams.

We acquired the Anglia building repairs business in May 2007 based on its excellent operational and financial performance. We are now in the process of rolling out the Anglia model to the rest of our buildings network with model branches operational in Warrington and Sunbury, and firm plans for the remainder of the network in the next six months. In addition, we are expanding our directly employed first fix plumbing network, where we have a consistently high workload, through continuing to acquire selected premier contractors.

We are continuing to develop the network through working with a smaller group of premier contractors and we have reviewed and revised the value sharing arrangements with all our subcontractors.

In addition to these margin improvement initiatives, we continue to build exciting new partnerships following the success of our relationship with Liverpool Victoria. We are delighted to announce that RBS Insurance has awarded us their contents validation hub for high street commodities including electrical and electronic equipment. Through our contents validation software, which is unique in the market, our household insurance partners are able to benefit from more accurate and cost effective product replacement covering 60% of contents insurance claims, typically providing them with double-digit savings compared to historic replacement solutions.

We are also advancing due diligence with a second hub partner, though the scale of transformation from such a transaction for both parties requires an appropriate level of planning to finalise the agreement.

A clearly differentiated domestic trade network is a critical element of our growth ambitions in our UK businesses. We are confident that the plans already underway will deliver an operating margin improvement of at least 1 percentage point over the coming year.

## **Summary**

We are continuing to implement our strategy of replicating our proven UK model in carefully selected markets overseas, while also seeking to maximise growth opportunities in the UK. In addition to pursuing the significant organic growth opportunities that exist in our chosen markets, we will continue to undertake selective acquisitions that will accelerate this development.

**Richard Harpin**  
**Chief Executive**  
**19 May 2008**

## FINANCIAL REVIEW

These results have been prepared in accordance with International Financial Reporting Standards (IFRS). Except for the adoption of IFRS7 'Financial Instruments: Disclosures' and IFRS8 'Operating Segments', which require changes to our disclosures, the accounting policies used are consistent with the prior year.

With the exception of IFRS3 Revised, relating to the accounting treatment of acquisition costs in a business combination, accounting standards that have been issued but not yet enacted are not expected to have a significant impact on the Group. If the Group had written off the costs associated with business combinations, as required by IFRS3 Revised, then profits would have been reduced by £2.0m. IFRS3 Revised does not need to be adopted by the Group until the year ending 31 March 2011.

The headline statutory financial results are:

	Mar 08	Mar 07
<b>£million</b>		
Revenue	554.9	477.4
Operating profit	77.5	63.6
Profit before tax	71.8	61.1
Cash generated by operations	97.4	73.6
Net debt	43.1	27.1
Net assets	265.4	230.4
<b>Pence per share</b>		
Basic earnings per share	79.0	67.3
Dividend per share	31.25	25.0

### Group results

We continue to consider that profit before the amortisation of acquisition intangibles and tax on our joint venture in France represents an important performance measure for monitoring the business. In addition, in the current year, the exceptional operating costs of £2.2m are excluded in calculating these pro-forma managerial measures.

The reconciliations between these statutory and pro-forma measures are as follows:

<b>£million</b>	<b>Mar 08</b>	<b>Mar 07</b>
Operating profit (statutory)	77.5	63.6
Amortisation of acquisition intangibles	10.3	6.5
Exceptional operating costs – aborted acquisition	2.2	-
Tax on joint ventures	1.0	0.1
<b>Operating profit*</b>	<b>91.0</b>	<b>70.2</b>
Profit before tax (statutory)	71.8	61.1
Amortisation of acquisition intangibles	10.3	6.5
Exceptional operating costs – aborted acquisition	2.2	-
Tax on joint ventures	1.0	0.1
<b>Profit before tax*</b>	<b>85.3</b>	<b>67.7</b>
Earnings per share (statutory)	79.0p	67.3p
Exceptional operating costs – aborted acquisition	2.4p	-
Amortisation of acquisition intangibles	11.6p	7.4p
<b>Earnings per share^</b>	<b>93.0p</b>	<b>74.7p</b>

Revenues have increased by 16% to £555m (2007: £477m). Operating profit\* has increased by 29% to £91.0m (2007: £70.2m) and operating margins\* have increased to 16.4% (2007: 14.7%). The acquisition of Multimaster, Anglia, Reparalia and the policies of California Water completed in the year have increased operating profits\* by £3.6m, representing 5% of the year on year growth. Excluding the impact of the acquisitions, revenue increased by 11% and operating profit\* increased by 24%.

The operating profit\* and margin improvement for the Group principally relates to the strong performance in our UK Membership business. Revenues in the UK Membership business increased by 12% to £211m (2007: £188m). The continued recovery of our Warranties business generated an additional £4m contribution in the year. In addition, underwriting margin improvements following the new IPA agreement have contributed to operating profit\* growth of 30% to £73.9m (2007: £56.7m). This agreement also impacts revenue growth in the run off period through to September 2008 as we no longer recognise the underwriting premium on renewals.

Our UK Emergency Services business has seen both revenues and operating profit\* increase by 10% to £326m (2007: £297m) and £17.5m (2007: £16.0m) respectively. Additional volumes from the Summer 2007 floods in our predominantly subcontract and franchised networks, combined with lower underlying insurance volumes and a move to more cash settlement in our higher margin directly employed networks have resulted in margins remaining stable at 5.4% (2007: 5.4%).

Continental European businesses more than doubled operating profit\* to £1.8m (2007: £0.7m), where our strong result in France, combined with the part year benefit from the acquisition of Reparalia in Spain, has more than offset the additional investment incurred in Spain in undertaking the test marketing during the period with Endesa.

Due to the continued growth in the number of policies in the USA, and the promising results from our initial mailings with both Louisville and California Water, our net investment in the USA decreased in the year to £2.2m (2007: £3.2m).

In accordance with IFRS, statutory operating profit, which has increased by 22% to £77.5m (2007: £63.6m), includes the amortisation of acquisition intangibles, £2.2m of exceptional costs from the aborted acquisition of Domestic & General and our share of the operating result of our joint venture in France. The amortisation of acquisition intangibles amounts to £10.3m (2007: £6.5m) 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 acquisitions of Anglia and Reparalia, both of which were completed in the current year. For our French joint venture, the operating result is defined as profit after tax and hence £1.0m (2007: £0.1m) of taxation is reported within operating profit and profit before tax.

Reported operating profit, after deducting the amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs, were: UK Membership £71.2m (2007: £56.3m), UK Emergency Services £9.3m (2007: £10.4m), Continental Europe £0.1m (2007: £0.6m) and USA, operating loss of £3.1m (2007: £3.6m).

The Group's net interest charge increased in the year to £5.7m (2007: £2.6m) due to the increased spend in the year on acquisitions of £46.1m and the related interest expense on deferred consideration. The interest charge was covered 16 times by operating profit\*.

The effective rate of corporation tax remains consistent with the prior year at 31.4% (2007: 31.3%). With effect from 1 April 2008, the UK tax rate has reduced to 28%. While this reduction has no impact on the current tax charge in the year, deferred tax balances have been reduced to reflect this revised rate, with a one-off reduction to the Group's deferred tax charge amounting to £0.6m, equivalent to 0.8% on the effective tax rate. This has been offset by the increase in overseas losses in Spain and the USA arising from increased interest costs, which are not yet deductible, following the transactions completed in those countries during the year.

Earnings per share<sup>^</sup> have increased by 25% from 74.7p to 93.0p. Basic earnings per share have increased from 67.3p to 79.0p.

## Cash flow and financing

£million	Mar 08	Mar 07
<b>Continuing operations:</b>		
Cash generated by operations	97.4	73.6
Interest, tax, dividends	(46.2)	(33.4)
Net capital expenditure	(17.6)	(16.5)
Acquisitions/disposals	(46.1)	(30.2)
Share purchases	(7.3)	(8.3)
Financing	3.8	1.4
<b>Net movement in cash and bank borrowings</b>	<b>(16.0)</b>	<b>(13.4)</b>

We have continued to achieve strong cash conversion, with cash generated from operations amounting to £97.4m (2007: £73.6m), representing a cash conversion ratio of 110% (2007: 106%). In the current year, we entered a new underwriting agreement with IPA which has reduced the costs associated with underwriting our products and provided a working capital benefit of around £15m in the year, of which approximately £10m is permanent. Excluding the impact of these new arrangements, the Group's cash conversion ratio remained strong at 93%.

During the year, we had net capital expenditure of £17.6m (2007: £16.5m) principally in respect of the development and roll out of our integrated claims handling and work flow management systems within our UK Emergency Services business and the completion of a new call centre for our UK Membership business.

Overall, net debt in the year increased by £16.0m to £43.1m (2007: £27.1m), including the impact of acquisitions and disposals of £46.1m (2007: £30.2m). There was a net cash inflow of £30.1m (2007: £16.8m) before acquisitions and disposals, 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 businesses.

## **Acquisitions**

Homeserve continues to add to its organic growth through the completion of carefully selected acquisitions. During the year, Homeserve completed a number of acquisitions, investing £46.1m, including deferred consideration of £3.2m relating to acquisitions completed in prior years.

During the year, four significant acquisitions have been completed for cash consideration of £38.7m. Multimaster Limited, Anglia (NW) Limited and Reparalia S.A, were achieved through the acquisition of 100% of the relevant share capital, while the transaction with California Water related to the acquisition of its portfolio of home assistance policies. Including acquisitions completed in prior years, potential further deferred consideration payments of £16m could be due over the next ten years, of which £8.1m is due within the coming year.

Multimaster is a leading furniture warranty and service provider and, subsequent to its acquisition, has been fully integrated into our existing Warranties business. Anglia (NW) is one of the UK's leading home insurance repairers providing property repair services to many leading household insurers. In particular, the Anglia operating model demonstrates that enhanced margins can be achieved within building repairs through directly employed engineers, the benefits of which are being replicated across our existing branch network.

Reparalia is one of Spain's leading providers of property repair services and emergency claims handling for some of Spain's fastest growing household insurers.

In addition, a number of smaller acquisitions have been completed relating to certain Chem-Dry franchisees and Plumbing & Drainage premier contractors. The total cash consideration, including directly attributable costs, amounted to £4.2m. 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. No impairment is considered necessary.

## 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:

	2008	2007
<b>Total Group</b>		
Profit before tax*	£85.3m	£67.7m
Earnings per share^	93.0p	74.7p
Total policy numbers	8.1m	7.1m
<b>UK Membership</b>		
Operating profit*	£73.9m	£56.7m
Retention rates (UK utility branded)	85%	86%
<b>United States of America</b>		
Affinity partner households	9.3m	4.9m
<b>UK Emergency Services</b>		
Operating profit*	£17.5m	£16.0m
Completed repairs	1.4m	1.2m
Operating margin*	5.4%	5.4%

Policy numbers represent the total number of policies held by our utility branded businesses in the UK, France, USA and Spain, together with manufacturer warranties where the customer has purchased an extension to the initial manufacturer guarantee period.

The retention rate currently includes only the UK utility branded policies as this rate has the greatest significance on earnings in the following period. Retention rate is defined as the number of policies renewing divided by the number of active policies in the prior year.

Completed repairs include all repairs performed and closed by our directly employed, subcontract and franchise network during the year in the UK.

## 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 amount of any committed undrawn facilities is closely monitored by the Board on a regular basis.

Volatility in the credit markets, combined with the growth in our net debt, has increased our interest rate risk. As a result, during the year we entered into a two year fixed rate swap in respect of certain of our borrowings in order to reduce our exposure to variations in short term interest rates.

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 are with large household insurers in the UK, while the majority of our membership customers 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.

### **Summary**

Homeserve has delivered another set of strong results, with earnings growth and operating margin progression. Our low financial gearing combined with our strong cash generation enables us to access the funds required to fund strategic acquisitions and accelerate the development of our UK and international businesses.

**Jonathan Simpson-Dent**  
**Chief Financial Officer**  
**19 May 2008**

# HOMESERVE PLC

## GROUP INCOME STATEMENT year ended 31 March 2008

<b>Continuing operations</b>	<b>Note</b>	<b>2008 £000</b>	<b>2007 £000</b>
Revenue	2	554,875	477,362
Operating costs:			
Amortisation of acquisition intangibles		(10,320)	(6,451)
Exceptional operating costs#	3	(2,154)	-
Other operating costs		(466,667)	(407,822)
Operating costs		(479,141)	(414,273)
Share of results of joint ventures		1,755	555
<b>Operating profit</b>	2	<b>77,489</b>	<b>63,644</b>
Investment income		1,102	1,030
Finance costs		(6,753)	(3,596)
<b>Profit before tax, amortisation of acquisition intangibles, exceptional operating costs and tax on joint ventures</b>		<b>85,303</b>	<b>67,683</b>
Tax on joint ventures		(991)	(154)
Exceptional operating costs#	3	(2,154)	-
Amortisation of acquisition intangibles		(10,320)	(6,451)
<b>Profit before tax</b>		<b>71,838</b>	<b>61,078</b>
Tax	4	(22,562)	(19,118)
<b>Profit for the year, being attributable to equity holders of the parent</b>		<b>49,276</b>	<b>41,960</b>
<b>Dividends per share, paid and proposed</b>	6	<b>31.25p</b>	<b>25.0p</b>
<b>Earnings per share</b>	5		
Basic		79.0p	67.3p
Diluted		76.0p	64.8p

# exceptional operating costs relating to the aborted acquisition of Domestic & General Group Plc see note 3

**GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**year ended 31 March 2008**

	Note	2008 £000	2007 £000
Exchange differences on translation of foreign operations	8	46	(56)
Actuarial gains on defined benefit pension scheme		714	654
Current tax on additional pension contribution		-	132
Deferred tax on items taken directly to equity		427	(32)
<b>Net income recognised directly in equity</b>		<b>1,187</b>	<b>698</b>
Profit for the year		49,276	41,960
<b>Total recognised income and expense for the year attributable to equity holders of the parent</b>		<b>50,463</b>	<b>42,658</b>

**GROUP BALANCE SHEET**
**31 March 2008**
**Restated  
(note 9)**

	Note	2008 £000	2007 £000
<b>Non-current assets</b>			
Goodwill		221,158	189,039
Other intangible assets		62,365	42,072
Property, plant and equipment		42,804	38,020
Interests in joint ventures		3,502	1,747
Deferred tax assets		-	211
		<b>329,829</b>	<b>271,089</b>
<b>Current assets</b>			
Inventories		7,913	7,236
Trade and other receivables		193,915	158,692
Cash and cash equivalents		47,198	14,885
		<b>249,026</b>	<b>180,813</b>
<b>Total assets</b>		<b>578,855</b>	<b>451,902</b>
<b>Current liabilities</b>			
Trade and other payables		(201,444)	(161,435)
Current tax liabilities		(10,633)	(11,523)
Bank overdrafts and loans		(90,304)	(42,026)
		<b>(302,381)</b>	<b>(214,984)</b>
<b>Net current liabilities</b>		<b>(53,355)</b>	<b>(34,171)</b>
<b>Non-current liabilities</b>			
Other financial liabilities		(10,367)	(5,823)
Retirement benefit obligation		-	(647)
Deferred tax liabilities		(694)	-
		<b>(11,061)</b>	<b>(6,470)</b>
<b>Total liabilities</b>		<b>(313,442)</b>	<b>(221,454)</b>
<b>Net assets</b>		<b>265,413</b>	<b>230,448</b>
<b>Equity</b>			
Share capital		8,147	8,119
Share premium account		32,507	31,379
Merger reserve		70,992	70,992
Own shares reserve		(29,586)	(25,047)
Share incentive reserve		6,550	4,727
Capital redemption reserve		1,200	1,200
Currency translation reserve		110	64
Retained earnings		175,493	139,014
<b>Total equity</b>	<b>8</b>	<b>265,413</b>	<b>230,448</b>

**GROUP CASH FLOW STATEMENT**  
year ended 31 March 2008

Note	2008 £000	2007 £000
<b>Operating profit</b>	<b>77,489</b>	<b>63,644</b>
Adjustments for:		
Depreciation of property, plant and equipment	6,391	5,169
Amortisation of other intangible assets	2,402	1,738
Amortisation of acquisition intangibles	10,320	6,451
Share based payments expense	4,131	3,361
Share of results of joint ventures	(1,755)	(555)
Profit on disposal of property, plant and equipment	(52)	(308)
<b>Operating cash flows before movements in working capital</b>	<b>98,926</b>	<b>79,500</b>
Decrease/(increase) in inventories	1,592	(1,363)
Increase in receivables	(28,148)	(28,453)
Increase in payables	24,990	23,957
<b>Net movement in working capital</b>	<b>(1,566)</b>	<b>(5,859)</b>
<b>Cash generated by operations</b>	<b>97,360</b>	<b>73,641</b>
Income taxes paid	(24,118)	(17,313)
Interest paid	(6,269)	(3,790)
<b>Net cash flow from continuing operating activities</b>	<b>66,973</b>	<b>52,538</b>
<b>Investing activities</b>		
Interest received	1,102	1,030
Proceeds on disposal of property, plant and equipment	2,585	611
Purchases of intangible assets	(10,104)	(4,519)
Purchases of property, plant and equipment	(10,063)	(12,609)
Net cash outflow on acquisitions	9	(30,171)
<b>Net cash used in investing activities</b>	<b>(62,576)</b>	<b>(45,658)</b>
<b>Financing activities</b>		
Dividends paid	(16,893)	(13,367)
Purchase of own shares	(7,331)	(8,379)
Issue of shares from the employee share option trust	2,523	-
Proceeds on issue of share capital	1,156	1,425
Increase in bank overdrafts and revolving credit facilities	48,461	11,245
<b>Net cash from / (used in) financing activities</b>	<b>27,916</b>	<b>(9,076)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>32,313</b>	<b>(2,196)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>14,885</b>	<b>17,081</b>
<b>Cash and cash equivalents at end of year</b>	<b>47,198</b>	<b>14,885</b>

## 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 2008.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2008 or 31 March 2007, but is derived from those accounts. Statutory accounts for 2007 prepared under IFRSs have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; 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 2008.

## 2. Segmental analysis

### Segment revenues and results

For the year ended 31 March 2008, the Group has adopted IFRS 8 'Segmental Reporting'. IFRS 8 replaces IAS 14 'Segment Reporting'.

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 Executive, to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

Following the integration of our Utility branded and Warranties businesses in the UK and our progress in Continental Europe and the USA, the Group is now managed in four operating divisions – UK Membership, UK Emergency Services, Continental Europe and the United States of America. As a result, the disclosure requirements of IFRS 8 are more consistent with the way in which the Group is managed and reviewed by the Chief Executive.

### 2008

	UK Membership £000	UK Emergency Services £000	Continental Europe £000	United States of America £000	Eliminations £000	Joint venture revenues, not recognisable for statutory reporting £000	Consolidated £000
<b>Revenue</b>							
External sales	210,772	325,845	32,642	8,097	(8,800)	(13,681)	554,875

Inter-segment sales are charged at prevailing market prices.

### Result

Segment operating profit, before  
amortisation of acquisition intangibles,  
tax on joint ventures and exceptional  
operating costs

	73,944	17,502	1,756	(2,248)	-	-	90,954
Amortisation of acquisition intangibles	(597)	(8,185)	(709)	(829)	-	-	(10,320)
Tax on joint ventures	-	-	(991)	-	-	-	(991)
Exceptional operating costs	(2,154)	-	-	-	-	-	(2,154)
Operating profit	71,193	9,317	56	(3,077)	-	-	77,489
Investment income							1,102
Finance costs							(6,753)
Profit before tax							71,838
Tax							(22,562)
Profit after tax							49,276

## 2. Segmental analysis (continued)

2007	UK Membership £000	UK Emergency Services £000	Continental Europe £000	United States of America £000	Eliminations £000	Joint venture revenues, not recognisable for statutory reporting £000	Consolidated £000
<b>Revenue</b>							
External sales	188,157	297,209	7,524	3,841	(11,854)	(7,515)	477,362

Inter-segment sales are charged at prevailing market prices.

### Result

Segment operating profit, before  
amortisation of acquisition intangibles,  
tax on joint ventures and exceptional  
operating costs

	56,720	15,977	710	(3,158)	-	-	70,249
Amortisation of acquisition intangibles	(423)	(5,567)	-	(461)	-	-	(6,451)
Tax on joint ventures	-	-	(154)	-	-	-	(154)
Operating profit	56,297	10,410	556	(3,619)	-	-	63,644
Investment income							1,030
Finance costs							(3,596)
Profit before tax							61,078
Tax							(19,118)
Profit after tax							41,960

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

The exceptional operating costs of £2,154,000 (2007: £nil) represent costs relating to the aborted acquisition of Domestic & General Group plc.

### 4. Taxation

The overall rate of tax for the Group, including deferred tax, based on profit before tax, was 31.4% (2007: 31.3%). In March 2007 the UK Government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008. This legislation was substantially enacted in July 2007. As a result of this change, deferred tax assets and liabilities have been restated in the year to 28% of all temporary differences.

### 5. Earnings per share

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

The adjusted earnings per share has been calculated by excluding the amortisation of acquisition intangibles and exceptional operating costs. This is considered to be a better indicator of the performance of the Group. As profit for the year and adjusted profit for the year are stated after tax, it is not considered necessary to include in the reconciliation below the impact of the adjustment for the tax on joint ventures of £991,000 (2007: £154,000)

	<b>2008</b>	2007
	<b>£000</b>	£000
Profit for the year	49,276	41,960
Amortisation of acquisition intangibles	10,320	6,451
Exceptional operating costs (note 3)	2,154	-
Tax impact arising on amortisation of acquisition intangibles and exceptional costs	(3,706)	(1,875)
Adjusted profit for the year	58,044	46,536
Weighted average number of shares (000's)		
Basic	62,412	62,303
Dilutive impact of share options	2,456	2,412
Diluted	64,868	64,715
	<b>2008</b>	2007
Adjusted Basic	93.0p	74.7p
Adjusted Diluted	89.5p	71.9p
Basic	79.0p	67.3p
Diluted	76.0p	64.8p

## 6. Dividends per share

A final dividend of 21.85p per share amounting to £13,700,000 (2007: 17.5p per share amounting to £11,000,000) is proposed and will be paid on 1 August 2008 to shareholders on the register at the close of business on 30 May 2008. The ex dividend date is 28 May 2008. An interim dividend of 9.4p per share amounting to £5,900,000 (2007: 7.5p per share amounting to £4,700,000) was paid during the year.

## 7. Analysis of total net debt

	2008 £000	2007 £000
Revolving credit facilities, net of cash at bank and cash equivalents	42,802	26,654
Loan notes	304	487
<b>Net debt</b>	<b>43,106</b>	<b>27,141</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	Currency translation reserve £000	Retained earnings £000	Total equity £000
At 1 April 2007	8,119	31,379	70,992	(25,047)	4,727	1,200	64	139,014	230,448
Total statement of recognised income and expense	-	-	-	-	-	-	46	50,417	50,463
Dividends paid	-	-	-	-	-	-	-	(16,893)	(16,893)
Issue of share capital	28	1,128	-	-	-	-	-	-	1,156
Purchase of own shares	-	-	-	(7,331)	-	-	-	-	(7,331)
Issue of trust shares	-	-	-	2,792	-	-	-	(269)	2,523
Share based payments	-	-	-	-	4,131	-	-	-	4,131
Share options exercised	-	-	-	-	(2,308)	-	-	2,308	-
Tax on exercised share options	-	-	-	-	-	-	-	916	916
<b>At 31 March 2008</b>	<b>8,147</b>	<b>32,507</b>	<b>70,992</b>	<b>(29,586)</b>	<b>6,550</b>	<b>1,200</b>	<b>110</b>	<b>175,493</b>	<b>265,413</b>

## 9. Acquisitions

On 30 April 2007, the Group acquired 100% of the share capital of Multimaster Limited, a leading furniture warranty and service provider.

On 21 May 2007, the Group acquired 100% of the share capital of Anglia (NW) Limited, one of the UK's leading home insurance repairers providing property repair services to many of the UK's leading household insurers.

On 2 August 2007, the Group acquired 100% of the share capital of Reparalia S.A., one of Spain's leading providers of property repair services and emergency claims handling for some of Spain's fastest growing home insurers.

On 23 November 2007, the Group acquired 25,000 Water Service policies from California Water and simultaneously signed a marketing agreement providing access to up to 0.5m households.

All these transactions have been accounted for by the purchase method of accounting. The acquisition of water service policies and the associated marketing agreement with California Water 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.

Total fair value adjustments of £174,000 were made on the acquisition of Multimaster Limited to reflect the fair value of certain receivables and acquired property. Fair value adjustments of £285,000 were made on the acquisition of Reparalia S.A. to reflect the fair value of certain trade and other receivables. Fair value adjustments totalling £96,000 were made on all other acquisitions reflecting the fair value of trade and other receivables and certain fixed assets.

	Multimaster Ltd £000	Anglia (NW) Ltd £000	Reparalia S.A. £000	California Water £000	Other £000	Total £000
Net assets acquired:						
Property, plant and equipment	1,380	1,176	75	-	691	3,322
Intangible assets	-	-	461	-	-	461
Inventories	218	1,833	-	-	218	2,269
Trade and other receivables	1,033	1,126	4,173	22	721	7,075
Cash and cash equivalents	410	1,642	510	-	217	2,779
Trade and other payables	(2,778)	(2,087)	(4,352)	-	(626)	(9,843)
Deferred tax liabilities	35	(2,378)	(163)	-	(318)	(2,824)
	298	1,312	704	22	903	3,239
Intangible assets identified on acquisition	683	7,663	6,499	4,927	3,000	22,772
Goodwill	3,740	17,221	10,634	-	524	32,119
<b>Total consideration</b>	<b>4,721</b>	<b>26,196</b>	<b>17,837</b>	<b>4,949</b>	<b>4,427</b>	<b>58,130</b>
Satisfied by:						
Cash	4,349	17,600	16,841	724	4,136	43,650
Deferred consideration	-	-	-	4,155	-	4,155
Contingent consideration	-	8,314	-	-	-	8,314
Directly attributable costs	372	282	996	70	291	2,011
	4,721	26,196	17,837	4,949	4,427	58,130
Net cash outflow arising on acquisition:						
Cash consideration	4,721	17,882	17,837	794	4,427	45,661
Cash and cash equivalents acquired	(410)	(1,642)	(510)	-	(217)	(2,779)
	4,311	16,240	17,327	794	4,210	42,882

## 9. Acquisitions (continued)

Intangible assets identified on acquisitions 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, Group revenues would have been £566,748,000 and operating profit £77,290,000. The post acquisition operating result from these acquisitions in the year ended 31 March 2008 was a profit of £1,050,000 from Multimaster Limited, a profit of £1,538,000 from Anglia (NW) Limited, a profit of £449,000 from Reparalia S.A. and a profit of £526,000 from California Water. The other immaterial acquisitions have been subsumed within existing trading divisions and it has not been practicable to separately identify the post acquisition performance of these acquisitions.

In addition to the net cash outflow arising on the acquisition above of £42,882,000, contingent consideration of £3,214,000 was paid relating to the prior year acquisitions of Recommend Limited (trading as Improveline), Homeserve Emergency Services Limited (formerly Highway Emergency Services Limited), Homeserve Contents Services Limited (formerly Digital Insurance Services Limited) and FirstEnergy. The amount paid in respect of Homeserve Contents Services Limited was £2,683,000 lower than that previously provided and accordingly, the cost of the business combination has been adjusted. As a result, goodwill at 31 March 2007, together with the related contingent consideration liability, have been restated.

## 10. Other information

An analysts presentation will be held at 11.00am on Monday 19 May 2008 at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP. The Annual Report and Accounts for the year ended 31 March 2008 were approved by the Board on 19 May 2008 and will be posted to shareholders in June 2008. Further copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.